The Future of Workforce Development

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Key points

- Atlanta Fed President and CEO Dennis Lockhart says that continuing challenges to workforce development present before the last five years will remain even when conditions return to a more normal state.
- Lockhart describes the distinction between economic development and workforce development: economic development is about jobs for people, workforce development is about people for the jobs.
- Lockhart notes that the widening wage gap between those with a high school diploma or less and those with a college degree or more in part reflects the fact that the average wage of workers with less than a college degree has stagnated over the last 20 or so years.
- Lockhart says there must be more adaptability and alignment among the various organizations and professionals who work in the nation's formal system of human capital development.

Welcome

It's my pleasure to welcome you to the second day of the conference on "The Future of Workforce Development." The Federal Reserve Bank of Atlanta is very pleased to be collaborating with our cosponsor, the Federal Reserve Bank of Kansas City, to organize the conference and come together with you to discuss this important topic.

Introduction

To begin, let me refer back to President Esther George's remarks yesterday. She explained why workforce development is important to the work of the Federal Reserve. Like President George, I come at this topic from the perspective of someone involved in macroeconomic policy, with a mandate to promote full employment. The state of employment here and now and the immediate outlook for jobs is front of mind for me and my colleagues. The concern about employment markets was evident in the statement that explained the policy action taken at last week's Federal Open Market Committee (or FOMC) meeting.

The August jobs report released earlier this month made evident that the state of U.S. labor markets is far from satisfactory. I know your jobs are made more challenging as a result of the current economic environment. But workforce development has a deeper and longer-term character and will continue to be important to overall economic health even after the current problem of high unemployment is solved.

So today I'd like to focus my remarks on some longer-term trends in the nature of work in the economy. These trends bear on the future of the human capital development infrastructure in our country. Workforce development is, of course, a critical element of this infrastructure.

Current economic conditions cannot be totally ignored in this discussion, but, as I said, I want to concentrate on the continuing challenges that were present prior to the last five years and that will remain even when conditions return to a more normal state. I will make some observations that draw on feedback collected in the Federal Reserve's own forums of workforce development professionals, including many of you.

My broad theme will be the need for greater adaptability and alignment of stakeholders in the workforce development arena. It's obvious that workers themselves are stakeholders. Workers will need to evolve and renew their skills—both hard and soft skills—to keep pace with a changing workplace. One of the directors of the Federal Reserve Bank of Atlanta runs an outplacement services firm. He speaks of the need for workers to think of themselves as lessors of their skills over their work lives. His point is workers need to take responsibility for maintenance of their skills and make ongoing investments in the acquisition of new skills.

More relevant to this conference is the need for greater adaptability and alignment among the various organizations and professionals who occupy the central space in the nation's formal system of human capital development.

Key observations

I'll build this point on observations drawn from a recent extensive review of labor market trends by MIT economists Daron Acemoglu and David Autor. You also heard related research presented in yesterday's sessions.

First, the returns to higher education have increased substantially over the past three decades. This is well known, even if questioned very recently. In the early 1980s, the average wage earned by a college-educated worker was about 50 percent higher than that received by a worker with just a high school education. By 2008, that premium had almost doubled. In the last decade especially, most of the gains from higher education have been concentrated in those earning a graduate degree.

It's conceivable the widening wage gap between those with a high school diploma or less and those with a college degree or more could be happening in an environment where all incomes are rising. This wouldn't be so bad, but this is not the case. The rising relative return on education in part reflects the fact that the average wage of workers with less than a college degree has stagnated over the last 20 or so years.

Rising inequality across education groups has been accompanied by rising inequality within education groups. Increasingly, it's recognized that education level is not synonymous with skill. This is a second observation.

In today's labor market, the skills that matter most for job finding and job keeping, as well as wage growth, encompass abilities like critical thinking and analytical skills. This is to say the ability to perform nonrepetitive tasks that cannot be automated, cannot be easily replaced by technology, or cannot be transferred to remote locations (including foreign locations) is in greatest demand and best rewarded. Increasingly, education level alone is not a sufficient marker for this type of skill.

The advice to "get an education" is still sound. But labor markets have shifted decidedly in the direction of rewarding the skills necessary for nonrepetitive tasks that require the application of judgment. The word "judgment" here can be thought of as indicating a range of skills such as analytical skills, problem-solving skills, critical-thinking skills, and the like. I would argue that the stakes have risen for educators in their role as workforce developers. But certainly, all players in the human capital development community need to adapt to this reality.

Institutional infrastructure for human capital development

Let me take a higher level view and comment on this more encompassing notion of human capital development.

In my view, there are four key institutional factors that influence success in the process of human capital development.

The first is solid general economic fundamentals supported by prudent and effective macroeconomic policies. The Fed obviously has a role in this.

Second is a strong basic educational system from pre-K through grade 12. Attention to early childhood development in the years before kindergarten is relatively new but increasingly treated as essential. Beyond that lies our higher education system, of course, including the spectrum of community, vocational, and technical colleges as well as postgraduate professional schools.

Third is vibrant support for economic development at the local level.

And fourth is a flexible and dynamic system of workforce development.

Getting the first two success factors right (solid economic fundamentals and a strong educational system) is far from straightforward, but they are relatively easy to grasp conceptually. So, given limited time, I will expand on economic development as contrasted with workforce development, the subject of this gathering.

In the simplest terms, economic development is about jobs for people. Workforce development is about people for the jobs. The distinction is about the starting point.

Economic development has historically focused on recruiting domestic and international relocations and major capital investments of existing firms that bring jobs. At the national level, this can amount to just a shuffling of jobs—not what I would call true job creation. Whether domestic or international, it's a zero-sum game.

Over the last 15 or more years, the practice of economic development has expanded to areas such as university technology transfer and the commercialization of research, business incubation and entrepreneurial ecosystem development, and tourism product development. These efforts come closer, in my view, to confronting the challenge of organic job generation. Recent research shows that a high proportion of new jobs comes from new-business formation—start-ups and early-stage businesses.

Through such economic development efforts, demand for labor is created. Economic development strategies embrace the development of a competitive workforce from the resident population as well as the attraction to a region of new talent as critical complementary components.

The field of workforce development, as I perceive it, starts with people and their skills. The field aims to sustainably and productively engage people in the labor market. Workforce development has both economic and social ends.

It strikes me there are a number of variations on the theme of workforce development—and, consequently, a host of players. These include organizations that develop an existing workforce's skills to meet the immediate needs of a new employer, parties that act as a conduit between employers and job candidates, and those who target a specific population that has chronically struggled to find employment. An example would be high school dropouts and students at risk of dropping out.

Everyone professionally involved in the broad goal of human capital development is influenced by changes in labor markets. But those of you in the field of workforce development are directly impacted by changing work requirements and labor demand, and few are as directly confronted with the need for flexibility and adaptability. When there are big changes in the nature of work, workforce development professionals are on the hot seat.

Notes from recent round tables

In the past year, the Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Kansas City, as well as several other Federal Reserve Banks, have hosted more than 30 round tables around the country with various players in the workforce development system.

In these interactions with you in the workforce development community, we heard a common theme: there is a need for better coordination among employers, economic developers, and the workforce development community. And there is a need for better alignment of the goals and activities of players in the human capital development space broadly.

We frequently heard there is a troubling mismatch between the needs of employers and the education and training offered both by workforce development agencies and education systems.

This lack of alignment takes many forms, apparently.

We heard complaints that many education providers do not effectively engage employers and fail to develop curricula that help students acquire the skills and aptitudes relevant to today's workplace.

Employers complain they are often not invited to the table when economic development plans are hatched.

The strategies employed by various workforce development system players are often disjointed and sometimes contradictory—that is, having opposite aims.

Practitioners in the different realms of human capital development belong to different professional associations. Few local or national events bring them all together.

Perhaps the most biting observation we heard in our round tables was about the ones missing in action. While almost every community has established a workforce development group, nearly all had a critical partner (employers, curriculum designers, or technical colleges) either absent or ineffective.

The Federal Reserve Board and several Reserve Banks, including Atlanta and Kansas City, will be releasing a summary report and findings in October on these forums. We hope the report will make a serious contribution. And we will continue to look for ways we can be effectively engaged.

Close

Regardless of the perspective each of us brings to this conference, we are all struggling with the current situation. Nonetheless, we're gathered here to tackle longer-term questions concerned with preparing a competitive and resilient workforce by improving the workforce development system. I don't presume that the observations I've shared with you today offer any startling new insights, let alone solutions. Instead, they are intended to be thoughts of an outsider observing a complicated system that will greatly influence the future of the economy.

The point of this conference is to bring multiple actors into a single room to share the best of what works and to explore the challenges that lie ahead. To this end, I am looking forward to today's sessions.

In this morning's first panel, you'll hear more about the requirements of tomorrow's workforce. Later in the day, speakers will share insights on workforce development program evaluation, including the Georgia Works program in my home state, which allows qualified unemployment insurance recipients the opportunity to train with a potential employer.

Later today, Rolando Montoya, provost from Miami-Dade College, along with others will talk about how workforce developers in the education system are working in concert with economic developers and employers to fulfill specific demands of actual workplaces.

And, finally, we'll hear closing remarks by Carol Tomé, executive vice president of corporate services and chief financial officer at Home Depot (and chair of the Federal Reserve Bank of Atlanta). Carol will share insights on Home Depot University and Home Depot's needs for a ready workforce.

I will be joining you for the remainder of the program and expect to learn a lot. I thank you for taking the time to engage in this most vital conversation.