

Foreword

The Evolving U.S. Labor Market

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The U.S. economy runs on the legs, shoulders, and minds of millions of workers. Whether the job is mining shale, writing computer code, or selling the latest consumer product, America's workforce powers our economic growth. For too long, however, labor has been considered a cost, a resource to be used until laborers enter retirement. America as a society has not, by and large, viewed the workforce as an asset in the economy that needs to be upgraded, refocused, and tinkered with.

This book aims to highlight the need for change to this outdated attitude. Workforce development is an investment, not a cost. The return on this investment is greater productivity, faster national income growth, and a more vibrant and satisfied pool of working Americans.

THE RISING SKILLS GAP IN THE UNITED STATES

This book, which champions the notion of investing in America's workforce, could not come at a better time. The United States faces a great imbalance in its labor markets. The supply of workers relative to the overall population is shrinking, while the demand for certain skilled employees is rising. At the end of 2017, the U.S. labor market was extremely tight. The unemployment rate stood at a 17-year low of 4.1 percent, and Labor Department data showed that businesses reported 5.81 million job openings, close to a record high.

That falling supply is the result of myriad issues. First and foremost is the downward pull of demographics. Baby boomers, the members of the exceptionally large generation born between 1946 and 1964, are now retiring, taking with them decades of experience and institutional knowledge. In the United States, as of 2016 only 40.0 percent of people

aged 55 years or older were in the labor force—defined as either having a job or looking for one—far below the national average labor force participation rate of 62.7 percent from October 2017 to January 2018 (BLS 2017, 2018).

But the shrinking labor force participation rate is also evident among younger adults. Researchers have sought to explain this trend. Clearly, many workers do not possess the skills demanded by employers, in part because of low educational attainment or poor quality of education. In addition, a change in employer needs and demands because of increasing automation and technical advancement contributes to a skills shortage that leaves many workers out of the labor market. This is a topic I will return to in a bit. But research also highlights the barriers that aren't related to skills, like addiction, incarceration, and child-care costs. Some job seekers, especially those from lower-income households, face logistical impediments, such as an unstable housing situation or poor access to transportation to get to a job. All of these trends help explain why the nation's labor force participation rate has fallen about four percentage points over the past two decades.

Markets have two sides, however, and for labor markets, a growing economy is pushing up the demand for workers. Employers are not looking for just any person to put on the sales floor or at a computer screen; employers are demanding workers with specific skills or experience. With a tight labor market, however, companies are struggling to bridge this skills gap.

The Federal Reserve Bank of Philadelphia quantified this skills shortage in a November 2017 unpublished survey of regional businesses titled “Business Outlook Survey: Special Questions.”¹ The Philadelphia Fed researchers found that more than 51.5 percent of respondents said they could not find workers with required skills, compared with only 26.9 percent who had said that in May 2011.

What can be done to change this imbalance in the U.S. economy? One solution is a holistic approach to workforce development. A broader view of training and education will allow the United States to tap into sources of labor that are currently underutilized. As this book argues by citing examples of in-depth research and successful programs, the United States needs to reenvision workforce solutions as investments in our national economy, not as social services.

After all, a college-level education is not always the solution to the skills gap. I spent a large part of my life in academia, including as president of the University of Delaware. I know the value of education. Going to a four-year college is not for everyone, however, and a college education does not always provide a student with the expertise needed to land a job in his or her preferred industry or to get hired in the city or town where he or she wants to live. We must look at different pathways to fulfilling careers that pay livable wages for workers from all communities.

In addition, one way to address the falling labor force participation rate is to invest in programs that draw in workers who feel left out of today's labor markets. Chapters in this volume explore investing in undervalued human capital, such as is often the case with veterans and inner-city youth. Others discuss comprehensive supportive services targeting those transitioning from jail or prison and workers with different abilities.

THE FEDERAL RESERVE'S WORK ON WORKFORCE DEVELOPMENT

The Federal Reserve System has a dual mandate: to achieve price stability and to foster maximum employment. The Fed tries to create the conditions for economic growth. Those conditions won't be as fertile, though, if we can't fill the jobs that are out there now, not to mention the ones coming in the future. The United States can only reach its potential when the needs of both business and the labor force are addressed in stronger alignment.

The regional banks that make up the Federal Reserve System began to explore new approaches to workforce development in 2017. Led by their community development departments, the banks began the "Investing in America's Workforce: Improving Outcomes for Workers and Employers" initiative as a deep dive into the current state of the labor markets and an exploration of what we need to do now to plan for the future. The initiative was conducted in collaboration with the John J. Heldrich Center for Workforce Development at Rutgers University,

the Ray Marshall Center for the Study of Human Resources at the University of Texas at Austin, and the W.E. Upjohn Institute for Employment Research.

The Investing in America's Workforce initiative ultimately seeks to create a foundation from which a new era of investment in America's workforce can grow. To support this mission, research was conducted in 2017 to explore regional aspects of improving workforce outcomes and investments. The impetus for this research was *Interagency Questions and Answers Regarding Community Reinvestment*, a publication jointly produced by the staffs of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (U.S. Treasury Department 2016). Under the clarifications provided in this publication, banks now are allowed to include workforce development as an investment opportunity in meeting their Community Reinvestment Act (CRA) obligations to lend and invest in all the places from which they take deposits. The initiative also led to the creation and implementation of a training curriculum for CRA bank examiners regarding how they qualify these workforce investments.

As a first step to understanding the current state of U.S. labor markets, community development teams across the Federal Reserve System gathered information through more than 50 listening sessions. These were carried out across 32 states and Puerto Rico by almost 1,000 workforce development leaders who work at the intersection of training, recruitment, and finance.²

At these listening sessions, participants first identified the current challenges facing both employers and potential job seekers. As expected, those discussions revealed a gap between the skills possessed by the local labor force and those demanded by employers. This skills gap was attributed to a variety of factors, including low levels of educational attainment and a stigma associated with alternative training and career paths. Participants also expressed concerns about technological advancement and automation contributing to both job losses and rapid changes in employer demands, thus placing additional strain on the limited capacity of training providers. Finally, participants noted that in many communities, the poor quality of the available jobs, both in terms of pay and other factors, was impeding opportunities for economic mobility.

Although the challenges discussed are vast, several promising strategies were identified for expanding and diversifying the pipeline of skilled workers and connecting these workers with employers. For example, sector strategies focus regional workforce development resources on the needs of a defined industry deemed important to the local economy. Local and regional employers, academic institutions, and training providers collaborate to analyze an industry's current and future skill requirements. These types of economic development strategies take a systemic rather than a transactional view and have the potential to yield a trained workforce that not only supports business attraction and retention but also creates local opportunities for unemployed and underemployed residents.

LABOR IS AN INVESTMENT, NOT A COST

A key central issue that came up in the discussions was the need for rethinking labor: workers are assets, not expenses. This issue requires a sea change in attitudes about how our economy works, but it is imperative if the United States is to create and maintain an equitable economy and to compete when up against the changing global forces shaping businesses today. Reclassifying employees as assets to be invested in, as opposed to line-item costs to be reduced, offers a shift in perspective that may encourage employers to improve job quality and make direct investments in skills training and professional development.

How could this new mindset be achieved? How would it work? Again, the listening sessions offered up ideas. Participants were asked to explore specific opportunities for investing in America's workforce. The following investment themes were identified as areas in which additional financial capital could improve outcomes. The ideas focused on what employers can do, and also on what society can do.

WORKFORCE INVESTMENT BY SECTOR

Indeed, changes in attitudes about workforce development require shifts in thinking across all sectors of society and the economy. This book details ideas and existing programs that have moved the needle on workforce development. First and foremost, businesses, public agencies, philanthropic and nonprofit organizations, and the financial sector must buy into trying this new approach. Will all new ideas work? Of course not, but the findings compiled by the Investing in America's Workforce initiative offer some suggestions for all sectors.

For businesses, the new mindset covers the two goals of 1) finding new workers and 2) retaining existing workers.

First, companies should align their want-ad requirements to the actual job. Research done at the Philadelphia and Atlanta Feds found that after the Great Recession, companies began to “up-credential” the requirements in job postings (Wardrip, Andreason, and de Zeeuw 2017). For instance, a position that once required only a high school diploma now demanded a college degree. If companies adopted a program of skills-based hiring as an alternative to hiring based on educational attainment, this could remove what, in some cases, may be an artificial barrier to livable wage employment. Additionally, in order to increase workers' chances for economic mobility, employers should be encouraged to improve job quality, especially for entry-level positions.

Second, businesses should also invest in their existing staff. Employer-financed training of existing employees will allow workers to gain the skills needed by their employers in order to move up the career ladder. This strategy, known as “upskilling and backfilling,” not only fulfills employers' skill needs, it also opens slots at the entry level that become the first career step for local job seekers.

The public sector is capable of taking a leadership role in workforce investing, but we should accept that much of the return on investment will occur mostly under a long-run horizon. Take early childhood education. High-quality early childhood education lays the foundation for a productive workforce, but these workers won't be applying for jobs until 15–20 years in the future. Even so, early childhood education does offer an immediate payoff, because it also can allow the current work-

force (i.e., the parents) to maintain employment, knowing that their children are adequately cared for.

The public sector can also focus on channeling funds to workforce training providers, including community colleges and educational institutions offering career and technical education, to allow more workers to receive in-demand skills training. Research has found that when faced with reduced public funding, workforce training providers have been forced to “reduce the number of workers served, change the mix of services participants received, or alter the methods of providing services” to ones that may not be as effective (Wandner 2015, p. 132). This funding approach is penny wise but pound foolish. Those cuts might help short-term budget shortfalls; in the long run, though, they shortchange a community of new workers who will pay taxes and buy local goods and services for years to come. Additionally, funding for improved transportation systems will allow everyone to travel across a region more efficiently. More affordable housing can stabilize lower-income communities and allow longtime residents to stay in place and employers to retain a stable workforce.

Workforce solutions are a fairly untapped opportunity for investment. Therefore, the workforce investment approach would likely need funding from philanthropy for capacity building in order to reach scale.

As part of job training programs, workforce intermediaries connect employers with a supply of skilled labor. Further investment in these entities is essential, because they are able to develop business relationships in a way that may be difficult for training providers, who focus mainly on meeting the needs of job seekers. Workforce intermediaries can also serve to educate training providers about the skills demanded by local employers.

Philanthropic foundations can also provide innovation grants and seed funding to support promising strategies and lend credibility to new programs or interventions. These moneys will further promote the idea of workforce investment.

Of course, achieving these goals requires resources. That’s where the financial sector comes into play. Thanks to the changes to the CRA regulation, financial institutions earn CRA credit for working within the workforce development area.

These funds must be used efficiently. Participants in the listening sessions identified innovative programs to maximize the return of public funding sources, including using private-sector leverage strategies to make public taxpayer dollars go further. These approaches are examined in the section of this book titled “Financial Innovations in Workforce Development.”

Working together to successfully move job seekers into stable employment has its challenges because of resource constraints, a competitive funding environment, and differences in organizational cultures and operating models. Nevertheless, the need for coordination and collaboration, both among service providers and with funders, is essential to successfully achieving shared goals.

None of these approaches will succeed in isolation. Instead, many of these ideas build on each other and bring benefits that extend beyond the jobs in focus. For instance, fostering entrepreneurship and small business development in low- and moderate-income areas can expand access to work for those seeking employment in those areas, but these businesses also can help stabilize a community and support other local businesses.

My colleague Neel Kashkari, president of the Federal Reserve Bank of Minneapolis, has noted that a person’s largest financial asset is not a 401(k) or a house; it is a job. Yet, while we think about socking money away in retirement funds and spending money to improve our homes as an investment, we don’t often think about investing in a job.

Workforce investment is not all about workers, however—it can pay ancillary benefits, too. For instance, companies can increase quality and output through investing in their workforce. When employees are well trained and feel valued, businesses reap the benefits of higher productivity, quality assurance, lower turnover, and better customer or client service.

Society at large also benefits from the economic progress created by a skilled and productive workforce. This book presents potential solutions to the challenges of current and future labor markets, and it explores how workforce development can be a successful investment for all of us.

Notes

1. The survey results, based on unpublished data compiled from a series of questions, are available upon request as a pdf document from the Federal Reserve Bank of Philadelphia. The document is called “Business Outlook Survey—Special Questions.”
2. The information they collected was compiled in *Investing in America’s Workforce: Report on Workforce Development Needs and Opportunities* (St.Clair 2017).

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