




Training for the Pandemic Economy

Jul 13, 2020 | BARRY EICHENGREEN

The transition to the world being created by COVID-19 was always going to be difficult for workers in the worst-affected sectors. The main question now is whether policymakers will take the steps – including apprenticeship programs and expanded funding for community colleges and technical schools – that are most likely to make it easier.

BERKELEY – COVID-19 is not going away, and other dangerous viruses [may be coming](#). This means it's time to face the grim truth: many of the pandemic's effects on our economies and societies will be persistent, even permanent.



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Some of these changes are already evident. There is less demand for the services of dine-in restaurants, hotels, airlines, brick-and-mortar retail, and large entertainment venues, and fewer employment opportunities in those sectors and facilities. There is more demand for everything on-line, and for health-care, childcare, and home-care services. Substantial numbers of workers therefore will have to move, and new entrants to the labor force will need different sets of skills.

Economists tend to assume that when something is necessary, it will happen – that “[the market will take care of it](#).” Workers will recognize the need for new skill sets, the argument goes. Employers who benefit from a workforce possessing those skills will impart them.

This is wishful thinking. The typical trainee doesn't know what the economy will look like in the summer of 2022 when she graduates from a two-year vocational program. She doesn't know what skills will

be required of health-care professionals in the age of telemedicine and genomic sequencing.

Moreover, she is unsure about where to go to get suitable training. She is financially constrained. She will have heard of for-profit institutions of so-called higher learning that promise to teach students coding skills but don't position them to complete their degrees, much less find a job.

For their part, firms have limited capacity to provide on-the-job training, especially in times like these, when they, too, are under financial stress. And they have limited incentive to do so, because workers, once trained, are free to leave. Costs can be shared by training trainees less than other entry-level workers. But pay in many health-care, homecare, and eldercare jobs, especially in the United States, is already at rock-bottom levels.

More generally, we know that individuals and firms, left to their own devices, under-invest in human capital. The contribution of education and training to economic growth, and to society generally, is greater than their acquisition cost. This positive externality is not something that workers and firms, deciding on their own, have adequate incentive to consider.

Government, therefore, should develop its own training schemes. Unfortunately, experience with public-sector training is disappointing.

The US Council of Economic Advisers [evaluated these schemes](#) shortly before the pandemic (not that anyone noticed) and found that they are not very effective at imparting skills and enhancing job prospects. Generally speaking, the larger the program, the worse the results. And this pattern is not limited to the US: experience with very large-scale retraining schemes, such as in the former East Germany in the 1990s, is especially disappointing.

But we can learn from the failure of earlier programs. Their record reveals that training works best when it is closely connected to a real job or occupation. Program design

should be informed by detailed government forecasts of the types of jobs that are coming and which skills they will require. Similarly, training works best when firms and industries collaborate on program design, because employers are a source of information about the skills that will be needed. At the implementation stage, on-the-job training – apprenticeships, in other words – is essential, and not only for blue-collar jobs. Although we think of apprentices as machinists and plumbers, increasingly they are [nursing assistants](#) and [insurance underwriters](#).

Here, Europe has a leg up, owing to strong trade unions that can cooperate with employers' associations in organizing apprenticeships, and because worker-firm attachments are relatively strong. In the US, progress will be harder. President Donald Trump actually issued an executive order in 2017 [establishing an apprenticeship task force](#). But its recommendations – eliminate duplicative training programs and streamline industry-government interaction – were weak soup.

In fact, American firms are investing less in training today than they did in the past, reflecting shorter job tenures. Imagining that they will spontaneously organize millions of apprenticeships is a pipedream.

What's needed are tax credits and subsidies. Sixteen US states currently [provide credits](#) for firms offering training. The federal government should do the same. This federal credit could be structured along the lines of the tried and true [research-and-development tax credit](#). Training, after all, is just development by another name.

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Finally, we should adequately fund technical and vocational schools and colleges. In the US, this means two-year community colleges, which offer courses in everything from occupational therapy to computer-aided design. Alas, the budgets of community colleges, funded at the state and local level, have been decimated by the crisis, a situation that is aggravated by the reluctance of Congress to provide aid to state and local governments.

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