Successful Workforce Development Programs: Four Lessons from Four Decades of Federal Reserve Research and Outreach

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Introduction

It is wonderful to be at the University of Akron as a participant in this year's Ohio Economic Forum, which focuses on education and workforce development. Workforce development is a crucial ingredient for achieving a healthy and dynamic economy that can work for all. When it comes to the economic well-being of entire regions, many studies have documented the importance of investments in education and training programs. For example, Cleveland Fed researchers found that over a 75-year period, education levels were consistently one of the most reliable indicators for each state's per capita income growth[1] and that counties with higher levels of high school graduates tend to have lower poverty rates and higher levels of labor force participation.[2] Resilient regions, ones that have been able to avoid persistent declines in population over the longer run, tend to have a more educated population and a more diverse industry mix.[3] Better education helps individuals, too. It is correlated with lower levels of unemployment and higher wages.

Since having a skilled workforce benefits people and communities, workforce development is front and center in the work that the Federal Reserve does to promote a sound economy. I suspect that many of you know that the Federal Reserve's goals in setting monetary policy are to achieve price stability and maximum employment. These goals were formally given to the Fed by Congress in 1977. Currently, labor markets in the U.S. are very tight and inflation is very elevated. The Fed has begun the process of reducing monetary policy accommodation. Our intent is to reduce accommodation at the pace necessary to bring demand into better balance with constrained supply in order to get inflation under control while sustaining the expansion in economic activity and healthy labor markets. So understanding what is happening in the workforce is central to understanding the state of the business cycle and setting appropriate monetary policy.

[1] Federal Reserve Bank of Cleveland (2005).

[2] Federal Reserve Bank of Cleveland (2006).

[3] Lin (2012).

But understanding workforce dynamics is also important for assessing the longer-run health of the economy. It is relevant to the Fed's role in identifying effective community development policies and practices for promoting economic progress and access to credit in low- and moderate-income neighborhoods. This role arose from the responsibility that Congress gave to the Fed and other federal banking regulators for implementing the Community Reinvestment Act (CRA), which was passed in 1977.

So understanding all aspects of the U.S. labor force, including how communities can develop and sustain a resilient workforce, has been part of the Fed's mission for over four decades. Today, I will discuss four important lessons we have learned about successful workforce development from four decades of Federal Reserve research and outreach. As always, the views I'll present are my own and not necessarily those of the Federal Reserve System or my colleagues on the Federal Open Market Committee.

The Origins of Community Development Work at the Fed

First, let me provide a little background. As I mentioned, the Federal Reserve has a long-standing interest in community development. Congress passed the CRA to help address concerns about the deterioration in low- and moderate-income neighborhoods throughout the U.S., a deterioration that many people at the time attributed at least partially to limited access to credit and illegal practices such as redlining. The CRA reaffirmed that insured depository institutions must serve the communities in which they are chartered to do business, helping to ensure equitable access to credit for all individuals and neighborhoods, and the Fed and other federal financial supervisory agencies were charged with implementing the act.[4] To do so, the Fed created its Community Affairs function in 1981 to provide

[4] See Mester (2017) and Braunstein (2008).

technical training and support to depository institutions to help bolster their compliance with the CRA.[5] From this targeted beginning, the Federal Reserve's work in the area of community development has evolved and expanded to include research and community outreach and information gathering on a number of topics, including housing, education, health, transportation, and workforce development.

The Federal Reserve System comprises 12 regional Reserve Banks that are distributed across the country and a seven-member Board of Governors in Washington that oversees those Banks. The U.S. is very diverse, encompassing large cities, small towns, and rural areas, with a mix of different industries and occupations. That is true of the Cleveland Fed's District, the Fourth District, which comprises the entire state of Ohio, and parts of Pennsylvania, Kentucky, and West Virginia. The Reserve Banks are very much organizations of their Districts, so they are well positioned to gather information and develop a solid understanding of what is actually happening on the ground in their Districts. This community engagement via outreach and research on relevant issues allows the Fed's decisions to take into account the diversity of the American economy and its people.

Four Lessons from Four Decades of the Fed's Work on Workforce Development

Because having a skilled workforce is a vital component of a healthy economy, the Cleveland Fed, as well as many of our fellow Reserve Banks, focuses a lot of attention on workforce development and what communities can do to enhance it. While the economy is very diverse and workforce development efforts differ by location, four decades of Fed research and outreach have yielded some common themes. In the rest of my remarks, I will highlight four lessons we have learned about what successful workforce

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[5] The Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) are currently working together to strengthen and modernize the regulations that implement the CRA. See Board of Governors of the Federal Reserve System (September 21, 2020) and Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency (July 20, 2021).

development efforts have in common.

Lesson 1. Collaboration and commitment are essential for building effective programs.

The first lesson is that collaboration across public, private, and nonprofit entities is essential to a successful workforce development program. Community development practitioners have long known that effective workforce initiatives almost always require many different organizations to work together. The Boston Fed examined small and mid-sized cities that had lost manufacturing employment and found that resurgent cities, those that successfully reinvigorated their economies, exhibited a high degree of leadership and collaboration among key institutions and individuals, including nonprofits, private citizens, corporations, and government.[6] Importantly, the researchers also found that to have an effect on economic outcomes, leadership and collaboration must be part of long-lasting campaigns. There are no shortcuts or easy fixes. It takes commitment.

In the last 10 years, much has been learned about the value of sector-led partnerships, often focused on just one or a few industries. Cleveland Fed analysts undertook case studies of five sector-based initiatives across the Fourth District and found that successful programs involve employers who are substantively engaged. That engagement involves people at the highest levels of their organizations so that they can speak on behalf of the firm; it includes providing advice on curricula and interacting with students.[7] The case studies also showed that commitment is needed so that the programs have a chance to become established and grow. Because, in many cases, the employers involved in the programs are competitors, trust among the employers and program partners is an important driver of success. Our research also

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[6] Kodrzycki and Muñoz, et al. (2009).

[7] These sectors were health care in western Pennsylvania, information technology (IT) in northeastern Ohio, advanced manufacturing in central Ohio, marine mechanics in northwestern Ohio, and coal mining in eastern Kentucky. Four of these five initiatives provide direct training to workers, while the IT initiative focuses on increasing and enhancing the pipeline of IT talent through deep employer engagement with educational institutions at all levels. See Fee, Klesta, and Nelson (2016).

found that having the technical skills required for a position is often not enough to gain employment. Employers are also interested in hiring people who are motivated, aren't daunted by uncertainty and can be flexible, can work well in teams, can effectively communicate, and can learn new things. This underscores the need for collaboration, because effective workforce development programs combine partners who can educate people on these types of skills with partners who can provide the necessary technical skills.

Lesson 2. Communication between employers, workers, and trainers is needed to ensure that programs tackle the right problems.

The second lesson that is clear from the Fed's research and outreach is that to improve workforce outcomes there needs to be better communication between employers and workers about what each wants and needs. This avoids wasting effort and funding on programs that are misfocused. In the current labor market, almost every firm we speak to says it has been struggling to find the talent it needs. In a recent survey of more than 750 employers across an 18-county region of Northeast Ohio conducted by ConxusNEO, Fund for Our Economic Future, and Team NEO, over three-quarters of the respondents said they were struggling to find talent and finding it was their biggest challenge, and over 90 percent said their pool of qualified applicants was insufficient to meet their needs.[8] Surveyed employers said they have responded by raising wages and by offering more flexible schedules, hybrid work arrangements, and more paid time off. But only 8 percent of firms have taken the simple step of actually asking workers what matters to them. The Fund for Our Economic Future is completing a region-wide survey and holding focus groups asking workers what they are looking for, as input into the fund's support for strategies that lead to better job outcomes.[9]

Better communication can also help employers avoid making assumptions that are unproductive in

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[8] In the survey, which was conducted in December 2021 and January 2022, 78 percent of respondents said they were struggling to find talent, citing recruitment as their biggest challenge, and 94 percent of respondents said that their pool of qualified applicants was insufficient to meet their needs. See Burke (2022).

[9] See Burke (2022).

fostering better employment outcomes. The period before the pandemic hit was also one where labor market conditions were strong and our business contacts reported that they were having trouble finding the qualified labor they needed. A few reported that current employees were sometimes not interested in being promoted to a new role at a higher wage. They did not have a good understanding of why this was the case, since getting a job or a promotion was a path to better economic achievement. A few firms assumed it meant that people just did not want to work. But, of course, the reality was more complicated.

While a job or promotion may put someone on the path to higher future income, in the short run, taking a job at the offered wage can actually cost someone more in terms of lost public benefits than he or she would gain in wages from taking the job. While some public benefit programs phase out gradually, others, including Medicaid, have strict income cutoffs for participation. This creates so-called benefits cliffs. These cliffs often differ across localities and with the person's situation, in part, because benefit programs interact with one another. So it is not a simple task for either workers or employers to calculate the net financial effect on the worker of taking the job offered.

To help potential workers and employers better understand benefits cliffs, the Cleveland Fed is partnering with the Atlanta Fed and the Ohio Department of Jobs and Family Services to provide an interactive tool in six counties in Ohio as part of the state's Benefit Bridge pilot program.[10] The Career Ladder Identifier and Financial Forecaster (CLIFF) dashboard, developed by the Atlanta Fed, allows people to compare themselves with others in similar economic situations and locations to see how benefits change with increases in income, taking into account local living expenses and state-specific eligibility rules for public benefits.[11] The tool allows workers to look at different career path scenarios to help them understand the tradeoffs they would be making in terms of lost benefits in the short run versus potentially higher income

[10] See Nelson and Goran (2022) for further discussion.

[11] For more information on benefits cliffs and CLIFF, see the Federal Reserve Bank of Atlanta, Advancing Careers for Low-Income Families.

from wage gains in the future, and it allows employers and counselors to offer more informed career planning advice to workers.

Communication between businesses and educational and training organizations is also vital so that they can coordinate their efforts. With the workplace changing so rapidly, it is important that students and those advising them know what skill sets employers are seeking now and in the future so they can prepare themselves for joining the job market. In Pittsburgh, the Allegheny Conference on Community Development is working with businesses, educators, and students in elementary and high schools to raise awareness of the future job market so that curricula can be better matched to the skill sets that will be in demand.

Through its own surveys and outreach, the Federal Reserve is helping to communicate the challenges faced by lower-income families that hamper their ability to participate in the labor market and advance economically. The Cleveland Fed's biennial Policy Summit regularly has sessions on workforce development that bring together those with diverse perspectives.[12] Our workforce development outreach efforts routinely include both business and labor market participants so that each can communicate their needs and challenges. The Fed's reputation for objectivity helps us play a role as both a convener and a catalyst, aiming to increase everyone's understanding of the issues affecting the workforce and to foster effective collaboration.

Lesson 3. Effective workforce development programs recognize that place matters.

A third lesson drawn from Fed research and outreach is that place matters.[13] Employers are often drawn to places that will attract workers. So those living in lower-quality neighborhoods in terms of schools;

[12] See Federal Reserve Bank of Cleveland (2021).

[13] See Mester (2021).

housing; access to healthcare, food, and public transportation; and natural amenities like parks and green space typically have less access to good jobs, and without a good job, they have less ability to move to locations that offer better employment prospects. A body of research has shown that economic opportunity is tied not only to individual circumstances but also to place. Upward mobility – the probability that a child will be better off economically than his or her parents – is dependent not only on the family's characteristics but also on neighborhood characteristics such as neighborhood income, the quality of schools, access to social services, access to transportation, and racial integration.

It is becoming increasingly apparent that regional economic development, which focuses on growth in economic activity, and workforce development, which focuses on the skill sets of individuals, are linked and should be viewed as a common goal. As part of the Federal Reserve System's Investing in America's Workforce initiative, the Fed held listening sessions across the country. During those sessions, we heard that an important challenge to developing the workforce is the lack of critical support services, like transportation, needed by those seeking training. These services are either inaccessible or underfunded, especially for those people living in low- and moderate-income communities.[14,15] Training is not as simple as if you build it, they will come. Training needs to be connected to support that enables people to access the training, and then once they complete the training, to be able to take advantage of job opportunities and to move along a career path. Cleveland Fed researchers have found that increasing accessibility to jobs by reducing commuting distance can make a significant difference in keeping people employed, especially for African Americans, women, and older workers, whose jobs require them to be on-site.[16] The move to more remote working arrangements presents a great opportunity for bringing more people into the workforce.

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[14] The Federal Reserve System worked with the John J. Heldrich Center for Workforce Development at Rutgers University, the Ray Marshall Center of the Lyndon B. Johnson School at the University of Texas, and the W.E. Upjohn Institute for Employment Research on the initiative, Investing in America's Workforce.

[15] Pack and Fee (2019).

[16] Fee (2020, 2021), Pacetti (2018), and Barkley, Pacetti, and Bailey (2018).

Since the characteristics of firms, workers, and available infrastructure differ across localities, to be successful, workforce development efforts need to be tailored to the specifics of the localities. The Boston Fed's Working Places initiatives recognize this. Its Working Cities and Working Communities Challenges were developed based on the Boston Fed research I mentioned earlier on small and mid-sized cities that had lost manufacturing employment. Those cities in which leaders collaborated across sectors with many local partners to form a localized and shared vision of long-term success were more successful at reinvigorating their economies. Informed by this research and designed in partnership with the Boston Fed's network of community development stakeholders, the challenges are grant competitions aimed at strengthening civic collaboration and partnerships to help struggling post-industrial cities and rural towns in an enduring way. The funding comes from philanthropic, public-sector, and private-sector partners, with the Boston Fed administering the program and providing technical assistance, including opportunities to learn from other participants.

Lesson 4. Programs should be regularly and objectively evaluated based on data and informed by research.

This brings me to the last lesson I will discuss today: evaluation is essential. No matter how well intentioned, some workforce development programs will be less effective than others. And because place matters, some programs that work in one region may be less effective in another. Funding is scarce, so it is important that initiatives be regularly evaluated, based on objective evidence and informed by research, to help ensure that the investment in workforce development is money well spent and that programs are designed to be effective so that they can help the most people.

It is impossible to evaluate the effectiveness of a program without the data to do it. So initiatives should collect complete data on the programs and outcomes by geography and by the race, ethnicity, education, income, and other characteristics of the participants. And initiatives should be willing to share these data so that objective third parties can evaluate the programs.

The Cleveland Fed and colleagues around the Federal Reserve System are creating and using data to support workforce development. For example, the Atlanta, Cleveland, and Philadelphia Reserve Banks' project to identify "opportunity occupations," those occupations that pay higher than the median wage but do not require a bachelor's degree, grew out of our hearing repeatedly through our outreach of the need for these types of jobs.[17] The Cleveland and Philadelphia Feds have created an Occupational Mobility Explorer tool, which helps workers, particularly those without a college degree, identify good-paying jobs based on the skills they have.[18] It covers 33 of the largest metropolitan areas in the country and allows an individual to see what other occupations that use similar skills are available and what the pay differentials are across these occupations. For example, cashiers would find that customer service representatives have skills similar to theirs but get paid more. With this type of information, people are better equipped to explore alternative career paths that could enhance their economic outcomes.[19] They can also use the tool to determine how much better off they might be financially if they obtained training to enhance their skill sets given current and future employment demands.

Conclusion

In summary, the Federal Reserve has been supporting workforce development efforts for more than four decades by providing research and data, doing outreach to all the stakeholders with an interest in workforce development, and convening these stakeholders so that they can share their perspectives on what is needed to ensure a highly skilled workforce. Through our efforts, we have learned that collaboration, commitment, communication, recognition that place matters, and objective evaluation are all important ingredients in designing and maintaining effective workplace development initiatives that help individuals and communities prosper economically.

[17] Wardrip, et al. (2015).

[18] The tool is available at the Occupational Mobility Explorer web page.

[19] See Federal Reserve Bank of Cleveland (2020) and Nelson, Fee, and Wardrip (2019).

In today's rapidly changing world, the nature of available jobs and the skill sets needed to perform those jobs are also changing. That is why many people talk about the need for life-long learning. That applies not only to individuals but also to institutions. In that vein, the Cleveland Fed is committed to expanding its knowledge and working with all stakeholders to help support efforts to develop a highly skilled workforce, an essential ingredient in maintaining a strong economy in which everyone can benefit.

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