

**STATEMENT OF ELAINE L. CHAO
SECRETARY OF LABOR
BEFORE THE
COMMITTEE ON EDUCATION AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES**

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AMERICAN COMPETITIVENESS INITIATIVE

Introduction

Good morning Chairman McKeon, Ranking Member Miller and Members of the Committee. Thank you for the opportunity to appear before you today to present the U.S. Department of Labor's efforts in advancing the goals of the President's *American Competitiveness Initiative*.

In his January 31st State of the Union Address, the President said that America is strong and getting stronger. The growth in U.S. productivity since 2000 has been approximately 3.4 percent annually, far above the historical average, and exceeds the productivity growth of other major industrialized countries. The President's Fiscal Year 2007 Budget recognizes the importance of innovation for our economic future – fostering and encouraging all the components that make our economic engine the envy of the world. These components include a low tax and regulatory burden, openness to international commerce and investment, an environment where entrepreneurial risk-taking and investment is rewarded and finally, flexible and competitive labor, financial and product markets. When workers have the necessary skills, they become flexible enough to move

relatively freely from job to job and place to place following the rhythms of the marketplace, businesses have workers they need to do the job and workers have opportunities for career advancement. I am here to talk about those programs that the Department of Labor is pursuing that will increase the skills of Americans, build workforce development capacity and enable American workers and businesses to contribute to, and benefit from, increased innovation. In partnership with the private sector, state and local governments, and colleges and universities, the *American Competitiveness Initiative* will promote new levels of educational achievement and economic productivity. With the right policies, we will continue to increase productivity, create more jobs, improve the quality of life and standard of living for generations to come, and maintain American's competitive edge in the global economy.

As part of the *American Competitiveness Initiative*, the Department of Labor is developing more streamlined and efficient ways for workers to access training and increase their skills. Aligning the workforce investment system with new economic realities facing the United States is among the critical factors in the success of the *American Competitiveness Initiative*. As part of this initiative, the President's 2007 Budget calls for Career Advancement Accounts that American workers can use to obtain the education and training they need to compete in the 21st century economy. This initiative builds on our continued commitment to championing the transformation of the workforce investment system by making it demand-driven through the President's High Growth Job Training Initiative, Community-Based Job Training Grants, and the Workforce Innovation in Regional Economic Development (WIRED) initiative, which is designed to transform and revitalize regional economies through a focus on talent development.

America's Workforce in the 21st Century Economy

Today, our country finds itself in a situation unlike any we have experienced in our history. The world continues to become dramatically interconnected and competitive. The advances we have made in communications and technology allow for instant access to information from all parts of the globe and have effectively-diminished national borders as barriers to global commerce.

One way to maintain our competitive advantage is by increasing the skill levels of American workers. The needs of the 21st century economy are very different than those we have encountered in the past. Industries such as manufacturing and retail now need workers who understand computers, robotics and supply chain management. Fields such as health care and construction need more technical and skilled labor than ever before. New industries utilizing new technologies, like biotechnology, geospatial technology and nanotechnology have emerged, and others on the horizon are just a gleam in the eye of an entrepreneur today.

Many of the fastest growing jobs of the future will need to be filled by "knowledge workers" who have specialized skills and training. These are the jobs that will drive innovation in the world economy and increase living standards.

The growing demand for highly skilled workers in such fields as health care, information technology, and advanced manufacturing, comes at a time when the labor pool as a whole is growing much more slowly as a result of the aging and retirement of the baby boom generation in combination with other demographic changes. As a result, the need for well-designed systems that can ensure a steady flow of trained workers to meet employer needs is greater than ever before.

Educational achievement in high school and beyond is a key predictor of economic success. But it no longer stops there. Whether it is an 18-year old student entering a four-year university or a 50-year old displaced worker entering a community college to learn new skills, our citizens need access to the education and skills development that the global economy demands. Workers today must commit themselves to lifelong learning and to continually upgrading their skills.

America finds itself at a crossroads. To maintain our productivity growth and to continue to grow our economy, we need a skilled workforce that has access to life-long training and development opportunities. To balance our shifting workforce demographics, we need a system that reaches out to every segment of the workforce and leaves no potential worker behind. Addressing these needs requires innovative new strategies and services to upgrade workers skills and connect workers with employment opportunities.

One important aspect of the President's ambitious strategy to encourage American innovation and strengthen our ability to benefit from the growth in the global economy requires us to reform our workforce investment system. The legislation to reauthorize the Workforce Investment Act (WIA) that was passed by this Committee and the House last year (H.R. 27, the Job Training Improvement Act of 2005) incorporates many important reforms. The Administration also would like for the Senate to move on WIA reform and for reauthorization of WIA, with meaningful reform, to be enacted into law this year.

The workforce investment system should recognize and strengthen workers' ownership of their careers, and provide more flexible resources and services designed to meet their changing needs. Studies have shown that workers make sound decisions about tapping resources to advance their careers when they

have good information on available options. Workers need to be provided as many choices as possible to gain the right skills and secure the best career opportunities, and high quality workforce information needs to be available to enable them to make educated choices. This will help ensure flexible labor markets, a key element to a pro-growth economy that is capable of exploiting innovations and innovative opportunities.

High Growth Job Training Initiative

An important part of supporting the American Competitiveness Initiative is developing the current workforce investment system into one that is relevant in the 21st century economy. Over the past four years, the Department of Labor has been implementing the President's High Growth Job Training Initiative. This initiative is the cornerstone of the Department's efforts to create a workforce system that is demand-driven and balance the skills of America's workers with the demands of employers.

Through the President's High Growth Job Training Initiative, we have invested over \$250 million in 130 projects nationwide to model partnerships among employers, education programs, and the public workforce system. Each project targets the skill and talent needs of high growth, high workforce demand industries in our nation's economy and provides the resources necessary to develop the capacity to train workers in the skills demanded by the 21st Century economy. To date, ETA has worked with 14 of these industries and industry sectors: Advanced Manufacturing; Automotive Services; Aerospace; Biotechnology; Construction; Energy; Financial Services; Geospatial Technologies; Health Care; Homeland Security; Hospitality; Information Technology; Retail; and Transportation.

Through the partnerships and project activities developed under the High Growth Job Training Initiative, communities are ensuring that the skills individuals acquire are in demand. By training workers with the skills employer want, we expect that more workers will obtain quality jobs that pay higher wages, while enabling employers to address their skill shortages and better compete in today's changing economy.

We are already seeing tremendous successes under this model. As an example, let me share with you the exciting work going on in the automotive industry in Michigan. On June 30, 2004, ETA awarded a \$5,000,000 grant to the Downriver Community Conference (DCC) for a proposal to develop innovative and responsive automotive manufacturing training models at the Auto Alliance International (AAI) plant in Flat Rock, Michigan. This facility, a joint venture of Ford and Mazda, is the first in the world with the capacity to produce front and rear-wheel drive vehicles with four, six, or eight cylinder power trains, and automatic or manual transmissions on the same assembly line.

The DCC project is a partnership-based model for helping automotive workers quickly and efficiently transition to new production processes. The grant provides advanced manufacturing training, education, and skills upgrades for new employees who are working to produce the Ford Mustang and Mazda 6. DCC uses the grant to track, analyze, and map transferable manufacturing skill sets and competencies required for the new positions. DCC and its business, training, educational, and community partners then deploy industry-driven, competency-based training to all AAI employees. This training is continuously upgraded, and re-delivered as technology and skills requirements evolve. All training modules culminate in industry-recognized certifications. As a result of this High Growth grant, approximately 2,500 participants have obtained job placements to date. The hourly wage received by these participants ranged

between \$18.75 and \$26.00, and 94% of placed individuals have retained their jobs for nine months.

Community-Based Job Training Grants

Our work under the High Growth Job Training Initiative revealed a critical shortcoming in the economic development capacity of many regions: many communities are not positioned to meet the training demands of our high growth industries because of limited training capacity and outdated curricula and training delivery systems.

To address this need for expanded affordable, flexible education and training capacity in local communities across the country, President Bush established the Community College Initiative. The Initiative provides Community-Based Job Training Grants to help communities to better train workers for jobs in high growth sectors by utilizing the expertise of America's community colleges. Due to their close connection to local labor markets, community colleges are well positioned to understand the intricacies of local economies and better prepare workers for high demand occupations. As we begin to increase the skill level of America's workers and develop the talent needed to benefit from the growth in the global economy, community colleges will become an even more critical provider of training for workers wanting to develop, retool, refine, and broaden their skills. In the fall of 2005, we announced the first installment of this initiative by investing \$125 million in grants to 70 community colleges around the country. We expect to solicit grant applications for our second \$124 million investment in the summer of 2006.

The WIRED Initiative

The Department of Labor is answering the call for competitiveness by fostering innovation through regional economic development.

Though global competition is often seen as a national challenge, it is actually at the regional level where solutions must be developed and the challenges met. It is in regional economies where companies, workers, researchers, entrepreneurs and government come together to create competitive advantage and where new ideas and new knowledge are transformed into advanced, high-quality products or services-

Facilitating the growth of a regional economy requires attention to three critical elements. The first is infrastructure. This includes not only the traditional factors such as highways, bridges, and buildings, but also 21st century factors like access to broadband and wireless networks. The second critical element is investment of capital, including the availability of risk capital and the conditions that encourage entrepreneurial risk-taking. And the third element is a flexible, talented labor force. A region may possess a strong infrastructure and the investment resources for success, but without the talented men and women to use those elements for economic growth, they are meaningless.

This recognition of the importance of talent development is key to President Bush's Competitiveness Agenda and our Workforce Innovation in Regional Economic Development Initiative which is designed to transform and revitalize regional economies through a focus on talent development. Thirteen regions were awarded grants in February as a result of a competitive process. Through WIRED, we provide the financial and expert assistance needed for regions to make the leap to an innovation economy.

The WIRED Initiative is focusing on labor market areas that are comprised of multiple jurisdictions within a state or across state borders. It seeks to help regions transform their workforce investment, economic development, and education systems to support overall regional economic growth and development by fostering collaborative partnerships among universities, businesses, government, and workforce and economic development organizations. The regions selected have been affected by global trade, are dependent on a single industry, affected by BRAC closings, or are recovering from natural disasters.

Ultimately, the WIRED Initiative supports innovative approaches to workforce and economic development that go beyond traditional strategies preparing workers to compete and succeed. Through WIRED projects, we intend to catalyze the creation of high-skill and high-wage opportunities for American workers within the context of regional economies.

Career Advancement Accounts

The High-Growth Job Training Initiative, the Community College Initiative and WIRED are all efforts to utilize the Department's discretionary dollars to fund cutting-edge state and local programs. These investments will serve as models for the entire public workforce system. Meanwhile, the Department's FY 2007 Budget is centered on a bold proposal designed to move the entire system in a direction that will better support our nation's competitiveness. The Career Advancement Accounts (CAAs) proposal is designed to give states and local communities more flexibility to design streamlined workforce systems that best fit the unique needs of their states and that better serve the needs of American workers and employers by making more money directly available for training. Under the proposal the four separate funding streams that are currently allotted for the WIA Adult, Dislocated Worker, and Youth formula programs and the

Wagner-Peyser Act program, respectively, would be streamlined into a single funding stream to be allotted to the States to carry out the Career Advancement Accounts proposal.

The Career Advancement Accounts proposal continues the themes articulated by President Bush in his proposals for job training reform. These themes are:

- Integrating programs to reduce duplication and overlap;
- Reducing administrative overhead costs to direct more funds to training;
- Providing workers with skills demanded by employers for high growth jobs and careers; and
- Giving workers greater personal ownership of their job training and education investments.

Career Advancement Accounts are self-managed accounts that enable current and future workers to gain the skills needed to successfully enter, navigate and advance in the 21st century labor market. Accounts would be available to both adults and out-of-school youth entering or re-entering the workforce or transitioning between jobs, or incumbent workers in need of new skills to remain employed or to move up the career ladder. Additional eligibility criteria and service priorities would be established by states. States must determine priority of service consistent with the veterans' priority of service requirement under the Jobs for Veterans Act (PL 107-288).

The maximum amount of an account would be \$3,000 for one year. This is sufficient to finance approximately one year's study at a community college. The accounts may be renewed for one additional year, for a total two-year account of up to \$6,000 per worker.

Individuals would be able to apply for an account at a One-Stop Career Center or through other processes developed by individual states. Ideally, states would also establish an on-line application system. The account funds can be used for occupational skills training, to help the individual gain foundational workforce and academic skills, and for work-based experience through on-the-job training. CAAs can also be used by individuals to pay for books and fees associated with education and training.

With lower administrative costs and the vast majority of funding used to finance the actual accounts, this proposal means that more individuals will be able to participate in job training and attain new and higher level job skills. In fact, the number of individuals receiving Career Advancement Accounts will be more than triple the number of people completing job training in the workforce investment system today. It is projected that about 800,000 accounts would be available each year.

The Department of Labor would be the Federal agency responsible for administering the Career Advancement Accounts program. Its responsibilities would include Federal oversight; providing technical assistance to states; providing states, employers, and job seekers with the best information on economic and employment trends, growth industries and their job skill requirements; supporting innovative workforce demonstration initiatives; research and evaluation; and national leadership.

States would serve as the “fund administrators” for Career Advancement Accounts. States would have discretion to determine how individuals are approved for accounts and how to administer the accounts.

Funding would be distributed to states under a single formula that reflects the factors used in allocating funds for the programs being replaced, such as

unemployment and civilian labor force data. The intention is that under this new formula, states would receive approximately the combined amount of allocations under the funding streams being replaced.

To receive funding for Career Advancement Accounts, states would be required to submit a State Plan, which covers a five-year period and is updated every two years. The State Plan would outline how the state administers Career Advancement Accounts and provides core employment services at One-Stop Career Centers.

States will report on performance for three primary outcome measures: (1) entered employment; (2) retention in employment; and (3) earnings. Attainment of a degree or certificate, placement in education, and literacy/numeracy gains would also be tracked as secondary outcomes on the individual record.

Instead of the prescriptive federal requirements for determining the eligibility of training providers under current law, States would describe in the State Plan their approach to ensuring the credibility and accountability of training and service providers receiving Federal funds (i.e., Career Advancement Accounts). States would also outline how they would ensure that account recipients have sufficient consumer information on the quality and outcomes of the education, training and other services provided by institutions and organizations where the accounts are used.

As indicated above, One-Stop Career Centers would be retained to deliver core employment services such as job search assistance and labor market information, among other related activities, and provide access to Career Advancement Accounts. However, the One-Stop Career Center system, and the governance structure that supports that system, would be streamlined and strengthened by eliminating a “one-size-fits-all” approach to the local delivery of services.

Requirements related to the number and location of One-Stop Career Centers and the membership of workforce investment boards would be relaxed, allowing states and local areas to design a delivery system that best meets the needs of regional economies and labor markets.

In addition to providing access to CAAs, the One Stop Centers will continue to provide workers and job seekers with basic employment services to assist their career development and ensure they have enough relevant information to make informed decisions about their future. At One-Stop Career Centers, job seekers would be able to receive core employment services, such as career and skills assessment, job placement assistance, and basic career counseling. Additional services, such as diagnostic testing and short-term prevocational service, would be authorized. Services to employers would include postings of job openings and assistance in finding trained workers. Access to information and services of One-Stop partner programs also would be available at the One-Stop Career Centers. Supportive services, such as child care and transportation, would be made available and paid for through arrangements made by the state with other Federal, state and local supportive service programs, and states would be encouraged to provide information and access to these services at the One-Stop Career Centers.

Career Advancement Accounts will complement the more than \$80 billion in Federal student aid that will be made available in 2007, which includes \$12.7 billion in new funding for Federal Pell Grants. Since Career Advancement Accounts are targeted toward workers seeking to upgrade their skills, there is more flexibility in how these funds can be used. For instance, unlike Pell Grants and other Federal student aid, Career Advancement Accounts would be available to individuals pursuing short-term training, in courses that last 10 weeks or less. Career Advancement Accounts would be available to individuals enrolled in specific courses to upgrade their skills, but are not planning to

complete a degree or certificate program. The Department of Labor is committed to working closely with the Department of Education to ensure that these accounts are well coordinated with the existing federal student aid programs.

Conclusion

The Career Advancement Accounts proposal is part of the President's *American Competitiveness Initiative*, and the other initiatives I have discussed, the High Growth Job Training Initiative, the Community College Initiative, and WIRED, complement the ACI. These initiatives are meant to demonstrate how talent development can increase productivity and drive economic growth. They will help American workers benefit from the growth in the global economy.

We believe that the *American Competitiveness Initiative* will provide our nation with the tools to better educate our children, to train our workforce, and to push the boundaries of our scientific and technological capabilities now and in the future.

Chairman and members of the committee, this concludes my remarks. I am happy to answer any of your questions. Thank you.