PENNSYLVANIA'S INDUSTRY PARTNERSHIPS—FOUNDATION FOR A COMPETITIVE AND PROSPEROUS PENNSYLVANIA

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My name is Stephen Herzenberg. I am the Executive Director of the Keystone Research Center, an economic think tank and have a PhD in economics from MIT. In my remarks today, I will draw on research on the U.S. economy and human capital markets conducted over the past approximately 17 years. I will also draw on experience over the past 10 years conducting research on workforce development for and in collaboration with the Pennsylvania Department of Labor and Industry under Governor Schweiker and under Governor Rendell.

I come to these hearings with a genuine sense of anticipation and excitement. The reason for that is that I am looking forward to the testimony of the employer and business organization representatives that follow me. Even after 17 years in this area, learning first hand from business leaders how a creative, flexible government program—a deep collaboration between the public and private sectors—contributes to the renewal and regeneration of our economy retains a vitality and a freshness that never go stale.

This Pennsylvania legislature, through its support of Industry Partnerships, has contributed to a powerful experiment in how we can create a Pennsylvania economy that is more competitive and that delivers opportunity for all. You have already "made a difference" by allowing Pennsylvania to advance a model now recognized nationally. You have the chance to make a more profound difference by helping to institutionalize the Industry Partnership model by passing House Bill 2230.

I will make six points today.

1. <u>Industry Partnerships in their origins and in their implementation have been a relentlessly bipartisan initiative</u>. Over the past several years, as budget negotiations have become more difficult, there has been a tendency in this building to view Industry Partnerships in Pennsylvania as a democratic and Governor Rendell initiative. There is, of course, no denying that the scaling up of the state's investment in Industry Partnerships took place on Governor Rendell's watch, in partnership with the state legislature. But if you are as old as I am, you know that the origins of this strategy precede Governor Rendell. In Pennsylvania, specifically, the core idea of Industry Partnerships—the strategic reorientation of workforce development to address the skill needs of key regional industry clusters—emerged from a number of

local Workforce Investment Boards between 1998 (when the last major federal workforce reform, the Workforce Investment Act, passed) and 2002.

Prominent local areas in this grass-roots workforce systems reform included Lancaster, rural North Central Pennsylvania, Central Pennsylvania, Pittsburgh (partly thanks to foundation investment), and Berks County. Based on the experience of local reform, *Governor Schweiker* recommended to incoming Governor Rendell that he invest in Industry Partnerships. In transmitting a report on the implementation of the Workforce Investment Act to Governor Rendell, Governor Schweiker noted specifically in a cover letter the "potential of industry training partnerships to fill critical skill gaps, expand workers' career opportunities, and raise living standards." The report commissioned by Governor Schweiker included extensive examples and quotations from local workforce practitioners that were already innovating to focus workforce investment on the needs of local industry clusters. The Schweiker report also contained a recommendation that the state "seed-fund and strengthen...training partnerships linked with key industry or occupational clusters in regional economies," along with a set of criteria for evaluating requests for funds from partnerships. This recommendation is essentially what the Rendell Administration implemented with the Industry Partnership grant program launched in 2005-06.

2. <u>Industry Partnerships in Pennsylvania have already demonstrated substantial benefits for businesses, workers, and the state's economic development</u>. Since I expect Deputy Secretary for Workforce Development Fred Dedrick will have run down the basic numbers on the value of the state's Industry Partnerships to date (workers trained, companies engaged, wages and wage gains of workers trained, retention rates, results of surveys showing overwhelmingly that both employers and workers value Industry Partnerships and their training services), I won't.

   Instead, I will highlight some example of the functions performed by Industry Partnerships, with illustrations drawn from field interviews and case studies.

   - *Gathering intelligence about industry needs* so that training and other services better respond to those needs. This is the bread-and-butter of every effective Industry Partnership.
   - *Collaborating with educators and trainers to develop new training curricula, and new industry-recognized credentials*, in some cases articulated with college credit. This has been done, for example, by a logistics and transportation partnership in North Central and Northwest Pennsylvania and now is being done statewide to respond to increased demand for entry-level weatherization and energy efficiency workers.
   - *Organizing and expanding work-based learning opportunities*—internships, coop programs, pre-apprenticeships and apprenticeships—that complement classroom education delivered by career and technical high schools, and by community college programs. I expect you will hear immediately after me an example of this kind of work from Kelly Lewis of the Technology Council of Central Pennsylvania.

- *Mapping out and strengthening career pathways,* enabling more workers to advance and more businesses to enjoy committed and skilled employees. This work has been a special focus, for example, of a manufacturing partnership in SW PA (New Century Careers), a logistics and transportation partnership in Northeast Pennsylvania and health care partnerships in the Philadelphia suburbs and in the city.
- *Sharing and learning across businesses* about effective organizational and human resource practices. This has been a focus of many of the state's health care partnerships. Faced with high turnover rates and worker shortages, these partnerships delivered training to improve supervisory practices. Some of these partnerships—in Lancaster, for example—then sought to promote deeper changes in organizational culture so that quality job-quality care practices expand and low quality job-low quality care practices shrink. If any legislator or staff member wants to really appreciate the real magic of Industry Partnerships, I encourage you to attend a breakout session with Industry Partnership coordinators at the Pennsylvania WIB's annual best practices conference for health care Industry Partnerships. In acute as well as long-term care, you get a flavor in those discussions of how Industry Partnerships serve as a force for helping whole industry clusters become better managed—in part through peer networking and peer learning among managers.
- *Promoting more rapid innovation*. One example in this area comes from a Life Science partnership in Philadelphia, within which bio-medical companies pooled their knowledge about how to navigate pharmaceuticals through the FDA approval process, potentially shortening "time to market" and increasing profits and potential regional growth of high-wage bio-medical jobs. In another example, supported by Industry Partnership and Ben Franklin funds, powdered metals companies in North Central Pennsylvania have collaborated to accelerate incremental improvement in processes that reduce the porosity of their parts. This increases the strength of the parts and expands the markets in which powdered metals (because of lower processing costs) out-compete traditional machined metals. Potential result: more jobs for Elk and McKean counties.
- *Helping low-income workers get good jobs and advance*. Pennsylvania also has experimented more than any other state with helping low-income workers benefit from the knowledge that Industry Partnerships posses about employer openings and job requirements. This experimentation is a result of strategic investments by national and Pennsylvania foundations and United Ways that layer on top of Pennsylvania's Industry Partnership investments. The idea is emphatically not to derail the focus of Industry Partnerships on industry needs, but rather to find the sweet spot where partnership activities benefit both workers and low-income workers. A powerful example here is a pre-apprenticeship program in Reading that has so-far lead to 37o out of 370 high-school participants, mostly Hispanic, graduating from high school, large numbers of these going onto college, and a substantial number entering apprenticeships in the building trades.

3. <u>Government needs to subsidize Industry Partnerships</u> because market failures lead businesses on their own to under-invest in training and in coordination between the education/training sector and employers. It is widely acknowledged by economists

that market forces lead business to under-invest in training. In fact, the person most associated with this observation is University of Chicago Nobel Prize winning economist, Gary Becker. Becker observed that businesses have no incentive to invest in “portable skills” because workers may up and leave, taking those skills to a competitor. Similarly, businesses have little incentive to invest in coordination between the economy and the education and training sector—and in networking and peer learning that promotes innovation and the spread of high performance business practices. Any business that puts money or sweat equity (managers’ time) into serving on a curriculum committee for a vocational school—or any of the other range of activities that create a functional, industry-responsive skills and learning infrastructure—knows that their business receives (“appropriates” is the economists’ term) only a tiny fraction of the benefit of this investment. Of course, coordination between the education sector and industry is the core activity of Industry Partnerships. Thus, as a result of the pervasive market failures in human capital markets, it is both legitimate—and, in fact, essential—that government subsidize Industry Partnerships.

Government doesn’t have to do all the investment. Once businesses learn through experience about the value of Industry Partnerships, they become more willing to put in their money and their time. Once educational institutions face a workforce market in which more groups of employers have aggregated their training demands—and those employer groups have also signaled that they will only buy services from providers that customize their training to the needs of industry—educational institutions put more of their own staff time into listening to the customer (rather than delivering what their staff customarily teach).

From a historical perspective, investing adequately in our human capital infrastructure is as important in today’s knowledge economy as investing in roads and electric utilities was in the mass manufacturing economy. It’s worth stopping for a second to digest that last sentence because it’s not just an advocate’s line. It’s true. Pennsylvania, building on its Industry Partnership efforts to date, has a great head start on building a world class 21st century learning and career infrastructure. Moreover, we’re doing it so far very much on the cheap. Governor Rendell proposes this year to invest about $8.2 million total ($1.35 per worker per year) in IPs—and only $1.7 million (less than 30 cents per worker per year) in grants that pay for the staff time of IP coordinators, which is the real heart of what Industry Partnerships do. That’s about what a minimum-wage worker earns in 20 minutes. Is that enough of an investment in the foundation of an industry-responsive human capital infrastructure?

4. <u>Businesses and business organizations strongly support IPs</u>. You are better off hearing this point from businesses and business organizations, not from me. But let me just provide a bit of perspective to complement the individual testimony of business leaders. First, there is a national movement towards industry based workforce strategies that is now a decade or so old, and major business organizations are at the head of that movement. One particular telling example is the National Association of Manufacturers. Through its workforce arm, NAM has been

energetically supporting local chapters that engage in workforce development as well as advocating for public investment in Industry Partnership strategies (which are called "sector strategies" nationally). Closer to home, Pennsylvania businesses have actively supported Industry Partnerships each time the budget process has threatened major program cuts. Last year, over 500 businesses signed a strong letter of support for Industry Partnerships. In addition, organizations such as the Business Roundtable and the Pennsylvania Business Council, critics of traditional workforce programs, have testified to the value of the state's Industry Partnership program.

5. <u>IPs help knit together other workforce programs into an overall system that supports the skill needs of the private sector</u>. Criticism of U.S. workforce programs in the last decade or so often centers on a perception that the many different federal and state programs are silo'ed and fragmented. My favorite illustration of this comes from Fred Dedrick, who testified before me. Before joining the Rendell Administration Fred served at The Reinvestment Fund in Philadelphia (and was a champion for industry-linked workforce strategies since at least the mid-1990s). Fred put together what I call a "spaghetti diagram" showing all the federal and state agencies with workforce programs on a single (small font) legal-size piece of paper. The diagram looked like a plate of spaghetti. Given this, why do we need another new workforce silo? We don't. A silo is not what Industry Partnership grants are. They are a flexible source of funding that, in many cases, leads to more effective *integration* of other public and private funding streams into an overall system that supports high-performing businesses. This integration role helps explain why Industry Partnerships potentially have a very high return on investment. Through their activities, public and private investments many times larger than IPs' own funds are likely to be invested more effectively. When they are, IPs may deliver value that is, literally, many times larger than the public investment in them.

6. <u>Enabling Industry Partnerships to reach their full potential requires adequate and stable funding</u>. There is a policy and political choice to be made on the workforce development front over the next three and 20 months. Industry Partnerships, despite the progress made to date, are still an embryonic institutional and systems reform. We have barely scratched the surface in terms of the potential long-term positive impact on the state's economy should the legislature and the next gubernatorial administration make the choice to build on what Governors Ridge, Schweiker, and Rendell have started. On the other hand, there is some chance that Industry Partnerships in Pennsylvania could be a "one-administration wonder."

This is, of course, where you all come in: as a first step towards achieving sustainability for Pennsylvania's Industry Partnership strategy, I urge committee members to pass the proposed Industry Partnership legislation quickly and with strong bipartisan support. This would send a powerful signal that the legislature owns this strategy and could then lead to further discussion about how we raise the bar on IP performance and ensure adequate funding.

Since the legislature and Governor are in a mood for doing things quickly this year, how about passing the legislation by May 19, the opening of the annual conference of the workforce association (PA Partners, which also staffs the Pennsylvania WIB Association)? I look forward to seeing you all at the signing ceremony and to `celebrating your accomplishment.