

Reflections: Workforce Development



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* The views expressed here are my own and not necessarily those of the Federal Reserve System or my colleagues on the Federal Open Market Committee.

Last week, the Cleveland Fed concluded its 2021 Policy Summit, Pathways to Economic Resilience in Our Communities.¹ Workforce development was a key theme during the three-day summit because it plays a key role in helping people and communities further their economic well-being. In my last *Reflections*, I shared some thoughts on education and the central role it plays in expanding economic inclusion and opportunity. Today, I will continue with that theme by discussing workforce development and the importance of ensuring that all people have the opportunity to develop the skills and knowledge needed in our rapidly changing economy.

Even before the pandemic, we were seeing rapid changes in the nature of work: what we do and how we do it. Over the past few decades, there has been a shift in the share of employment in goods-producing businesses, such as manufacturing and mining, toward service-producing industries, such as healthcare, education, and business services. In the 1970s in the U.S., about 30 percent of jobs were in the goods-producing sector, a little over 50 percent were in the private service-producing sector, and the rest, about 20 percent, were in government. By the 2010s, those shares had shifted to under 15 percent in goods, 70 percent in private services, and about 16 percent in government. In Ohio, the story is similar. About 16 percent of our employment is in goods, just under 70 percent is in private services, and about 15 percent is in government.

Accompanying this shift in sectors is the rapid change in how we work. This is happening across many industries and in all parts of the economy and is being driven by technological change, automation, and digitalization. Technology-driven changes in the labor market mean that the types of jobs and the skills needed for doing them are changing. The manufacturing plant of the 1970s looked very different from the high-tech operation of today, where workers need to operate computerized machinery and robots. Automation means that jobs requiring more routine work are less in demand, while jobs that require more

¹ Please visit the summit's website at <https://www.clevelandfed.org/en/newsroom-and-events/events/2021/policy-summit.aspx>.

cognitive skills, abstract thinking, and flexibility are in higher demand. Federal Reserve and academic researchers have found that since 2000, there has been a decline in employment in both routine cognitive jobs, like bookkeeping and other clerical jobs, and routine manual jobs, in other words, the jobs that are usually considered medium-skill jobs.² A report from the Brookings Institution suggests that 25 percent of jobs are at risk for automation, a shift that especially impacts those in lower-wage positions.³ In addition to technical skills, modern work also involves more teamwork, collaboration, and consensus building. So basic leadership and communication skills are also becoming essential skills in the workplace.

Currently, our economy is experiencing a skills gap: not enough workers have the skills necessary to fill the jobs in demand. This means that we are not living up to our economic potential. And with the changing nature of work, unless something is done, that gap is likely to widen. The challenge is how to close that gap so that everyone who wants to work has the opportunity to do so. A skilled workforce that can adapt to change is an essential ingredient in a healthy economy, characterized by inclusive economic growth and broad-based prosperity. Achieving this goal will take effort on the part of all of us: workers, employers, government agencies at all levels, educational and training institutions, and workforce development organizations.

The Federal Reserve System is working on several initiatives to promote investment in workforce development and encourage partnerships. I use the word “investment” on purpose. There is a growing understanding among businesses that expenditure on employees should not just be viewed as a short-run

² See Rob Valletta, “Higher Education, Wages, and Polarization,” Federal Reserve Bank of San Francisco *Economic Letter* 2015-02. January 12, 2015 and Jaison R. Abel and Richard Deitz, “Job Polarization and Rising Inequality in the Nation and the New York-Northern New Jersey Region,” Federal Reserve Bank of New York *Current Issues in Economics and Finance* 18, 2012.

³ See Mark Muro, Robert Maxim, and Jacob Whiton, “Automations and Artificial Intelligence: How Machines Are Affecting People and Places,” Metropolitan Policy Program at Brookings, January 2019. (https://www.brookings.edu/wp-content/uploads/2019/01/ES_2019.01_BrookingsMetro_Automation-AI_Report_Muro-Maxim-Whiton-FINAL.pdf)

input cost. Employees are important assets to an organization and investing in employees can pay off in the long run by creating a more attached and productive workforce. Regions are also realizing that investments to draw a highly skilled workforce can pay off by attracting more employers to the region and making the region more competitive when opportunities arise. Workforce development and regional economic development are linked and should be viewed as a common goal.⁴

Progress is being made in closing the skills gap. But more needs to be done. Five areas need particular focus:

(1) We need to gather more information about the kinds of skills that are most in demand now and are likely to be in high demand in the future, and we need to ensure this information is easier to access by workers, employers, and trainers.

According to a Fed survey of young workers, more than 30 percent of young adults did not get information about jobs and careers in high school or college.⁵ The Federal Reserve has been working to fill the information gap. For example, recognizing that a majority of adults, disproportionately people of color, do not have at least a bachelor's degree, researchers at the Federal Reserve Banks of Cleveland, Atlanta, and Philadelphia have been documenting the types of occupations – so-called “opportunity occupations” – that do not require a four-year college degree but that do pay a decent wage (at or above the median wage).⁶ Examples of these types of occupations include nurses, sales representatives, truck drivers, carpenters, and electricians. An examination of the skills in demand for lower-wage and for

⁴ The Federal Reserve System is working 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 an initiative called Investing in America's Workforce. See <https://www.investinwork.org/>

⁵ Board of Governors of the Federal Reserve System, “Experiences and Perspectives of Young Workers,” December 2016. (<https://www.federalreserve.gov/econresdata/2016-survey-young-workers-executive-summary.htm>)

⁶ Federal Reserve Bank of Cleveland, “Opportunity Occupations: A Way Ahead for People Without College Degrees,” June 16, 2020. (<https://www.clevelandfed.org/newsroom-and-events/publications/a-look-behind-the-numbers/albtn-opportunity-occupations.aspx>)

opportunity occupations led to the development of the Occupational Mobility Explorer tool. This tool helps workers in 33 different metro areas learn how the skills used in their current occupation are similar to those used in a higher-paying occupation in their same labor market. For example, if you are a cashier in Cleveland, you have the skills to be a customer service representative, which pays, on average, 135 percent more.⁷

The Rework Community Insights Monitor, available on the Atlanta Fed's website, is a tool that provides information at the metro level on good jobs, salaries, and the training available within the local labor market.⁸ The tool will tell you which industries and occupations are most prevalent in the local economy and which occupations do not require a bachelor's degree.

(2) Employers need to improve their ability to identify the skills actually needed for the job, rather than relying on degrees earned and years' experience as proxies. This is particularly important if we want to increase economic opportunity for those who face barriers to entering the labor force.

Cleveland Fed researchers found that employers lack consensus about what level of education is needed for the same job. In fact, the level of education requested in job ads varies over time, becoming more restrictive during economic downturns and less restrictive during expansions.⁹ This suggests that employers' educational requirements are not necessarily well aligned with what is actually needed to do the job. This barrier unnecessarily limits opportunity: it has a disparate impact because among heads of households, 41 percent of whites hold a bachelor's degree compared to 26 percent of Blacks and 16

⁷ This tool is available at <https://www.philadelphiafed.org/surveys-and-data/community-development-data/occupational-mobility-explorer>.

⁸ The tool is available at <https://www.atlantafed.org/cweo/data-tools/rework-community-insights-monitor>.

⁹ See Keith Wardrip, Kyle Fee, Lisa Nelson, and Stuart Andreason, "Identifying Opportunity Occupations in the Nation's Largest Metropolitan Economies," Federal Reserve Bank of Cleveland, September 9, 2015. (<https://www.clevelandfed.org/en/newsroom-and-events/publications/special-reports/sr-20150909-identifying-opportunity-occupations.aspx>)

percent of Hispanics.¹⁰ It is within employers' power to better align educational requirements with the job being filled. The Federal Reserve Bank of Cleveland is working to align our job descriptions and postings with the knowledge and skills needed in the roles.¹¹ Other companies are beginning to pay attention to this issue, too.¹²

(3) Those providing training need to better align their programs with the needs of employers. Employers need to ensure that their employees have continuing access to training, for both technical and leadership skills, and to mentorships, so that their employees can advance in their careers.

If employers did a better job of identifying the skill sets needed for various positions, this would help trainers and educators align their training programs to meet the needs of employers, making the training more effective. As the skills gap has widened, there has been increased collaboration between community colleges and businesses to tailor training and curriculums. Students are given the opportunity to gain workplace experience while learning, and employers can more easily find workers with the skills they need. This is a welcome development because students need to have some confidence that if they invest in education, there will be the opportunity to embark on a career path at the other end of the educational program.

The modern workplace demands that employees be given the opportunity to continue to refresh their skills and learn new ones. Lifelong learning opportunities are good for the employees, for their

¹⁰ Calculations based on the Federal Reserve System's 2019 Survey of Consumer Finances (<https://www.federalreserve.gov/econres/scfindex.htm>). See also Lisa J. Dettling, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson, "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances," Finance and Economics Discussion Series Notes, September 27, 2017. (<https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm>)

¹¹ See George Sample, "Personal View: Let's Rethink Job Descriptions," Crain's Cleveland Business, April 25, 2021. (<https://www.craincleveland.com/opinion/personal-view-lets-rethink-job-descriptions>)

¹² The Business Roundtable announced that more than 80 of their member companies are participating in a multi-year effort to examine companies' hiring and talent management practices and refocus them on skills rather than degrees. See <https://www.businessroundtable.org/workforceskills>.

employers, and for the overall economy. As people advance in their careers, it opens up positions for others who are entering the workforce, which can help an organization achieve its diversity goals.

(4) We need to take a holistic and innovative partnership approach, which recognizes that skills training is only one aspect of keeping people attached to the workforce and promoting economic mobility. Training needs to be connected to support that enables those trained to take advantage of job opportunities and to move along a career path.

In a series of listening events held across the country as part of the Federal Reserve System's Investing in America's Workforce Initiative, we learned that one of the largest impediments to closing the skills gap was the lack of critical support services such as transportation and childcare.¹³ Without these support services, many lower-income people are not able to access opportunities for training and face difficulties holding certain jobs that do not offer more flexible work schedules. It will take a joint effort among employers, workforce development firms, and government agencies to ensure that jobs are accessible. Our research indicates 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.¹⁴ The move to more remote working arrangements presents a great opportunity.

The Federal Reserve and other evaluators have identified several examples of successful partnerships that have increased opportunity, reduced worker turnover, and increased productivity and wages.¹⁵ Many of

¹³ Drew Pack and Kyle Fee, "Understanding the Disconnect between Economic Development and Workforce Development Systems," *2019 Special Topic Brief*, Federal Reserve System, December 19, 2019. (<https://www.clevelandfed.org/~media/content/newsroom%20and%20events/publications/special%20reports/sr%2020191219%20understanding%20the%20disconnect/sr%2020191219%20pdf.pdf?la=en>)

¹⁴ Kyle Fee, "The Decline in Access to Jobs and the Location of Employment Growth in U.S. Metro Areas: Implications for Economic Opportunity and Mobility," Federal Reserve Bank of Cleveland, October 1, 2020. (<https://www.clevelandfed.org/newsroom-and-events/publications/community-development-briefs/db-20201001-decline-in-access-to-jobs-and-location-of-employment-growth-in-us-metro-areas.aspx>)

¹⁵ See Kyle Fee, Matt Klesta, and Lisa Nelson, "Addressing Employment Needs through Sector Partnerships: Case Studies from Across the Federal Reserve's Fourth District," Federal Reserve Bank of Cleveland, August 15, 2016 (<https://www.clevelandfed.org/newsroom-and-events/publications/special-reports/sr-20160815-addressing-employment-needs-through-sector-partnership>) and *Workforce Realigned: How New Partnerships Are Advancing Economic Mobility*, Social Finance, Federal Reserve Bank of Atlanta, and Federal Reserve Bank of Philadelphia,

these programs are sector specific. For example, in Northeast Ohio, MAGNET's Early College, Early Career is a paid apprenticeship program in advanced manufacturing for high school juniors and seniors that helps employers build a sustainable pipeline. The Cuyahoga County Workforce Funders Group, a public-private partnership, is working with the Greater Cleveland Partnership to further development of a diverse and highly skilled workforce in information technology. Towards Employment, a nonprofit workforce development organization located in Cleveland, uses the WorkAdvance model to help build career paths in high-demand sectors, including healthcare and manufacturing. This model includes pre-screening to ensure that participants understand a sector's job requirements, occupational skills training, placement services, and post-employment coaching. The model has been shown to be effective, with participants working more regular hours, staying in the workforce, and earning higher salaries.¹⁶

(5) Program evaluation should be part of any workforce development model. This means making data on outcomes available to all interested parties.

In order to make faster and broader progress, we need to expend resources on careful program evaluation. Success metrics should consider both the workers' and the employers' viewpoints and assess how effective the program is in meeting the needs of those entering and re-entering the workforce, those changing careers, and employers seeking workers. The evaluation should also consider the scalability of the program: programs that work well on a small scale may be less successful when scaled up. Funders should then be willing to act on the information provided by the evaluation, shifting funding from less successful to more successful programs that can be produced at scale.

2021. (<https://www.philadelphiafed.org/community-development/workforce-and-economic%20development/workforce-realigned>)

¹⁶ See "Redefining Workforce Development in Northeast Ohio: How National WorkAdvance Demonstration Made Local Impact," Fund for Our Economic Future. (https://www.towardsemployment.org/wp-content/uploads/WorkAdvance_LocalReport_112216.pdf) and Richard Hendra, David H. Greenberg, Gayle Hamilton, Ari Oppenheim, Alexandra Pennington, Kelsey Schaberg, and Betsy L. Tessler, "Encouraging Evidence on a Sector-Focused Advancement Strategy: Two-Year Impacts from the WorkAdvance Demonstration," MDRC, August 2016 (https://www.towardsemployment.org/wp-content/uploads/2016_Workadvance_Final_Web.pdf)

The Federal Reserve Bank of Cleveland is committed to working to promote workforce development in our region via our research efforts and partnerships with community development organizations and civic and business leaders because workforce development is a key ingredient in expanding economic opportunity and creating a stronger regional and U.S. economy.