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Human Capital

Human capital is an essential community asset. In many communities, however, human capital is underutilized. Human capital includes general education background, labor market experience, artistic development and appreciation, health, and other skills and experiences. In this chapter, we focus on the labor market skills of individuals, especially the role of workforce development networks in building these skills. Human capital, however, has benefits beyond simply getting a high-paying job. It is related to other aspects of quality of life as well.

Traditionally, human capital development emphasizes individual approaches. Individuals bear the cost and burden of obtaining education and training. Although many government programs provide job training, they tend to focus on specific populations (e.g., youth, unemployed) and often are not well connected with local labor market conditions. CBOs offer a useful strategy for building these assets in a way that simultaneously improves the mobility of workers while meeting the demands of local employers. The asset-based approach builds on the experiences and interests of individuals and communities and matches them with the needs and opportunities in the region.

Why do communities engage in workforce development? Many communities have limited information on the changing needs of the workforce. Having an adequate, skilled, and trained workforce is a prerequisite for economic development today. Yet communities face several obstacles in developing their workforce. If the community provides training for jobs that are not available locally, workers may move to where the jobs are, leaving the community with the costs and none of the benefits of the training. If the community attracts new employers requiring skills that are not available locally, the employer may have to hire workers outside the community, minimizing the benefits of the new firm. Training institutions have a difficult time gauging the future needs of employers. Much of the training that employers demand is specific and too costly for training institutions to provide. Similarly, the availability and cost of child care and housing in the community may not be

adequate to support the workforce. Community organizations can play an important role in making the local labor market more transparent and facilitating the match between the supply of and demand for labor.

BOX 6.1 WORKFORCE DEVELOPMENT FACTS

- Of the 25 occupations expected to be the fastest growing in the next decade, 8 require substantial experience and education and 9 are in health care.
- The average earnings of Whites significantly exceed those of Blacks and Hispanics, but Blacks are increasing their earnings more rapidly than Whites are, though Hispanics are lagging even further.

SOURCE: Judy and D'Amico (1997).

A more fundamental workforce issue facing communities is a collective action problem: There is a general need for skilled workers, but individual firms may be unwilling to train workers because they fear they will lose their investment. Workers are mobile, and they may take their skills to other employers that will provide them with better wages and benefits. Employers often respond to this problem by providing firm-specific training or no training at all. Historically, employers may have been willing to invest in workers because they were likely to benefit from the increases in productivity. This system worked fairly well when individuals worked for one or two employers in their career. Today, workers are much more mobile, and employers tend to hire their skilled workers rather than provide existing workers with training. This system has a difficult time meeting the growing needs for a skilled workforce and overcoming the obstacles that low-income residents face in preparing for the new economy.

CBOs can address many of the obstacles workers, employers, and training institutions face in workforce development efforts. By establishing workforce networks, they can improve the flow of information between employers, workers, and institutions. They can reduce some of the costs, and risks, of training workers by spreading the costs out across several organizations. Finally, CBOs can coordinate some of the other needs of the workforce, including child care, housing, and transportation.

In this chapter, we review the key concepts and issues surrounding workforce development, the major actors and institutions involved, and the primary strategies and tactics for building a local workforce. In addition, we briefly discuss the potential for creating green-collar jobs. Workforce development efforts have changed dramatically in recent years due to welfare reform, the aging of the workforce, and the restructuring of major industries. CBOs are uniquely situated to improve the functioning of local labor markets by providing networks between employers, workers, and trainers.

Workforce Development Issues

Communities face several interrelated challenges regarding workforce development issues. Most of these issues are concerned with the supply of and demand for labor, the matching process between job searchers and job opportunities, and the institutions (e.g., vocational training, child care) involved in supporting employers and workers. The following issues are a few that might be addressed:

1. What are the sources of persistent unemployment and underemployment in the community? Are under- and unemployment due to increased skill requirements of employers or the lack of training among workers, or both?
2. Do workers have sufficient information about the location and skill requirements of jobs? Do employers use the appropriate methods for searching for qualified workers in the community?
3. Is job training offered by employers? If yes, what type? If not, why not and what obstacles do employees face in obtaining additional training? What types of programs are available from training institutions in the region and how well do they match the needs of employers and workers in the area?
4. What is the job turnover rate among employers? What are the causes and consequences of this turnover for employers, workers, and the community? What types of programs might reduce the turnover?
5. How many jobs will be created in the area in the next few years and what are the skills, education, and experience requirements for these jobs? How well does the available demand for labor match the available supply of labor in the region?
6. What are the current levels of wages and benefits available to workers in the region? Do the jobs being created by local employers provide a living wage?
7. How many workers are commuting out of the community and what are the skills and experience of these workers? Would these out-commuters be willing to work locally if jobs were available that provided similar wages and benefits?
8. To what extent do the availability and cost of day care in the community present obstacles to residents entering the labor force? Are employers facing any problems in adding additional shifts because of the costs or availability of day care?
9. Do retirees who have significant job experience and skills have opportunities to find meaningful work in the area? Are there jobs for the disabled?

Key Concepts and Debates

Workforce development is a frequently misunderstood term; many people think of it as only job training. Harrison and Weiss (1998) defined workforce development, however, as the “constellation of activities from orientation to the work world, recruiting, placement, and mentoring to follow-up counseling and crisis intervention” (p. 5). Training is only one component of workforce development.

A growing number of CBOs are responsible for workforce development. Probably one of the most publicized models of workforce development is the Center for Employment Training, which is based in San Jose, California, and now operates throughout the western and southwestern United States (Melendez, 1996). This model has three basic functions: enhancing job-specific skills, assisting with job search strategies, and facilitating access to jobs by establishing relationships with employers and providing information on job opportunities. Other models may be organized differently, but they provide essentially the same services (see Case Studies 6.1 and 6.2).

CASE STUDY 6.1 MILWAUKEE JOBS INITIATIVE, INC.

Milwaukee suffers from some of the same problems that affect most major cities—a growing demand for high-skilled workers and a declining demand for unskilled positions. The Milwaukee Jobs Initiative (MJJI) was established in 1995 to provide a match between inner-city workers with the broader regional economy, and thus jobs that provide good wages and benefits. The initiative has brought together major businesses, unions, and community organizations to design and implement the project. MJJI works on both the demand and supply side of the regional labor market. The initiative is working primarily with three industry sectors: manufacturing, printing, and construction. In these sectors, MJJI establishes intermediary organizations that help to improve employment and training in the sector. Because many of the firms in the sector will have similar training and employment needs, MJJI can provide an incentive for employers to participate. The organizations identify job openings and workforce development needs and help with systems to train and retain workers for these sectors. MJJI also works with community organizations to recruit low-income individuals for good jobs in the region and provides support for them. Since 1997, MJJI has successfully placed 368 individuals in jobs that pay an average of \$11.12 per hour with access to health benefits. MJJI plans on focusing on establishing clear pathways to high-wage employment for central city residents and coordinating the demand for skilled workers throughout the region.

SOURCE: Center on Wisconsin Strategy (1999).

CASE STUDY 6.2 RURAL OPPORTUNITIES INCORPORATED

Rural Opportunities Incorporated (ROI) was established in 1969 to serve as an umbrella organization to provide services to migrant and seasonal farmworkers throughout New York. Today, it has expanded to other states in the region and provides a variety of services, including education, training, child development, health and safety, housing, and real estate development. Its most important program is provided through the National Farmworker Jobs Program (NFJP). Under the NFJP, ROI provides (1) urgent assistance, such as food, shelter, and medical care; (2) skills assessment, placement assistance, and counseling; (3) adult education, such as English as a second language; and (4) traditional occupational training.

ROI fits the hub-spoke model for providing services. It works closely with local businesses, training institutions, public agencies, and other CBOs. Most of ROI's clients are Hispanic. It serves several hundred farmworkers each year. People served by ROI tend to have poor command of English, little education, and practically no job experience outside of agriculture. The holistic approach of ROI seems to work best to provide the variety of workforce services that are needed by this population.

SOURCE: Green (2007).

Human capital theorists argue that variations in earnings are consequences of differences in workers' abilities and skills (Beaulieu & Mulkey, 1995). Individuals can enhance their future earnings by investing in their labor skills (through education and job training). A basic assumption behind human capital theory is that individuals will be motivated to increase earnings, which means they will be willing to invest in education and training necessary to improve their position in the labor market. Human capital theory assumes that workers are mobile and will move to other locations with more job opportunities. This individualistic view of education and training tends to ignore the importance of community attachment and ties to family and friends. The theory also assumes that employers do not have any responsibility toward their workers for increasing their skills or education. Some employers, however, may see it as being in their interest to provide job training as a way to increase the productivity of their workforce.

Low-income and minority workers often face obstacles in finding jobs that adequately reward their skills and abilities. In many communities, the available jobs do not match the skills and experience of the local workforce. Spatial mismatch theorists suggest that inner-city minorities experience high unemployment rates because the jobs available within their labor market demand advanced skills and education, attributes most inner-city residents lack. Entry-level jobs appropriate for inner-city residents are much more likely to be located in the suburbs. This spatial mismatch leads to lower wages

or longer commutes for the poor. The poor suffer not only because of physical isolation from the jobs (lacking transportation to work) but also because of social isolation (lacking contacts to obtain information about these jobs). Kain (1968) argued that the root cause behind the spatial mismatch is residential segregation due to racial discrimination in the housing market. The negative effects of housing segregation are magnified by the decentralization of jobs in most cities.

The occupational and industrial structures in the local area shape the demand for labor as well. It is important to distinguish between occupations and industries to understand these forces. An industrial classification identifies what a worker helps to produce. An occupation is the kind of work the employee does. An occupation is defined as a group of job-related activities that comprise a single economic role directed toward making a living (Hodson & Sullivan, 1990). The U.S. Census Bureau has defined more than 500 occupational categories for analyzing these roles. An industry is the branch of economic activity devoted to the production of a good or a service. The Census Bureau uses more than 200 industrial categories.

A local labor market is defined as the social relations between sellers (workers) and buyers (employers) of labor. Within a community, several labor markets may be operating between buyers and sellers, some involving local markets and others constituting regional or national markets. For example, professionals, such as computer programmers or attorneys, usually compete in a national labor market, while machinists or receptionists may be competing in a local or regional labor market. A local labor market area is difficult to define, especially in rural areas where workers may commute long distances and employers may recruit from surrounding communities. Most workforce development activities focus on the local labor market because the activities will most likely affect unskilled and semiskilled workers.

The labor force participation rate is calculated as the percentage of the population (most government agencies consider only people 16 years or older) in the labor force. Persons not in the labor force consist mainly of students, homemakers, retired workers, inmates of institutions, and others unable or unwilling to seek employment in the reference week (Myers, 1992). The unemployment rate is the percentage of the labor force that is searching for work but is currently unemployed.

Labor markets are portrayed frequently as consisting of individual workers searching for work and employers searching for workers, with no mechanism linking the two together. In many cases, however, workers and employers make use of employment networks or intermediaries. Employment networks are "lines of communication that link many potential occupants of jobs in multiple firms with employers who make decisions to fill those jobs" (Tilly & Tilly, 1998, p. 25).

Theories about how labor markets operate tend to fall into one of three broad categories (supply oriented, demand oriented, or institutionally oriented theories), based on which factors are stressed in explaining the functioning of

labor markets. Supply-side theorists emphasize the importance of the number of workers with specific skills at various wage levels as the primary determinants of the functioning of labor markets. These theorists argue that productivity is a function of the skills, knowledge, and experience acquired by workers. Unemployment, underemployment, and poverty are generally explained as results of a lack of investment by individuals in the types of skills that are demanded in the labor market.

A standard set of issues needs to be examined when analyzing the supply of labor in a community, including sociodemographic characteristics of the population (e.g., race, age, gender, income, educational background), work experience, training experience and projected needs, job search strategies, commuting behavior, and wages and benefits received. In addition to this basic information, it is useful to assess the availability of other sources of labor. Are there retired workers interested in reentering the labor market? Are there part-time workers interested in full-time work? Are there workers who are commuting out of the area who might be interested in working locally? Are there workers interested in upgrading their skills to obtain local jobs? Unfortunately, most communities rarely collect this basic level of information about their workforce.

Demand-side theorists emphasize how changes in the structure of occupations, industries, skills, and the location of work shape local opportunities. According to this theory, development depends largely on the creation of new jobs demanding higher skill levels. Demand-side theorists assume that workers have perfect information about the available job opportunities and will seek to obtain the necessary training and education for these jobs.

Most of the information needed to assess the demand for labor can be obtained from employers. Several methods (e.g., phone or mail surveys) could be used to collect this information, but face-to-face interviews are preferable if the resources are available. Among the basic questions that need to be asked are the anticipated number of workers to be hired in the next few years; the training, education, and experience required for these positions; the wages and benefits offered to entry-level workers in these positions; and the methods used to search for workers to fill these positions. In addition, it is useful to collect some information about the basic characteristics of the firms, such as number of employees, the industry, the organizational structure, and so forth.

Although it is useful to collect information on the current demand for workers, it also is helpful to obtain data on anticipated demand to plan for future training needs. Also, it may be useful to collect data on training activities of employers to assess the type of training they are providing and how they provide it to workers. This information should provide an understanding of opportunities for mobility within the area and how training institutions can best supplement training efforts that take place in the workplace.

Institutional theorists of the labor market recognize the importance of supply and demand factors but emphasize the organization of work as a

mediating factor. These theories point to the importance of firm size, industrial sector, and other organizational factors in influencing returns on education, skills, and work experience. For example, workers who are employed in large firms and in industries that are highly unionized may obtain higher returns on their human capital than workers in small firms or industries with low levels of unionization.

In addition, institutional theories may focus on the organizational support for workers and employers in the region. One strategy for obtaining this information is to collect data from training institutions to evaluate the number of people trained in various occupations, and the level of training provided to these individuals, so that we can assess how well the supply matches the current demand among employers. At a minimum, it is necessary for community leaders to have information on the number of graduates from various training programs and the types of programs that are available.

It also may be useful to examine how other institutions in the community are affecting the workforce. How well do the availability and cost of housing match the current and anticipated demand for workers in the area? For example, are employers adding a large number of low-wage positions even when few affordable houses are available for workers? How many spots are available for children in child care centers in the community and how well does the availability match the local need?

These theories represent different approaches to building local labor markets. Supply-side theorists suggest that the way to build the workforce is through development of worker skills and productivity. According to supply-side theorists, the availability of a skilled workforce will attract employers to the community, or workers will be more attractive to employers elsewhere and they will move to where the job opportunities are. Demand-side theorists suggest it is better to attract, retain, and develop employers that need a skilled workforce. Communities may provide funding for a targeted industry, help existing employers modernize, and provide capital for new businesses that will hire a skilled workforce. Of course, the supply of and demand for labor are complementary. It is difficult for trained workers to find work if the employers are not demanding those skills. Conversely, a community may be able to provide incentives for a new business to locate there, but the business will need workers who have the required skills and training.

Institutional theorists focus more on how the organizational structure of work may influence the supply of and demand for labor in the community. Here, institutionalists make a distinction between internal and external labor markets. In an internal labor market, an employer hires entry-level workers and trains and recruits workers within the firm. Upward mobility for most workers occurs within the firm. A firm relying on external labor markets tends to hire workers who already have the skills and training needed for these positions. Workers wishing to improve their job skills and move to higher paying jobs may have to obtain the training on their own and take a job with another employer. The trend over the past 30 or so years has been

for employers to rely increasingly on external rather than internal labor markets. As we discuss later, communities may respond to this problem by identifying the common training needs across groups of employers to ensure an adequate supply of skilled workers for employers or by re-creating internal labor markets across a set of employers in the community (career ladders).

CBOs and Workforce Development

What role can CBOs play in workforce development? Many of the problems that communities face in building their workforce are difficult to address through the actions of individual businesses or workers. Solutions to these problems may require efforts by groups of employers and workers, along with public organizations. For example, employers may be reluctant to invest in the training of their workforce because they fear they will lose their investment if workers take jobs elsewhere. This dilemma is essentially a collective action problem. It is in the interest of all businesses to have a skilled workforce, but individual firms may be unwilling to take the risk of this investment.

One approach to solving this problem is to build career ladders that link employers together in a labor market to create opportunities for mobility across the labor market rather than within firms (Dresser & Rogers, 1997). In Dane County, Wisconsin, CBOs have established career ladders for unskilled and semiskilled workers in the health care industry. The system is based on the idea that unskilled workers will stay with employers involved in the career ladder program because the program provides them with opportunities for upward mobility. Employers in the system benefit as well. Employers that rely heavily on low-skilled workers are likely to lower their turnover rate, which can be very costly to these firms. They also are more likely to invest in job training because their workers will be more likely to stay with their employer to get access to better paying jobs. Similarly, employers relying on higher skilled workers will benefit from a steady stream of trained workers. CBOs are essential in coordinating these relationships.

There are several other examples of employers working collectively to solve problems in their labor market. Many communities lack adequate child care facilities. It is probably too expensive for most employers alone to provide this benefit to workers, but it may be possible for a group of employers to share the cost of providing child care for their workers' children. Similarly, employers can share the cost of providing transportation by pooling their resources of vans or buses. CBOs can help identify the need, locate resources, and bring employers together to address the need. Currently, there are two community-based strategies for coordinating these activities. Some communities mobilize employers within an industry, such as banking or health care. This strategy assumes that there are common training needs or issues within the industry that can be addressed best through some collective action. Other