

## ***Training That Works – Lessons from California’s Employment Training Panel Program (2003)***<sup>1</sup>

### **”The Economic Impact of ETP Funding”**

The California Employment Training Panel was created in 1982 to respond to a wave of layoffs in the early 1980’s that shocked California. The idea was that ETP would use funds from a special tax paid by employers within the employment insurance system to retrain workers and quickly move them back into employment. The logic was that the employers would recoup the cost of training by reducing periods of unemployment and consequently reducing that cost to the UI Fund.<sup>2</sup>

The key idea driving ETP is “pay for performance,” meaning that ETP will pay only for training of workers who complete the entire training and stay in the trained-for-job for at least the following 90 days.<sup>3</sup>

Chapter 7 of *Training That Works*, entitled “The Economic Impact of ETP Training,” presents estimates of Unemployment Insurance fund expenditure reductions and California economic impact attributable to ETP’s 1994-1996 incumbent worker cohort. For the 1994-1996 ETP contracts, the total impact on the California economy was estimated by the authors at over \$400 million in the first year after training.<sup>4</sup>

The authors write that: “although only \$62.8 million of ETP training contract funds were directly invested to achieve the \$400 million impact, this should not be taken as a return on investment because there are substantial costs and returns omitted from the estimates.”<sup>5</sup> As the authors further note, the \$62.8 million “includes only the training funds in the ETP contracts paid to trainers of incumbent workers. All training costs borne by the individual trainees and companies, along with ETP’s administrative costs, were excluded on the cost side. All benefits to companies were excluded along with any benefits accruing to either trainees or to state funds after the first post-training year.”<sup>6</sup>

Benefits for ETP funded trainees can lead to economic benefits for California as a whole. The authors write that: “training that increases productivity adds to workers’ earnings and may boost economic activity.”<sup>7</sup>

Table 7.1 in the book (reproduced below) lists the three types of ETP training outcomes with their primary economic benefit.

**“Table 7.1 Training Outcomes and Economic Benefits”<sup>8</sup>**

	Payoff (\$)
“Increase in trainees’ employment stability	
Savings to the Unemployment Insurance Fund	2 million
Increase in trainees’ productivity	
Increase in trainee earnings	32 million
Increase in employment at other California businesses	17 million
Savings of California Jobs	
Savings to Unemployment Insurance fund	61 million
Prevention of trainees’ temporary earnings losses	167 million
Prevention of other California businesses’ losses	134 million”

These ETP training program outcomes and associated benefits to the California economy are cross-referenced in Table 7.2 of the book (reproduced below). The authors note that: “We estimate that the ETP cohort’s training had an impact of about \$413 million on the California economy in the first year after training. Saving jobs, threatened by out-of-state competitors was the greatest benefit, totaling \$360 million in UI fund savings, trainee earnings impact, and indirect (or multiplier) effects. The largest component was the earning impact. Increasing productivity was the second largest benefit, totaling early \$50 million from \$31.8 million in earnings impact and \$16.8 million in indirect effects.”<sup>9</sup>

**“Table 7.2 ETP Impact on the California Economy”<sup>10</sup>**

“Outcome	UI fund Savings (\$)	Earnings impact (\$)	Indirect effects (\$)	Total (\$)
Employment Stability	1,978,000	NC	NC	1,978,000
Productivity Increase	NE	31,803,000	16,766,000	48,569,000
California Jobs Saved	61,115,000	167,305,000	133,845,000	362,265,000
Total	63,093,000	199,108,000	150,611,000	412,812,000”

In summary, the authors note that: “We estimated ETP’s total impact on the California economy at \$413 million during the first year after training. The largest portion of this came from saving California companies and workers from the economic disruption of temporary business and job losses. The \$362 million estimate of these savings may seem large to some, but it is the product of careful analysis and conservative assumptions. Workers and company officials will testify that losses of business by a company and the resulting economic dislocations of downsizing and layoffs are economically painful, even if only temporary. In the case that our conservative estimate of the temporary pain of economic dislocation were off by a factor of two, that would still leave an impact of \$180 million saved by avoiding lost sales and the related layoffs.”<sup>11</sup>

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Endnotes:

1. This review focuses on Chapter 7, entitled “The Economic Impact of ETP Training,” in the 219 page book, *Training That Works – Lessons from California’s Training Panel Program* (2003), which is published by Upjohn Institute, a non-profit employment research organization, Kalamazoo, Michigan, and written by California State University management, economics and finance Professors Moore, Blake, Phillips and McConaughy.

2. *Training That Works*, Chapter 2, “A Policy History of ETP.”

3. *Training That Works*, appearing under the sub-heading “Pay for Performance Shapes the Program,” p. 7.

4. *Training That Works*, Chapter 7, “The Economic Impact of ETP Training,” p. 153.

5. *Training That Works*, p. 153.

6. *Training That Works*, footnote 1, p. 171.

7. *Training That Works*, appearing under the sub-heading “The Training Outcomes and Their Economic Benefits,” p. 154.

8. *Training That Works*, The authors note that the source for Table 7.1 is: Moore, R.W., D.R. Blake, G.M. Phillips, D. McConaughy, and A. Cheung-von Hamm. 2000b. *Training that makes a Difference: ETP's Impact on Trainees, Companies and the State's Economy*. Sacramento, California: Employment Training Panel. ERIC Document Reproductive Service No. ED 4327562.

9. *Training That Works*, p.154.

10. *Training That Works*, p.155. In the table, "NC" means not calculated, and "NE" means not estimated. The authors note that the source for Table 7.2 is the same source noted in Endnote 8, above.

11. *Training That Works*, appearing under the sub-heading "Summary," p. 171.

The authors go on to note in the "Summary" that: "We also estimated that the \$62.8 million in direct ETP contract costs during the study period produced a \$51.5 million gain in the first year after training due to increased employment stability and the direct and indirect effects of productivity increases. It is worth noting that our estimates regarding the extent of economic growth due to productivity increases are conservative. These estimates do not include any company growth beyond what is directly associated with the demonstrable training effects on the trainees, plus the indirect requirements related to those training effects. Our estimates did not include any increase in profitability or subsequent sales and employment growth that the trainees' companies might have enjoyed because of the training. Even though our analysis of the company effects of training shows evidence that training increases both company profitability and employment growth, our estimates of economic impact do not include these effects."