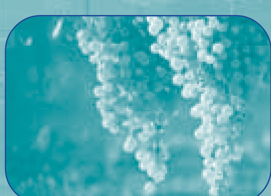
California Regional Economies Project

Creating a Workforce Transition System in California



CREATING A WORKFORCE TRANSITION SYSTEM IN CALIFORNIA

A Monograph of the
California Regional Economies Project
September 2004

Prepared By
Collaborative Economics

With Assistance from
Center for the Continuing Study of the California Economy
and J.K., Inc.

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PREFACE

Purpose: The California Regional Economies Project

The California Regional Economies Project provides California's economic and workforce development system with information about changing regional economies and labor markets. The Project is a joint effort of the California Workforce Investment Board and the California Economic Strategy Panel. The Project was initiated in response to these challenges:

- California's economy is under-performing relative to its potential—we have tremendous talent, world-class companies, and a tradition of innovation.
- California lacks an economic and workforce investment strategy that focuses on regional strengths and opportunities, and connects state and local efforts for maximum impact.
- Local and state policymakers lack reliable and timely information about emerging industry and job opportunities, making good investment and policy decisions difficult.

The Project develops information that measures the performance of California's regional economies. This information provides a key resource in economic and workforce development planning, and a bridge connecting economic and workforce policies and programs at the state and regional levels.

Through its products and forums, The California Regional Economies Project fills a need for better information that can:

- *improve* specific decisions about state, regional, and local workforce investments and policies;
- *connect* state, regional, and local economic and workforce investment strategies;
- *focus* state, regional, and local marketing efforts on areas of regional economic advantage and opportunity;
- *inform* policy and investment decisions of government so that they promote, rather than discourage economic innovation and competitiveness; and,
- *help individuals* navigate their own transition to new employment opportunities.

Phase I of the Project: Products and Forums for Users

During 2003-4, information was compiled for each of the nine California Economic Strategy Panel regions—Northern California, Northern Sacramento Valley, Greater Sacramento, Bay Area, San Joaquin Valley, Central Sierra, Central Coast, Southern California, and the Southern Border Region (see following map).

Each of these reports was presented at a regional forum, and discussed with the regional user community (e.g., employers, workforce investment boards, local economic development organizations, local education and training institutions, local government agencies, and other interested community leaders). At each forum, users had the opportunity to discuss the findings and suggest priorities for further cluster analysis (see following chart).

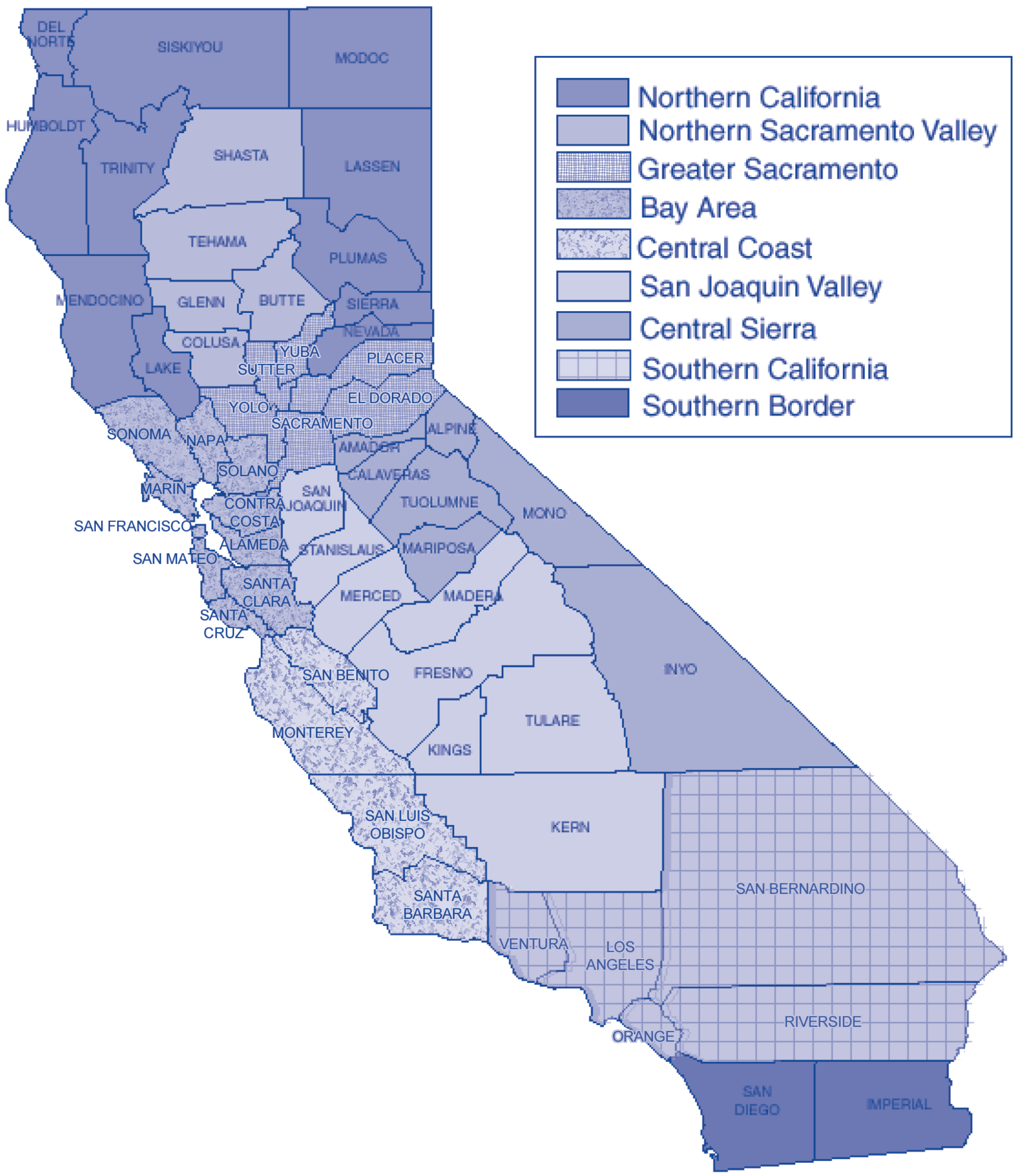
In addition, the Project compiled multi-region, cross-cutting Cluster of Opportunity reports. The focus for these reports was based on recommendations from the user community at regional forums and analysis of trends in the regional data. As a result, the Project focused on industries and occupations involved in:

- Health Science and Services (across all nine regions of California);
- Manufacturing Value Chain (the value chain of design, production, and logistics sectors in the five most urban regions of the state); and,
- Regional Experience/Infrastructure (in the four most rural regions California).

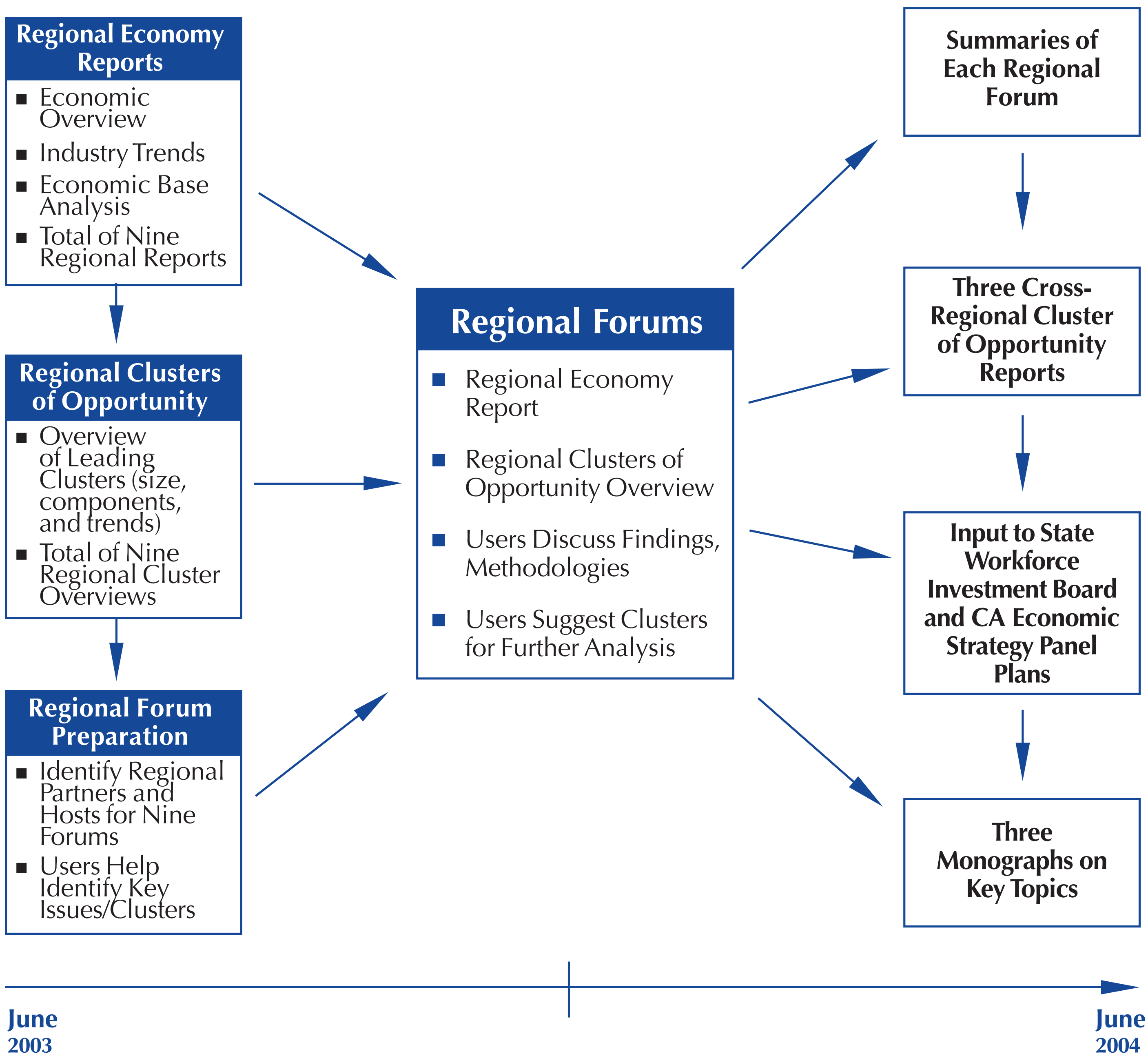
Each region was examined as part of the clusters of opportunity shown below.

Regions	Health Science And Services	Manufacturing Value Chain	Regional Exp/Infra
Northern California	XX		XX
Northern Sacramento Valley	XX		XX
Greater Sacramento	XX	XX	
Bay Area	XX	XX	
San Joaquin Valley	XX	XX	
Central Sierra	XX		XX
Central Coast	XX		XX
Southern California	XX	XX	
Southern Border	XX	XX	

THE PROJECT REGIONS



CALIFORNIA REGIONAL ECONOMIES PROJECT



The Project also produced monographs focused on key policy areas of concern to the regional user community and state-level policymakers. These monographs are focused on:

- *The Conditions of Competitiveness of California's Economy*. This monograph provides a balanced look at California's business climate by examining both cost and productivity factors with a special focus on the role of talent.

- *Innovation, Productivity and California's Prosperity*. This monograph examines the role of innovation in changing industry clusters, the impact of innovation and technology on productivity as well as the impact of productivity on the dynamics of job change.

- *Creating a Workforce Transition System in California:* Based on the regional analysis, this monograph recommends how a workforce transition system could be designed to help workers make transitions both within industries through career progression from entry to mid and higher occupational levels as well as transition across industries through adjustment to structural economic changes.

The monographs reinforce findings from the cluster reports as well—namely the importance of a balanced business climate based on cost and productivity, the imperative of innovation across all industries, and the need for a more effective workforce transition system to support California employers in their drive to innovate and remain competitive in the global economy.

Project Team and Sponsors

The Project Team includes Collaborative Economics (www.coecon.com), Center for the Continuing Study of the California Economy, (www.ccsce.com), California Center for Regional Leadership (www.calregions.org), and J.K., Inc.

The *California Workforce Investment Board* was established in 1998 to provide strategic guidance to the state's workforce investment system. For more information, visit http://www.calwia.org.

The bipartisan *California Economic Strategy Panel* was established in 1993 to develop a statewide vision and strategy to guide public policy decisions for economic growth and competitiveness. For more information visit www.labor.ca.gov.

EXECUTIVE SUMMARY

- *California faces a set of fundamental challenges requiring a state and regional system that supports continuous workforce transition, not one-time preparation or retraining*. The state must have a system that recognizes the transformation of both demand and supply—the acceleration of technology change and globalization rippling through the California economy, the occupational restructuring in response to these changes, and the demographic trends that are shaping the pool of available workers.

- *An effective workforce transition system must mirror the competitive environment facing firms, economies, and workers today: it must be cluster-centered, knowledge-driven, focused on continuous learning of the workforce, and flexible enough to respond rapidly to new opportunities and challenges*.

- *By most accounts, the current array of job training and educational programs is not working very well in helping people manage the difficult transitions both within industries through career progression or across industries during times of structural change*. The current workforce investment system is a hybrid based on both a cyclical model of unemployment, which assumes either explicitly or implicitly that jobs that have been lost within an industry are likely to come back, and categorical training programs aimed at helping disadvantaged groups find employment.

- *California needs a growth-oriented economic strategy based on innovation to compete in the global economy. However, it also requires a complementary workforce transition strategy, if the state is to fuel innovation and achieve shared prosperity*. It requires a shift in mindset to one of continuous transition. But, shifting to this mindset also requires recognition of the reality of individual workers: they need education, training, and support through periodic transitions during their work lives.

- *Bold regional and state action could move California towards an effective workforce transition system*. These actions include immediate steps that can be taken by the state and regional leaders without major policy changes, and more fundamental changes requiring policy change and aggressive advocacy by the state government for federal investments or opportunities for California to become a "test bed" for innovation. It should be noted that many of these actions have been adopted in the State Board's current strategic plan and have been supported by California Economic Strategy Panel.

- *An effective workforce transition system in California must be cluster centered—specifically a unique set of regionally-based systems, with support of state partners but driven by regional cluster employers*. The "customers" are employers who are part of regional clusters of opportunity. The role of regional transition "systems" is to help people meet the changing needs of these key clusters. What does this mean for the current system? Local workforce investment boards must operate with partners on the scale of the regional economy—meaning they need to work closely with regional employers, institutions, and other local WIBs. The State Board must insist on solid regional data-driven planning, decision-making, and funding processes, ensure that usable, real-time data is readily available to make this possible, focus its own discretionary funds on clusters of opportunity as determined on a region-by-region basis, and monitor "return on investment" by playing an outcomes-based state accountability role.

- *The regional workforce transition system must provide a bridge connecting the goals of workforce and economic development*. Workforce development is naturally most focused on preparing people for jobs that exist today, while economic development is often about nurturing not only the industries of today, but those of tomorrow as well. A workforce transition system must enable regions to bridge this natural gap between these goals by including some sectors and occupations requiring immediate workforce development, and some sectors and occupations that are emerging and may be more important in the future. Clusters of opportunity as a focus for workforce transition can provide that critical linkage between these goals.

    An immediate step is to focus regional and state-level strategic planning and funding on clusters of opportunity. Capacity for more strategic planning needs to be built within a system that both supports more effective use of real time economic information for both economic development and workforce policy making and encourages pilot projects and demonstrations to test new ideas within an overall strategic framework.

    Local Workforce Investment Boards, the State Board, and other education and training institutions should *give funding priority to meeting the workforce needs of regional clusters of opportunity*, as identified through a data-driven, analytical planning process.

    The development of the *next five-year plan for the Work Investment Act* provides an opportunity for a bottoms-up, regionally-driven statewide strategy development process. The result should be an "investment plan" with estimates of "return on investment" from meeting the workforce needs of regional clusters of opportunity. The plan should include more than federal WIA funding, but also other public and private investments that should contribute to the return on investment.

    The joint development of a *California Workforce Transition Framework* by the State Workforce Investment Board and Economic Strategy Panel would cement the workforce and economic development connection, and identify specific collaborative steps to support regionally-driven efforts to meet the needs of promising clusters of opportunity.

- *At the foundation of an effective regional workforce transition system is information about employment and economic patterns and trends. The key is to make information that is useful and timely also widely accessible* so that regional decision-makers—employers, education and training institutions, workforce investment boards, individuals, others—can make better decisions about allocation of resources and effort.

    An immediate step is to institutionalize and extend the initial work of the California Regional Economies Project, so that regional users have wide access to useful and timely employment data. The Employment Development Department can make this and further data available on line and support users. A statewide information user community can be established, enabling regional users to exchange best practices peer-to-peer. The State Workforce Investment Board and Economic Strategy Panel can collaborate to support broader dissemination of information and sponsor statewide dialogues on issues of common concern across regions (such as health sciences and services).

- *At the core of an effective workforce transition system must be the concept of continuous learning*. Continuous learning is necessary to help keep pace and provide career progressions within and across clusters of opportunity. The federal and state workforce investment system should be designed to help individuals manage transitions within and across clusters of opportunity within regions, based on real time economic information. Instead, the current system focuses primarily on categories of individuals (unemployed individuals, dislocated workers, incumbent workers, etc.) or individual occupations (e.g., truck drivers, nurses).

  An immediate step could be to redirect existing discretionary dollars at the state level to workforce transition along career pathways within clusters of opportunity, instead of by constituent group, specific occupation, or other criteria. A combination of Employment Training Panel, Governors' 15%, and 25% dislocated worker rapid response funds alone could create a $150 million "catalyst" to help regions as they shift their focus to workforce transitions along career pathways in clusters of opportunity. These funds, if invested strategically, could influence the focus and priorities of the $565 million annually appropriated to support the technical accredited training programs at California community colleges, as well as other local funding for workforce development.

- *One of the biggest obstacles outside the limitations of the current workforce development system is the natural reluctance of individuals to embrace continuous career transition*. The current system is supposedly based on "universal access," but in reality is neither funded nor designed to meet that goal. A system of one-stop centers has been created with the intention of bringing all relevant information and services under one roof and making the seamless package accessible to all. In reality, partnering agencies vary in their financial and other commitment to one-stops. What is really needed is not just a single location, but a formal continuum of support that explicitly helps people navigate the transition process.

  One immediate step could be to require that regional continuums of transition support be identified and in place across California, giving regions the flexibility to get the job done. To help achieve this goal, one-stop partners could make a formal commitment to the "continuum" by allocating funds as a line item in their budgets. At the same time, local and regional agencies required by law to participate in one-stops could unify planning and integrate services, with clearly identified complementary roles and responsibilities. Federal law allows for states to apply for status as a "Workflex" state—which enables the Governor to waive federal law—an option California could actively pursue.

  Other steps requiring more fundamental policy change could actively encourage individuals to take the risk of career transition—such as extension of federal trade adjustment support to new occupations and new kinds of transition "insurance." The Trade Adjustment Act could be applied to displaced service workers as well as manufacturing. In 2002, an amendment to the Trade Adjustment Act allowed for pilot projects in non-manufacturing sectors. California should become a demonstration site for these pilots even before the full Act itself is amended. The idea has also been advanced in a number of forms for wage or income insurance, as well as portable health benefits, which would allow the worker a safety net to help with these transition periods.

- *Under the current system, incentives and resources do not match effectively with changing employer demands—and are thus unable to respond quickly and effectively*. Current funding formulas for both adult training and dislocated worker training under the Workforce Investment Act are based primarily on unemployment rates and at the state level. Local allocations for dislocated worker training operate under the traditional formula of mass layoffs from plant closures rather than the new realities of job losses and gains due to structural changes within a region.

  One immediate step is to change the funding formula used for the distribution of Workforce Investment Act funds for dislocated workers so that resources are dispersed where they are needed most. The current formula emphasizes long-term unemployment rather than immediate worker dislocations due to structural economic change. The Governor has the authority to change this distribution funding formula.

  Another immediate step is to adopt flexible funding formulas for public institutions, particularly community colleges, to increase capacity of education and training in high-need career areas (such as health professions). The key is, for strong economic opportunity and development reasons, certain occupations can be targeted as "critical careers" justifying differential treatment within the public systems.

- *Even with increases in existing programs at public institutions, helped along by more flexible funding formulas, new kinds of "intermediaries" are likely required to accelerate the speed and scope of change*. Intermediaries offer individual institutions a way to participate in a way that shares the risk and allows flexibility, but also meets regional needs more quickly and effectively. Intermediaries can offer the flexibility to shorten the time for developing industry-responsive curriculum, offer "open entry/open exit" based on competency-based outcomes and certifications instead of set class schedules, and allow for continuing learning anytime or place beyond the classroom.

  An immediate step is to direct discretionary state resources to existing and new regional intermediaries that focus on workforce transition along career pathways in clusters of opportunity. Experiments are already being pursued in regions across the state with some success, as well as in other states across the country. A major scaling-up of the most effective initiatives and state and regional seed money for innovative efforts that have strong employer involvement and investment would be bold steps in the right direction.

- *The shift from California's current workforce system to an effective workforce transition system will take years, but can begin boldly and immediately*. Strategic use of discretionary funds, new flexibility in funding formulas and integration of services, institutionalization of new information for regional decision-makers, and a new framework that connects workforce and economic development goals at the state and regional level—all are immediate steps that together could have great impact. More fundamental changes, such as new kinds of transition support and "insurance" for individuals, should also be pursued with federal officials. In both cases, California can be a leader, preserving its dynamic economy by making the commitment to continuous workforce transition in every region of the state.

I. The Challenges of Workforce Transition in California

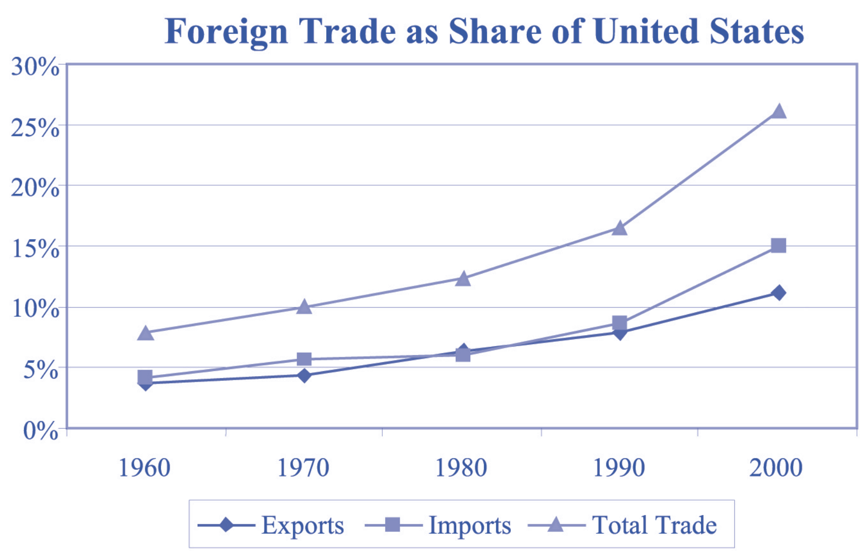
California faces a set of fundamental challenges requiring a state and regional system that supports continuous workforce transition, not one-time preparation or retraining. The state must have a system that recognizes the transformation of both demand and supply—the acceleration of technology change and globalization rippling through the California economy, the occupational restructuring in response to these changes, and the demographic trends that are shaping the pool of available workers. An effective workforce transition system must mirror the competitive environment facing firms, economies, and workers today: it must be customer-centered, knowledge-driven, focused on continuous learning of the workforce, and flexible enough to respond rapidly to new opportunities and challenges.

The Challenges of Technology Change and Globalization

These major workforce challenges have been identified by the California Regional Economies Project, but also through national discussion and debate as well as through discussions before the California Workforce Investment Board and California Economic Strategy Panel.

The first challenge is the accelerating pace of change in industries, occupations and skill requirements. Technological and management innovations are leading to new products and new ways of delivering services. Even within existing occupations, workers are required to learn new skills with increasing frequency. And the media is filled with stories about how foreign countries are preparing students and workers with more skills than the average American high school graduate possesses.

The second challenge is the increasing pace of globalization. The macro trends are clear. Both exports and imports account for a steadily growing share of GDP.



In 1960, foreign trade was equal to 7.5% of GDP. By 2000, foreign trade was equal to 26% of GDP.

Globalization raises two sets of complicated tradeoffs where there are both winners and losers in the United States.

Competitive Foreign Products

For the first two decades after World War II, America had a large productivity advantage over the rest of the world, where most major industrial countries had to rebuild their economic infrastructure. The 1947-1973 period was a "golden era" of growth in real wages and the standard of living for American families.

The first major sign of globalization in California came in the late 1970s and 1980s when Japanese and then European automobiles made large inroads into Detroit's share of car sales in the state. California consumers experienced substantial gains from the availability of high quality cars at comparatively low prices. On the other hand, domestic automakers and their suppliers saw the end of an era where they had no significant competition.

The auto example has since been repeated in many product areas—consumer electronics, apparel, shoes, furniture and many others. The tradeoff is always the same—reduced American production in return for greater consumer choice and lower prices.

Outsourcing

Outsourcing is another variation of foreign competition. American firms are increasingly buying more inputs from abroad or, as in the case of call centers, having more of their technical services provided off shore. Again, there is a complicated set of tradeoffs.

Outsourcing allows companies to produce and offer products and services at a lower price to consumers. In some cases, the existence of outsourcing allows American companies to stay competitive with foreign companies. One tradeoff is whether it is better to outsource some components of production than to have the company quit any production in the United States.

The arguments over globalization and outsourcing will probably continue precisely because there are both winners and losers. Some people clearly benefit from foreign competition and some people clearly lose jobs as a result of foreign competition.

Moreover, even if globalization and outsourcing provide net benefits to the economy, there are some losers. Workers and suppliers who lose jobs in one industry cannot immediately switch over to the new jobs being created. Perhaps some workers and companies can find new jobs and business only with great difficulty and over a long period of time.

The competitive pressures of globalization are creating an adversarial relationship between the winners and losers from increased foreign trade and competition. This creates a difficult policy challenge of balancing widespread benefits from foreign trade with the losses to some specific individuals and industries.

The Challenges of Occupational Restructuring

In most past economic cycles, layoffs were followed by rehiring as the economy picked up. Increasingly today, layoffs are permanent and the jobs that are created in economic recovery are different from the jobs that were lost in the downturn. Moreover, more job losses are occurring in periods of strong economic growth as industries and occupations experience more change.

There is continuous job "churn" or occupational restructuring taking place. According to a recent report by the National Governors' Association:

> Every year, up to a third of all jobs are either additions to or are soon to be eliminated from the economy. This churning has contributed to the demise of the social contract between employees and employers and has reduced the incentive for employers to invest in their workers. For many workers, the traditional concepts of job security, career ladders, and job progression are a thing of the past. *(A Governor's Guide to Creating a 21st Century Workforce, p. 12, NGA, 2002)*.

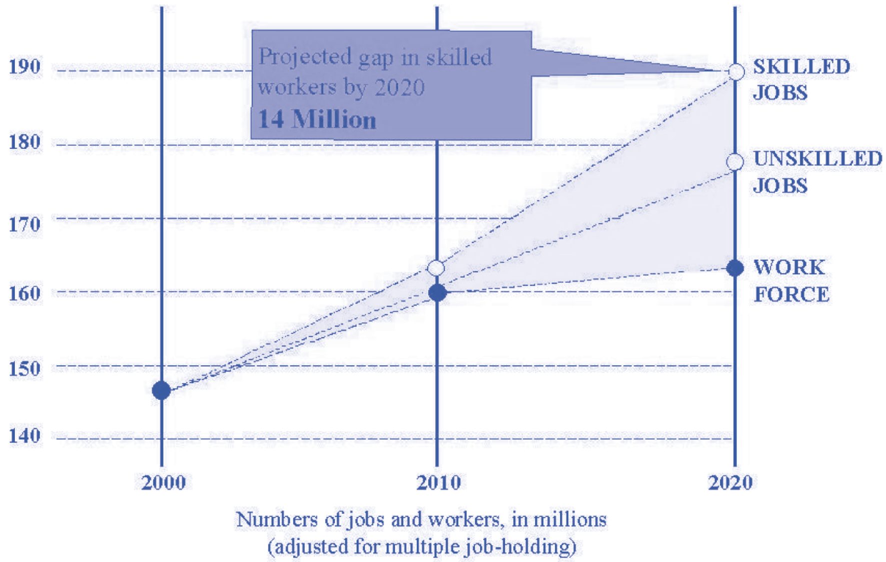
This reality has shattered traditional assumptions about jobs, occupations, and careers. Between 1983 and 2000, the percentage of workers that had been with their employer for 10 years or more dropped in every age group. Adding to this challenge, firms with fewer than 50 workers, who employ 94% of the nation's workforce, typically provide limited internal training opportunities. In fact, as a percentage of gross domestic product, business investment in training fell 18% between 1988 and 1999 (NGA, p.16).

Only a focus on continuous workforce transition is relevant in this competitive environment. The increasing frequency of job transitions calls for a new approach to workforce investment—an approach that directly acknowledges the need to help workers move from job to job and help the economy adapt to ever more frequent changes and challenges. Such a policy may also reduce the amount of conflict that potential "losers" raise in response to the pressure of globalization.

The Challenge of Changing Demographics

In addition to the forces of demand—technology, globalization, and occupational churn—the supply side of the equation is also changing. We are likely entering a period of skilled worker shortage. Between 2000 and 2020, the nation's prime age workforce (ages 25-54) is expected to grow by about 3%, much lower than the 54% growth from 1980 to 2000. In addition, the prime age skilled workforce (those ages 25-54 with more than a high school diploma) will grow 7% from 2000 to 2020, far less than the 42% growth from 1980 to 2000. The nation is expected to both add fewer skilled workers, and lose more through retirement. The oldest baby boomers will turn 65 in 2011, and even with longer work lives and partial retirements, the impact is likely to be substantial.

Projected Gap in Skilled Workers



Sources: David Ellwood/Aspen Institute's Domestic Strategy Group; Anthony P. Carnevale and Donna M. Desrochers, Educational Testing Services

Shortages, of course, will vary by industry and location. California might even be better positioned with a younger population than the rest of the country. However, the key questions will be how many of these new workers will be prepared for or can be rapidly upgraded for the skilled jobs of tomorrow—and how many current workers with lower skills can transition to higher skill occupations. In either case, the need for an effective workforce transition system is clear.

II. The Characteristics of a Workforce Transition System

Looking Beyond the Current System: State and National Views

By most accounts, the current workforce system is not working very well in helping people manage the difficult transitions both within industries through career progression or across industries during times of structural change. This is true for the Bay Area which has suffered the most severe job losses since 2001, major dislocations resulting from the bursting of the Internet bubble and the impact of global competition on technology intensive industries. It is true as well for the San Joaquin Valley, which has had persistent double digit unemployment even with a growing economy and population. There are significant mismatches between employer needs in growing industries and the skills of the current workforce.

The current workforce investment system is a hybrid model that is based on both a cyclical model of unemployment, which assumes either explicitly or implicitly that jobs that have been lost within an industry are likely to come back, and categorical training programs aimed at helping disadvantaged groups find employment. The Workforce Investment Act has created a structure of local Workforce Investment Boards that try to invest federal and state dollars in training to meet the demands of the local labor market by working with both employers and individuals.

Every region is experiencing the challenge of managing transitions due to technology change and globalization, whether it is within manufacturing and resource industries or service and technology-intensive industries. The fastest growing industries in the state and across every region, including health care and construction, face difficult challenges helping people find opportunities within the industries and promoting career advancement. Within health care, there is the specific problem of severe shortages within the nursing and other health care professions, where well paying occupations are going unfilled. In manufacturing, there has been a loss of direct production assembly jobs due to productivity improvements, while there have been opportunities for new jobs in both logistics and industrial design. There are, however, few training programs to help assembly workers transition to growing occupations within manufacturing.

Many groups in California and nationwide have not only described “the problem,” but also suggested new elements of a better system. The California State Workforce Investment Board in its 2002-3 Strategic Plan (May 2002, p. iv) noted that:

> The elements of successful models of workforce investment include flexibility, speed, strong and “real-time” intelligence-gathering and close working relationships with local industries, strong “high road” partnerships between labor and employers, and a shift away from compliance alone to a greater emphasis on quality and outcomes.

The Economic Strategy Panel (2002, p. 6) has issued a call to action, which recommended that “connecting workforce development and economic development (be) the state’s top priority.”

The Board of Governors of the California Community College system issued a report entitled *Ladders of Opportunity* (2001, p.10), which described key operating principles for the "New Economy and California's Workforce Investment System:"

- *Founded on career ladders*—in place of short-term job training, the system should focus on long-term career ladders as a framework for economic and workforce development.
- *Universal*—Move away from programs focused on a single constituency.
- *Seamless*—offer career pathways incorporating basic skills training and entry-level training for those outside the workforce or in low-skill jobs; upgrade training for those seeking career advancement; and continually evolving and flexible education and training to meet the needs of employers.
- *Regional*—rather than target the needs of a jurisdiction, focus on regional labor markets.
- *Strategic*—develop career ladder programs based on strategic partnerships with employers.
- *Collaborative*—a system of career ladders is beyond the scope of any single institution, and so will require a broad collaborative of multiple parties, including education, training, employer, and support services.

The California Workforce Association (CWA) developed a framework for communities wanting to build a competitive workforce advantage. It provides useful guidance for core elements of an effective workforce system:

- Forward thinking community leaders
- Businesses investment in human capital
- Strong, diverse economy
- Effective and articulated educational systems
- Clearly defined and accessible career pathways
- Integrated infrastructure, including child care and health care
- Ready, willing and able workforce

However, there are limitations within the existing workforce system to achieving these core goals. These constraints that have been highlighted within the California Regional Economies Project through the nine regional analysis and forums and need to be addressed through changes in policy and institutions. Clearly, every region needs to be more innovative in how it organizes its workforce and how it partners with others. As pointed out in CWA's *50 Stories, One System* report (2003), there are examples of effective partnerships between Workforce Investment Boards, community colleges, training organizations and employers focused on specific clusters of opportunity. However, the challenge of managing transition is still largely left to the individual. What is required is an institutional response involving all the parties—government, education, business as well as workers in designing a better workforce system that helps manage these critical transitions.

The National Governors Association (2002, p. 8) has also set out a vision for workforce development that identifies several key characteristics for a "new, responsive workforce system":

- Improve the productivity and competitiveness of all workers and employers
- Build the skills needed for jobs that lead to a high quality of life
- Provide lifelong learning opportunities
- Support workers in managing their careers
- Be supported by public and private investment

In compiling their report, NGA found that the current system was woefully inadequate:

- *Many state workforce systems do not reflect market needs*—a key problem is that publicly-funded programs are narrowly focused on entry-level jobs for low-income workers and do not meet employers' immediate or longer-term needs for skilled workers.

- *Public education is falling short of preparing individuals for the New Economy*—the K-12 system is not preparing enough people with basic skills, while postsecondary education is not producing enough graduates with advanced math, science, and engineering degrees.

- *Workers must navigate a more uncertain career path*—the economic churning of firms and jobs means that most workers are on their own regarding occupational transitions.

- *Many low-wage workers need work supports to advance*—they need not only training but a continuum of support including child care, health care coverage, transportation assistance, etc., in order to make an effective transition.

- *Effective governance and accountability measures are missing*—Fragmentation, competing priorities, and complex administrative requirements undermine the functioning of the "system" and make individual access to the system difficult.

From within the system, the National Association of State Workforce Board Chairs has also offered its guidance on Building a World-Class Workforce (2002, pp. 1-3):

- *Design a workforce investment system that is demand-driven*—including engaging businesses as full partners, customizing training to meet industry needs, promoting use of sector-based strategies and industry clusters.

- *Actively promote lifelong learning, reskilling, and upgrading of the workforce*—including designing programs to meet the diverse needs of workers in the context of changing demographics.

- *Transform the workforce development system's alignment*—including linking accountability systems, funding mechanisms, and management.

- *Engage state and local education and economic development entities as full partners with state and local workforce investment boards.*

- *Overhaul labor market information systems at the federal and state levels to be more current, effective, and user-friendly in providing quality data and analysis to make good business and career decisions*.

- *Transform the workforce system's image, culture, and philosophy*—including a vision of a world-class workforce system that is agile, responsive, innovative, business-driven, customer-oriented, performance-based, value-adding, and productivity-increasing.

While there is broad agreement on the problem and on specific suggestions for change, transforming the guiding "image, culture, and philosophy" of the existing system may need to be the first step.

Shifting to a Workforce Transition System: Regional and State Action

California needs a growth-oriented economic strategy based on innovation to compete in the global economy. However, it also requires a complementary workforce transition strategy, if the state is to fuel innovation and achieve shared prosperity. It requires a shift in mindset to one of continuous transition. But, shifting to this mindset also requires recognition of the reality of individual workers. Michael Mandel makes the case in *Rational Exuberance* (2004) that:

> Growth oriented policies are unworkable without an equally intent focus on providing more economic security as well. Rapid technological change is inherently threatening to people, because it has the potential to destroy their jobs and overturn their way of life. Therefore, exuberant growth must go hand in hand with economic security. We must give Americans better information and tools to manage the risk they are facing.

A high productivity innovation-based economic strategy across all industries (manufacturing, agriculture, services as well a technology intensive industries) requires an innovative workforce system that helps workers manage transitions both within industries and across industries. This system should recognize the new realities of global competition, structural economic change driven by technology, and the need to address worker security needs to help with the adjustment process that comes from rapid change.

What is required is a workforce transition system that mirrors the characteristics for success that firms must adopt in the competitive environment of the global economy. To succeed, firms must be cluster-centered, knowledge-driven, focused on continuous learning and innovation, and flexible enough to respond rapidly to challenges and opportunities. So too must California's workforce transition system.

The following sections describe these key characteristics—and what regional and state action could move California in this direction. These actions include immediate steps that can be taken by the state and regional leaders without major policy changes, and more fundamental changes requiring policy change and aggressive advocacy by the state government for federal investments or opportunities for California to become a "test bed" for innovation.

CLUSTER Centered: Regionally Driven, State Supported

Close to the Cluster Customer: Regional Systems With State Partners

Successful firms know that they must be as close to the customer as possible to understand current needs and emerging demand. For workforce transition, the customers are regional—specifically, employers who are part of regional clusters of opportunity. The role of regional transition "systems" is to help people meet the changing needs of these key clusters. Moreover, every region is different; no single approach or systems model will be best suited for every region. What this means is that an effective workforce transition system in California must actually be a unique set of regionally-based systems, with support of state partners but driven by regional cluster customers. The reverse will not work: a single state system with regional implementation, with categorical and other limitations on the use of funding.

What does this mean for the current system? Local workforce investment boards must operate with partners on the scale of the regional economy—meaning they need to work closely with regional employers, institutions, and other local WIBs. The State Board must insist on solid regional data-driven planning, decision-making, and funding processes, ensure that usable, real-time data is readily available to make this possible, use its own discretionary funds to support clusters of opportunity as determined on a region-by-region basis, and monitor "return on investment" by playing an outcomes-based state accountability role.

Organize Around Clusters of Opportunity

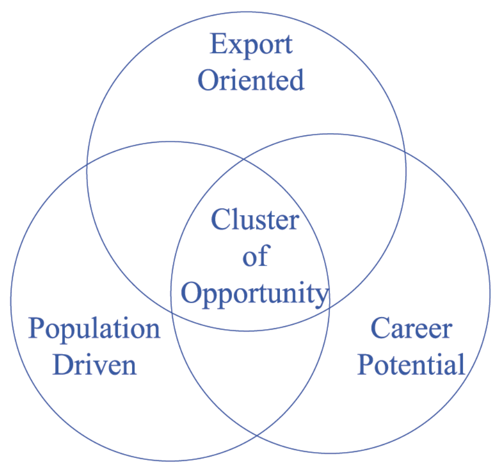
While there are numerous training programs and institutions in every region, the resources of these organizations are not always focused on clusters of opportunity. Even in regions with overall job losses, there are specific industries such as health care and construction where there are employment opportunities at the entry level as well as career progression opportunities. The first step is better information that can help workforce and economic development organizations target their scare resource to achieve most impact for people as well as employers. What is required are demand driven workforce systems that promote stronger partnerships among employers, education and the training institutions to met the rapidly changing talent requirements in a global economy.

Industry clusters have increasingly become the focus of workforce and economic development efforts nationwide—for good reason. The geographic concentration and interdependence of certain export-oriented and support sectors, creating a comparative advantage for states and regions is a critical source of economic prosperity. Industry clusters are driven by clusters of talent—pools of skilled workers in key professions. Building these talent pools is critical to fueling the continuing growth and competitiveness of clusters. The California Regional Economies Project has taken the concept a step further. Using a mix of criteria, the Project identified several clusters of opportunity in regions across California:

- Consistent with most research and practice, the Project identified clusters that are export-oriented, geographically-concentrated, and interdependent industry sectors characterized by competing firms and buyer-supplier relationships, as well as shared labor pools and other specialized infrastructure.

- Building on this general definition, the Project added two additional considerations that focused on "opportunity"—that is, employment opportunities for regional residents. Thus, the definition of a "cluster of opportunity" focuses not only on export-oriented sectors, but also population-driven sectors—as well as sectors that offer occupations with "career potential."

Clusters of Opportunity



Using these criteria, potential clusters of opportunity were identified for discussion at each of nine regional forums. In identifying potential clusters of opportunity, the Project examined the size, concentration relative to the California average (location quotient), growth, and wages (when available)—as well as past cluster studies and perspectives from regional employers. A panel of employers at each forum offered their perspectives on key clusters, with users concluding the meeting by suggesting certain clusters of opportunity for further analysis. In essence, clusters of opportunity were treated as core customers for workforce transition—as areas of potential priority-setting for the investment of limited public funds and the focus for public-private collaboration to meet the dual needs for workforce transition and cluster talent.

Connect Workforce and Economic Development

A workforce transition system must respond to two sets of regional priorities. Today, many regional organizations are focused on efforts to promote long-term economic growth that is broadly shared among each region's residents. The Project's economic base analyses helped identify sectors that have the potential for high-wage job growth such as, for example, biotech.

Workforce investment boards play a role in promoting economic growth but they also have mandates to help residents train for and find jobs when they are unemployed. Workforce boards are moving beyond the traditional job-finding role to develop programs focused on career paths and upward mobility.

Many areas of workforce shortage are not in the center of a region's economic base. They are in the many population-serving sectors like health care, construction and education. So, the Project focuses on the size of sectors, not just their potential for rapid growth and look closely at population-serving activities as well as each region's economic base.

The regional workforce transition system must provide a bridge connecting the goals of workforce and economic development. Workforce development is naturally most focused on preparing people for jobs that exist today, while economic development is often about nurturing not only the industries of today, but those of tomorrow as well. Thus, the sectors or clusters championed for long-term economic development purposes may be providing few jobs today, and even fewer opportunities with career potential, simply because it is not yet at the necessary size and maturity in a given region.
A workforce transition system must enable regions to bridge this natural gap between these goals by including some sectors and occupations with requiring immediate workforce development, and some sectors and occupations that are emerging and may be more important in the future. Clusters of opportunity as a focus for workforce transition can provide that critical linkage between these goals.

An immediate step is to focus regional and state-level strategic planning and funding on clusters of opportunity. Following core elements such as those articulated for communities with a competitive workforce advantage or other suggestions described above requires more strategic planning at both the regional and state levels focused on clusters of opportunity. Capacity for improved strategic planning needs to be built within a system that both supports more effective use of real time economic information for both economic development and workforce policy making, and encourages pilot projects and demonstrations to test new ideas within an overall strategic framework.

- Local Workforce Investment Boards, the State Board, and other education and training institutions should give funding priority to meeting the workforce needs of regional clusters of opportunity, as identified through a data-driven, analytical planning process.

- The development of the next five-year plan for the Work Investment Act provides an opportunity for a bottom up, regionally driven statewide strategy development process. Regions should be encouraged and rewarded for experimentation within this framework. The result should be an "investment plan" with estimates of "return on investment" from meeting the workforce needs of regional clusters of opportunity. The plan should include more than federal WIA funding, but also other public and private investments that should contribute to the return on investment.

- The joint development of a California Workforce Transition Framework by the State Workforce Investment Board and Economic Strategy Panel would cement the workforce and economic development connection, and identify specific collaborative steps to support regionally-driven efforts to meet the needs of promising clusters of opportunity.

Focusing on regional clusters of opportunity is not about picking winners, but finding them based on clear criteria such as size, concentration, growth, and career potential. Further, an annual review of job creation data (and the eventual addition of other key pieces of information, such as value-added) will enable state, regional, and local policymakers to revise and align funding priorities as economic realities change.

Knowledge Driven: Information that Transforms Decision-making

Create Useful, Timely, and Accessible Information

At the foundation of an effective regional workforce transition system is useful, timely, and accessible information about employment and economic patterns and trends. The California Regional Economies Project provided for the first time to regions a profile of their changing economies and clusters of opportunity from 1990-2002 based on the new North American Industry Classification System (NAICS). The Employment Development Department created special data sets, converting existing employment information to the new classification system back to 1990. When the process started, what was publicly available was only NAICS employment data since 2001.

The Project also sought to structure the information in a user-friendly format, and specifically explaining the methodology for assembling potential clusters of opportunity, displaying those clusters, and validating them with employers. Each regional forum was in a sense a user training and feedback session, modeling how to create useful and timely information for regional decision-making purposes. The Project is further committed to working with the Employment Development Department in making this kind of information, as well as the methodologies, even more widely accessible to users across the state.

More importantly, the Project has just begun to reveal the richness of the NAICS data. Other analyses can and should be done by regional users. Moreover, there are additional sources of information that can be tapped for a more complete picture of regional economic and workforce patterns—such as data on occupations and skill requirements, entrepreneurship and business "churn" patterns, and the like.

In addition, regions need to become more adept at "sensing" changes among employers and clusters of opportunity. These qualitative insights into emerging structural changes that will have growing impact on occupations and careers are critical to good decision-making. The only way to get this information is through close and constant communication with employers.

Inform Dialogue, Engage Customers, Set Priorities, Monitor Progress

The key is to make information that is useful and timely also widely accessible so that regional decision-makers—employers, education and training institutions, workforce investment boards, individuals, others—can make better decisions about allocation of resources and effort. Today, such decisions are too often based on anecdotes or political considerations instead of a common foundation of information. What is needed is informed dialogue about the implications of solid data—what it means and what should be done in response to it. This kind of dialogue is exactly what is needed to engage the customers—especially employers who are part of clusters of opportunity.

Used effectively, this information can help set priorities for investment and policy change. With limited funding, public institutions are especially in need of good information that will enable them to make choices. Once choices are made, information then becomes critical to monitor progress and flexibly make adjustments to improve outcomes.

An immediate step is to institutionalize and extend the initial work of the California Regional Economies Project, so that regional users have wide access to useful and timely employment data. The Employment Development Department can make this data available on line and support users. It can help regions go further, focusing on the occupational mix and trends in their clusters of opportunity. A statewide information user community can be established, enabling regional users to exchange best practices peer-to-peer. The State Workforce Investment Board and Economic Strategy Panel can collaborate to support broader dissemination of information and sponsor statewide dialogues on issues of common concern across regions (such as health sciences and services).

Continuous Learning: Lifelong Opportunities for Career Progression

Target Career Progressions Within and Across Clusters of Opportunity

At the core of an effective workforce transition system must be the concept of continuous learning. Continuous learning is necessary to help keep pace and make career progressions within and across clusters of opportunity. The federal and state workforce investment system should be designed to help individuals manage transitions within and across clusters of opportunity within regions, based on real time economic information. Instead, the current system focuses primarily on categories of individuals (unemployed individuals, dislocated workers, incumbent workers, etc.) or individual occupations (e.g., truck drivers, nurses).

An immediate step could be to redirect existing discretionary dollars at the state level to workforce transition along career pathways within clusters of opportunity, instead of by constituent group, specific occupation, or other criteria. Major sources of discretionary funds include:

- the Employment Training Panel, which provides annual funding of about $100 million retrain incumbent workers in firms facing out-of-state competition.

- the 15% Governor's discretionary workforce investment funds (approximately $23 million) and 25% state rapid response fund from the Dislocated Worker Title of the Workforce Investment Act (about $30 million).

These funds alone could create a $150 million "catalyst" to help support regions as they shift their own focus to workforce transitions along career pathways within clusters of opportunity. These funds, if invested strategically, could influence the focus and priorities of the $565 million annually appropriated to support the technical accredited training programs at California community colleges, as well as other local funding for workforce development.

Regions could use new NAICS employment information to identify "clusters of opportunity," convene employers to identify and map career pathways within those clusters, create a series of workforce transition initiatives at different points along the career pathways, and receive state discretionary funding to match regional investments to initiate or scale-up career-based workforce transition efforts.

Encourage Individuals to Make Transitions

One of the biggest obstacles outside the limitations of the current workforce development system is the natural reluctance of individuals to embrace continuous career transition. In the past, employers might have been more interested in providing a clear career ladder within a large company, offering on-the-job or additional training for workers to make transitions over time. That world no longer exists. Without encouragement or security, and with family and other financial responsibilities, workers naturally can be risk averse when it comes to career transition—even if the end result is sudden layoff and/or long-term decline in earnings.

The current system is supposedly based on "universal access," but in reality is neither funded nor designed to meet that goal. A system of one-stop centers has been created with the intention of bringing all relevant information and services under one roof and making the seamless package accessible to all. In reality, partnering agencies vary in their financial and other commitment to one-stops. What is really needed is not just a single location, but a formal continuum of support that explicitly helps people navigate the transition process.

One immediate step could be to require that regional continuums of transition support be identified and in place across California, giving regions the flexibility to get the job done. To help achieve this goal, one-stop partners could make a formal commitment to the "continuum" by allocating funds as a line item in their budgets. At the same time, local and regional agencies required by law to participate in one-stops could unify planning and integrate services, with clearly identified complementary roles and responsibilities. Federal law allows for states to apply for status as a "Workflex" state—which enables the Governor to waive federal law. The state should secure this flexibility on behalf of its regions—and help overcome any additional barriers—in return for tangible financial and other commitments from agencies and organizations to make a regional continuum of transition support a reality.

Other steps requiring more fundamental policy change could actively encourage individuals to take the risk of career transition—such as extension of federal trade adjustment support to new occupations and new kinds of transition "insurance." The Trade Adjustment Act could be applied to displaced service workers as well as manufacturing. First enacted in 1962 and applied within industries such as textiles and steel that have faced significant foreign competition, this Act could now be expanded to include displaced workers in all industries. In 2002, an amendment to the Trade Adjustment Act allowed for pilot projects in non-manufacturing sectors. California should become a demonstration site for these pilots even before the full Act itself is amended.

The Dislocated Worker categorical program under the Job Training Partnership and the Workforce Investment Act were never funded at the levels required to address these challenges. The Federal government needs to take this problem very seriously, especially as it confronts the economic and political challenges presented by controversies surrounding offshore outsourcing. Most studies of outsourcing say that this is a key part of addressing the challenge. A recent Global Insight study of offshore outsourcing of IT services found that outsourcing will create twice as many jobs in other industries, but that our current workforce and education systems don't help people enough to capitalize on these opportunities. The Global McKinsey Institute study of outsourcing has made the same recommendation.

Traditionally, the training and employment system assumed that job losses were due primarily to recessions or the loss of demand within a specific industry and that economic development would create jobs which could be filled by education and training of the workforce. Today, the twin challenges of technology change and globalization have created the need to help individuals manage the transitions that result from structural changes within industries as well as across industries within a region. Trade Adjustment Assistance recognizes this challenge and provides a fuller range of support services than training, with more extensive federal and state government funding for job search assistance and counseling as well income support.

The new employment realities require a workforce system that recognizes structural employment changes are as important as cyclical changes and therefore provides supplements to or replacements for traditional unemployment insurance to help workers make the major transition. Unemployment Insurance was a major policy innovation during a time when most unemployment resulted from the business cycle. Workers and their employers put funds into unemployment insurance so that they could have income if they were laid off, usually anticipating they would return to employment within the same industries (e.g., automobiles) and sometimes even the same firm. However, times have changed and workers are much less likely to go back to work within the same firm or even the same industry. What is the worker to do during the interim?

The idea has been advanced for a form of wage or income insurance which would allow the worker a safety net to help with these transition periods.

- A proposal developed by Robert Litan and Lori Letzer at the Brookings Institution would work as follows: displaced workers would receive a fraction of their wage loss that could vary by age or tenure of worker for up to two years following the initial job loss. The payment would be administered by the state unemployment insurance agency and funded by a combination of federal, state, employer and individual contributions. The payments would begin to be paid *only when a worker found a new job*. For example, a worker who once earned $40,000 and found a new job paying $30,000 would receive $5,000 in quarterly payments until two years after the initial layoff. This would encourage workers to accept new employment more rapidly while reducing workers anxieties about losing their current jobs.

- Michael Mandel of *Business Week* has suggested a form of income insurance through income averaging that would allow taxpayers the option of paying taxes as if their incomes were averaged over three years to help address boom and bust cycles.

- Others have suggested a health insurance subsidy or portable health benefits that can help people during transitions.

Both training assistance and wage/income insurance should be designed to help individuals manage risks inherent in a high productivity, rapidly changing labor market and to create a safety net that reduces anxieties associated with living in a global economy. In the past, unemployment insurance, social security, Medicare, and other policy innovations were designed to address critical challenges associated with the modern economy. Now is the time for similar experimentation. As it often has in the past, California should lead the nation promoting fundamental change in the incentives and support for workforce transitions.

California regions are a good place to serve as pilot regions for testing these new approaches.

- The severe employment loses in the Bay Area due to technology change and globalization (including outsourcing), make this region an ideal test region for trade adjustment transition assistance for service workers as well as wage/income insurance models.
- The Southern Border Region is growing a number of clusters of opportunity, where workforce transition will be critical for ensuring that a changing labor pool which is increasingly immigrant-based will be able to take advantage of opportunities in biomedical and health, telecommunications and software and defense aerospace clusters.
- Similar challenges face the Southern California Region as its transitions from traditional manufacturing sectors into opportunities in logistics and transportation as well as health care.
- The San Joaquin Valley Region has begun to address its structural unemployment challenges through a number of cluster-based employment initiatives focused on health care, logistics, agile manufacturing, and construction which all will require workforce systems that help individuals manage transitions and promote career mobility if the region is to promote shared prosperity for all of its people.

Rapid Response: Adaptable Institutions and Innovative Intermediaries

Adopt Flexible Funding Formulas

Under the current system, incentives and resources do not match effectively with changing employer demands. Current funding formulas for both adult training and dislocated worker training under the Workforce Investment Act are based primarily on unemployment rates at the state level. Local allocations for dislocated worker training operate under the traditional formula of mass layoffs from plant closures rather than the new realities of job losses and gains due to structural changes within a region.

One immediate step is to change the funding formula used for the distribution of Workforce Investment Act funds for dislocated workers so that resources are dispersed where they are needed most. The current formula emphasizes long-term unemployment rather than immediate worker dislocations due to structural economic change. The Governor has the authority to change this distribution funding formula.

Another immediate step is to adopt flexible funding formulas for public institutions, particularly community colleges, to increase the capacity of education and training in high-need career areas.

The crisis in health care professions may offer the most striking example, relevant in every region of California. While workforce shortages are growing, student demand for health-care careers is expanding. Several institutions have made new commitments in recent years, creatively assembling resources to pay for essential, but expensive, programs. In fact, many health care executives give generally good marks to the institutions for doing what they can under difficult constraints. But, education and training programs in health services are not expanding as quickly as student demand, resulting in long waiting lists and lotteries to ration access to some programs and courses.

For both external and internal reasons, institutions have not responded adequately to the problem:

- They are under severe budget constraints, especially with recent state-level deficits and cutbacks. They simply cannot si*gnificantly increase* programs of any kind without additional resources. Health employers have provided some additional resources so institutions could expand beyond what they would otherwise be able to do with public funds alone, but the long-term ability of employers to provide this funding is uncertain.

- They face a major structural impediment. The prevailing state funding formula based on a total enrollment cap discourages expansion of comparatively more expensive programs, such as many of those in health services. Public institutions are funded per full-time equivalent student (FTE) up to a capped total amount—making the cost of individual programs per FTE a critical factor. Programs with more expensive laboratories, equipment needs, instructor costs, and low faculty-student ratio requirements compete with programs that can accommodate more students at lower costs. This structural disincentive constrains growth of higher-cost programs, even in the face of enormous employer needs and student career opportunities in a field such as health services.

State leaders could declare a "state of emergency" for health care professions, including increasing the capacity at public institutions through new funding and changes in state funding formulas and other provisions to create incentives and remove disincentives for expanding education programs for health care professions.

The key is, for strong economic opportunity and development reasons, certain occupations can be targeted as "critical careers" justifying differential treatment within the public systems. Today, there exist waiting lists of already-qualified applicants for education programs in the health professions at public institutions that immediate increases in capacity would help address.

Share risk and move faster with intermediaries

Even with increases in existing programs at public institutions, helped along by more flexible funding formulas, new kinds of "intermediaries" are likely required to accelerate the speed and scope of change. These regionally-based intermediaries would involve partnering among Workforce Investment Boards, community colleges, universities, and health providers. A national study by the Ford Foundation-funded Partnership for Employer-Employee Responsive Systems of over 200 examples of workforce intermediaries found that they can effectively help create skill standards and career paths, improve the workforce development system, and "assume some of the business risk and reduce the fixed labor costs associated with training and recruitment" *(Workforce Intermediaries: Generating Benefits for Employers and Workers, 2003, p. 7)*.

Even under the best circumstances, public institutions have difficulty making substantial investments in capacity to serve emerging or rapidly-changing workforce needs. Many have ramped up capacity only to find that employers needs have shifted, and the programs are no longer in great need. For all the right reasons, intermediaries offer individual institutions the ability to participate in a way that shares the risk and allows flexibility, but also meets regional needs more quickly and effectively. Intermediaries can offer the flexibility to shorten the time for developing industry-responsive curriculum, offer "open entry/open exit" based on competency-based outcomes and certifications instead of set class schedules, and allow for continuing learning anytime or place beyond the classroom. Employers also limit their risk and spread out the cost by investing in an intermediary.

Experiments are already being pursued in regions across the state with some success (e.g., the Paradigm program for health professions in the San Joaquin Valley), as well as in other states across the country. However, these efforts have been small in scale. A major scaling-up of the most effective initiatives and state and regional seed money for innovative efforts that have strong employer involvement and investment would be bold steps in the right direction. If this requires temporarily changing the rules to meet an urgent need, then new approaches should be allowed at least for a short time period with evaluation of results. In some cases, this may require creating intermediary training institutions that allow federal and state funding and community college resources to be tapped in innovative ways to meet urgent demand.

An immediate step is to direct discretionary state resources to existing and new regional intermediaries that focus on workforce transition along career pathways in clusters of opportunity.

Conclusion

The shift from California's current workforce system to an effective workforce transition system will take years, but can begin boldly and immediately. Strategic use of discretionary funds, new flexibility in funding formulas and integration of services, institutionalization of new information for regional decision-makers, and a new framework that connects workforce and economic development goals at the state and regional level—all are immediate steps that together could have great impact. More fundamental changes, such as new kinds of transition support and "insurance" for individuals, should also be pursued with federal officials. In both cases, California can be a leader, preserving its dynamic economy by making the commitment to continuous workforce transition in every region of the state.