



TRANSFORMING U.S. WORKFORCE DEVELOPMENT POLICIES FOR THE 21st CENTURY

EDITORS

Carl Van Horn, John J. Heldrich Center for Workforce Development at Rutgers University

Tammy Edwards, Federal Reserve Bank of Kansas City

Todd Greene, Federal Reserve Bank of Atlanta

Transforming U.S. Workforce Development Policies for the 21st Century

Carl Van Horn
Tammy Edwards
Todd Greene
Editors

2015

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Acknowledgments

The publication of *Transforming U.S. Workforce Development Policies for the 21st Century* is the culmination of nearly two years of brainstorming, planning, writing, reviewing, and editing by many individuals. We are grateful for this chance to acknowledge those who were instrumental in bringing the vision for this book to life.

First and foremost, we wish to acknowledge the nearly 70 authors who contributed chapters and case studies for this volume. We thank them for their contributions, insights, patience, and cooperation throughout this entire process. Their work here has the potential to transform our nation's workforce development and educational policies and strategies.

We owe special thanks to Stuart Andreason, community and economic development adviser at the Federal Reserve Bank of Atlanta; Robin Ratliff, assistant vice president and public information officer at the Federal Reserve Bank of Atlanta; and Steven Shepelwich, senior community development adviser at the Federal Reserve Bank of Kansas City, all of whom reviewed drafts of this book and provided invaluable advice.

We are grateful to several staff from the Federal Reserve Bank of Atlanta: graphic designers Peter Hamilton and Odie Swanegan, who produced the cover design; Kyan Bishop, outreach director; Chevelle Wilson, business analyst; and Karen Leone de Nie, assistant vice president, community and economic development. We also thank Heidi Kaplan, senior community affairs analyst for the Board of Governors of the Federal Reserve Board.

Kathy Krepcio, executive director of the Heldrich Center, and Maria Heidkamp, senior researcher at the Heldrich Center, worked closely with us over the past two years, suggesting potential authors, reviewing chapter and case study proposals, and reviewing and providing feedback on both draft and final manuscripts. Robb C. Sewell, senior writer/editor, worked with the editors, authors, and the W.E. Upjohn Institute for Employment Research on the submission, review, and production of manuscripts, and on marketing the book. Communications assistant Christine Jenter worked with authors to provide them with feedback on their draft chapters. A number of Heldrich Center researchers reviewed chapters, including Jennifer Cleary, William Mabe, Michelle Van Noy, and Charyl Yarbrough.

Finally, we are indebted to the staff at the Upjohn Institute. Special thanks to Randall Eberts, president; Kevin Hollenbeck, vice president, senior economist, and director of publications; Richard Wyrwa, manager of publications and marketing; and Allison Hewitt Colosky, editor. Quite simply, this book would not be possible had it not been for their contributions.

Foreword

Our country's workforce development policies and programs were largely developed more than 30 years ago and are insufficient to address the needs of our modern economy. While disruption in traditional occupations (and the skill sets needed for those occupations) has increased over the last few decades, overall workforce development funding has diminished and is not likely to increase.

More comprehensive restructuring and truly innovative approaches are needed to meet the human capital demands of employers. More and better information is also needed to inform job seekers about an increasing range of private and public options from which they can obtain the skills and credentials to be successful. It is in response to these and other trends that *Transforming U.S. Workforce Development Policies for the 21st Century* was developed. The book provides thoughtful perspectives on how workforce development efforts, often based on approaches from decades ago, might be rethought to better respond to these trends.

Transforming U.S. Workforce Development Policies for the 21st Century is the result of a partnership between the John J. Heldrich Center for Workforce Development at Rutgers University and the Federal Reserve Banks of Atlanta and Kansas City. While the Heldrich Center has a longstanding reputation for advancing promising policies and practices, and the Fed has also undertaken extensive research and analysis of labor markets, workforce development is a relatively new area for the Federal Reserve—one in which we are now actively engaged.

The Federal Reserve has a dual mandate of promoting price stability and maximum employment. Our concern about optimally functioning labor markets is consistent with the latter half of the mandate. While the overall weakened economy following the Great Recession suggests that cyclical challenges are a key driver of unemployment rates, Federal Reserve leaders have identified some structural issues as contributing to slack in labor markets (Yellen 2014). For example, as part of our regular information-gathering processes, we have often heard industry leaders state that open positions remain unfilled despite elevated unemployment levels. While we and our Federal Reserve System colleagues have suggested that monetary policy will not fully address labor market weaknesses, several of us have spoken about the important role of workforce development in improving labor market outcomes (Lacker 2013; Lockhart 2014).

To deepen our understanding about labor market dynamics in low- and moderate-income communities, Federal Reserve Banks convened 32 meetings

around the country in 2011, bringing together a variety of stakeholders, including economic developers, school officials and academics, business leaders, and government representatives.¹ While each meeting had a different focus, one consistent theme identified in nearly every meeting was the need for improved, responsive, and more coordinated workforce development efforts. In the intervening years since these initial meetings, the Federal Reserve's community development function has been particularly invested in improving workforce development policies and practices by leveraging the Fed's data and research capabilities along with our ability to convene diverse stakeholders.

Transforming U.S. Workforce Development Policies for the 21st Century is an excellent example of how the Federal Reserve, in partnership with a strong collaborator in the Heldrich Center, is bringing thoughtful ideas about how workforce development efforts might be reshaped to respond to our modern and dynamic economy.² Every state, region, and locality faces workforce development challenges and possesses diverse assets and resources that call for customized solutions. It will be critical for efforts to be more nimble, more responsive to employers, and more closely aligned among the various components of the workforce development process.

The chapter and case study authors in this book are well-positioned to address these issues, and we thank them for their contributions. The policy and practice perspectives presented are not an endorsement or roadmap from the Federal Reserve, but are intended to spur innovative thinking that results in context-specific solutions.

—Esther George and Dennis Lockhart

Esther L. George is president and chief executive officer of the Federal Reserve Bank of Kansas City and a member of the Federal Open Market Committee, which sets U.S. monetary policy.

She has more than 30 years of experience at the Kansas City Fed, primarily focused on regulatory oversight of nearly 200 state-chartered banks and 1,000 bank and financial holding companies in seven states. She was directly involved in the banking supervision and discount window lending activities during the banking crisis of the 1980s and post-9/11.

During the most recent financial crisis, she served as the acting director of the Federal Reserve's Division of Banking Supervision and Regulation in Washington, D.C. She hosts the Federal Reserve Bank of Kansas City's annual Economic Policy Symposium in Jackson Hole, Wyoming, which is attended by central bankers from around the world.

She is a native of Missouri.

Dennis P. Lockhart is president and chief executive officer of the Federal Reserve Bank of Atlanta and is also a member of the Federal Open Market Committee.

He took office in March 2007 and is responsible for all the Bank's activities, including monetary policy, bank supervision and regulation, and payment services. Before joining the Fed, he served on the faculty of Georgetown University's School of Foreign Service and was an adjunct professor at Johns Hopkins University's School of Advanced International Studies.

Previous leadership positions include serving as chairman of the Small Enterprise Assistance Funds and as managing partner at the private equity firm Zephyr Management LP. He also worked for 13 years at Heller Financial, where he served as president of Heller International Group, which had activities in commercial finance and investment in Europe, Latin America, and Asia. In 2000, he served as chairman of the advisory committee of the U.S. Export-Import Bank. In the 1970s and 1980s, he held various positions, both international and domestic, with Citicorp/Citibank (now Citigroup).

He is a native of California.

Notes

1. See <http://www.federalreserve.gov/communitydev/appendix-b-list-of-forums-and-forum-summary-notes.htm> (accessed March 19, 2015).
2. A conference considering many of these topics was also held in October 2014. See <https://www.frbatlanta.org/news/conferences/2014/141015-workforce-development.aspx> (accessed March 19, 2015).

References

- Lacker, Jeffrey M. 2013. "Starting Early in Workforce Development." Paper presented at the Charlotte Branch Conference Center, Charlotte, NC, November 5. http://www.richmondfed.org/press_room/speeches/president_jeff_lacker/2013/lacker_speech_20131105.cfm (accessed March 19, 2015).
- Lockhart, Dennis. 2014. "Strategic Workforce Development: Training for Employability." Paper presented at "Transforming Workforce Development Policies and Practices for the 21st Century," held on October 16 at the John J. Heldrich Center for Workforce Development, Rutgers University, New Brunswick, NJ. <https://www.frbatlanta.org/news/speeches/2014/141016-lockhart> (accessed March 19, 2015).
- Yellen, Janet L. 2014. "Labor Market Dynamics and Monetary Policy." Paper presented at the Federal Reserve Bank of Kansas City Economic Symposium, held on August 22 in Jackson Hole, WY. <http://www.federalreserve.gov/newsevents/speech/yellen20140822a.htm> (accessed March 19, 2015).

1

Introduction

Carl Van Horn
Todd Greene
Tammy Edwards

Workers and employers in the United States face new realities and uncertainties that current public policies and programs were not designed to address. The Great Recession and other disruptive forces have altered the environment that workers, job seekers, businesses, educational institutions, and government all face. These forces include globalization, labor market volatility, pervasive and rapid technological changes, shifting demographics, and resource constraints. Workforce development and educational policies must be transformed during an era of scarce resources, new technologies, increased personal responsibility for career navigation and management, shifting skill requirements, and changes in the nature of employment.

This volume includes a wide range of chapters and case studies that examine the state of the labor market and potentially transformative workforce development and education strategies and policies designed to improve opportunities for job seekers, students, and workers, especially those encountering the greatest difficulties in the labor market. Ideally, these strategies and policies would meet the needs of employers and society for a highly skilled, well-educated, competitive, and productive workforce. They also would deliver effective and efficient solutions that can be adopted by federal, state, or local/regional governments, as well as by educational institutions, businesses, and nonprofit organizations.

Several chapters and case studies focus exclusively on addressing the difficulties experienced by the long-term unemployed, those with limited formal education, older and youth workers, minorities, and individuals with disabilities. The authors examine the funding and performance of unemployment insurance, postsecondary educa-

tion, reemployment programs, Workforce Investment Boards, the labor exchange system, and the potential impact of the Workforce Innovation and Opportunity Act of 2014. The authors describe evidence-based strategies and policies from states, communities, and private firms that offer some potential for meeting the fundamental needs of job seekers and employers. The chapters and case studies were selected after an independent review by the editors and their colleagues at the Federal Reserve Banks of Atlanta and Kansas City and the John J. Heldrich Center for Workforce Development at Rutgers University.

THE IMPACT OF THE GREAT RECESSION

As a result of the Great Recession and fundamental transformations in the U.S. economy, millions of Americans are either unemployed or fear they will no longer be able to retain their jobs. Nearly six years after the official end of the recession, American workers are encountering volatility and uncertainty in the labor market. Job growth has been consistent but inadequate to provide enough jobs for everyone who wants one. Wages have increased but have not kept up with the pace of inflation, and labor force participation rates are at their lowest levels in three decades.¹ Long-term unemployment rates remain at unprecedented levels.

In many ways, the U.S. economic recovery has been impressive. Although about 8.7 million jobs were lost between the start of the recession in December 2007 through early 2010, in the past 57 months, jobs added to the U.S. economy have totaled nearly 10.9 million. During 2014 alone, employment increased by 2.65 million, matching the rate of annual job growth during the economic boom of the late 1990s (Furman 2014). The unemployment rate declined from 8.2 percent in March 2012 to 5.5 percent in February 2015. The unemployment rate for the short-term unemployed—those out of work six months or less—returned to prerecession levels.

Other labor market indicators, however, face ongoing headwinds. While the unemployment rate has declined for the past four years, job growth has been insufficient to absorb the additional workers who joined the labor force and the millions who are either unemployed or

working part time but seeking full-time jobs. The economy is still several million jobs short of what it would need to return to levels of full employment at the beginning of the twenty-first century. In fact, “. . . at the current rate it will take until early 2019 for the economy to accommodate new entrants into the work force and get back to where it was before the recession,” according to the Brookings Institution (Schwartz 2014). Moreover, the negative effects of the Great Recession did not fall evenly across workers in the United States. Unemployment rates remain high for teenagers (17.1 percent), those without a high school diploma (8.4 percent), blacks (10.4 percent), and Hispanics (6.6 percent) (U.S. Bureau of Labor Statistics 2015a).

Lower unemployment rates were achieved, in part, because hundreds of thousands of workers left the labor force altogether. For example, the number of workers classified as “discouraged”—individuals who have given up looking because they do not believe jobs are available—was 732,000 in February 2015 and remains above prerecession levels. In addition, nearly 7 million people are working part time but would prefer full-time jobs (U.S. Bureau of Labor Statistics 2015a). And, in one of the most troublesome indicators of the labor market’s recovery, more than one in six men in the prime working ages of 25 to 54—over 10 million workers—are either unemployed or no longer looking for work (Wessel 2014).

Another harsh legacy of the Great Recession is the persistent problem of the long-term unemployed—workers who remain jobless for more than six months (Federal Reserve Board of Governors 2013). More than five years into the recovery, there are still 2.7 million long-term unemployed workers, almost a third (31.1 percent) of all unemployed job seekers (U.S. Bureau of Labor Statistics 2015a). The percentage of long-term unemployed workers has declined from 46 percent in 2010, but it still exceeds the 26 percent level experienced in 1982, the worst previous recession. Unemployment rates in 29 states are at or near postrecession levels, but long-term unemployment remains above prerecession levels in 41 states (U.S. Bureau of Labor Statistics 2015b).

In summary, the Great Recession was an economic crisis of a magnitude not experienced since the Great Depression more than 70 years ago. The Heldrich Center for Workforce Development conducted a national Work Trends survey in early 2013 and found that nearly one-quarter (23 percent) of respondents reported being laid off from either

a full-time or part-time job during the recession and the early years of the recovery (Szeltner, Van Horn, and Zukin 2013). Just over one in three laid-off workers found a new job within six months; 16 percent got another job in two months or less. Yet, one-third of respondents said they spent more than seven months seeking a new job, and 1 in 10 searched unsuccessfully for more than two years. Even more troubling, 22 percent of Americans who were laid off in the past four years have yet to find new work. An analysis by Krueger, Cramer, and Cho (2014), using data from the U.S. Census Bureau, found even deeper problems: “Only 11 percent of those who were long-term unemployed in a given month returned to steady full-time employment a year later.”

Laid-off workers who obtained a new job generally settled for less pay in their new positions. Among those workers who did find a job, nearly three-quarters were employed full time, one-fifth were employed part time, and the remainder reported self-employment (full time and part time) or military service (Szeltner, Van Horn, and Zukin 2013). Nearly half (48 percent) said their current job was a step down from the one they had before the recession. A majority (54 percent) reported lower pay in their new job compared to the job they had before being laid off. One-quarter said their job was a step up and higher-paying than their last position. Among those reporting lower pay in their new job, one-third said their pay was cut by more than 30 percent compared to the job they had at the start of the recession, another third said their pay dropped by 11 percent to 20 percent, and the remaining third experienced a cut of less than 10 percent.

LONG-TERM STRUCTURAL CHANGES

Well before the Great Recession rocked the American economy, during the height of the 1990s boom, millions of job seekers were already experiencing the harsh shocks of a rapidly churning labor market. Even before the collapse of the stock market and housing prices, the volatile twenty-first century economy was transforming work as seismic changes in technology and finance crumbled small and giant corporations and upended entire industries. Before the Great Recession, workers at all educational and skill levels experienced job losses through

downsizing, mergers, and acquisitions and were forced to search for new opportunities.

Early in the the twenty-first century, labor market realities are fundamentally different than they were in the mid-twentieth century. Thirty years ago, most jobs were stable, or even permanent; now most jobs are temporary or contingent. Workers in the mid-twentieth century most likely could remain with a firm and ride the seniority escalator to better jobs and higher pay. Today's workers no longer have that expectation.

In just a few decades, a fairly stable economy rapidly changed. Advances in technology and industry made it much harder for labor market specialists, let alone average workers, to predict the direction of the labor market. Imagine high school seniors or first-year college students choosing among dozens of fields of study expected to prepare them for a career that will take them deep into the twenty-first century. It is no surprise that many are perplexed when making these choices. No matter which path these young people pursue, it is clear that obtaining a high school or postsecondary credential is only one step on the path of what is likely to be a lifetime of continuing education.

Expectations about retirement are also fundamentally different than they were a few decades ago. Late in the twentieth century, most workers assumed they would retire by age 65, if not earlier. Today, many Americans do not believe they will ever be able to afford to quit working. Many in the baby boom generation are either unable or unwilling to leave the workforce because they do not have enough savings. Fewer retired workers can look forward to guaranteed pension benefits from their employers. Often these benefits have been replaced with "defined contribution plans" that offer no guarantees and depend on contributions to and investment earnings from the employee's account (Van Horn 2013).

CHALLENGES FOR WORKFORCE AND EDUCATION POLICY AND PROGRAMS

U.S. citizens and political, business, and educational leaders are confronted by fundamental new challenges in a global, competitive, technology-driven environment where economies, entire industries,

and companies are transformed with lightning speed. How does the United States, through its laws and institutions, build a productive and competitive workforce and restore the promise of upward mobility? The broad forces shaping the U.S. labor market were not created by the Great Recession, but they have been coursing through the labor market for the past 20 years. This new economic landscape, while still evolving, has already created an uncomfortable “new normal” for American workers. The immense disruptions caused by globalization and technological advancements mean that larger numbers of workers can no longer expect permanent jobs and careers. Moreover, many large employers view temporary contract or contingent work as preferable human resources strategies. As a result, employer-based investments in workers’ education and training are declining, placing more responsibility for developing human capital on the individual worker.

There is an urgent need to address the long-simmering crisis in the American workforce that has become less equitable and tougher on those without advanced education. Addressing this altered economic landscape requires fundamentally new workforce development policies. The core challenge is how to educate, train, and retrain people so that they can achieve their full potential and offer employers valued skills. The nation must move forward with large-scale transformations of our workforce and education policies to improve the prospects for workers and the economy in this globalized, technology-driven economy. The new realities of work in the twenty-first century will continue to rapidly evolve. Workers and policymakers must adapt or suffer further wrenching economic adjustments.

CHAPTERS AND CASE STUDIES

This volume brings together the contributions from leading scholars and practitioners that describe significant policy and program reforms to address the current major workforce challenges. The volume is divided into four parts.

Part 1, “Transforming the U.S. Workforce Development System,” examines the strengths and limitations of U.S. workforce policies for

workers, with special attention to the needs of the long-term unemployed, those with limited formal education, individuals with disabilities, older workers, minority adults, and youth. The chapters in this section describe and analyze the funding and performance of the public labor exchange, unemployment insurance, postsecondary education, reemployment programs, and Workforce Investment Boards.

Part 2, “Redesigning Workforce Development Strategies,” offers ideas to help educators and workforce programs better serve employers and job seekers, tasks that will require several fundamental changes in policy and practice. Authors cover such topics as improving labor market and career information and intelligence, reforming unemployment insurance, restructuring postsecondary education financial assistance programs, delivering online training and education courses, improving credentialing, developing performance reporting, and integrating employers into the development and delivery of education and skills training.

Part 3, “Building Evidence-Based Policy and Practice,” includes chapters and case studies that examine how systematic data collection and analysis and evaluations are being used to improve state and local workforce programs. These authors demonstrate that such approaches can be effective in transforming policies to better serve job seekers, students, and employers.

Part 4, “Targeted Strategies,” includes chapters and case studies on effective policies and programs for meeting the needs of American workers and employers. Authors highlight evidence-based practices from states and communities and describe why these approaches offer potential for helping both job seekers and employers. The authors consider how these practices could become more widely available throughout the United States.

CONCLUSION

The chapters and case studies in this volume are compelling and offer stimulating new approaches to local, regional, state, and national policies and programs. The impressive array of authors individually and

collectively present perspectives intended to provoke serious and ongoing discussions about what is needed to support a robust and effective workforce development system.

To this end, the Federal Reserve Banks of Atlanta and Kansas City, along with the John J. Heldrich Center for Workforce Development, are committed to furthering these discussions, advancing new policy approaches, and highlighting best practices. While space limitations precluded many relevant case studies from appearing in this volume, the Federal Reserve Bank of Atlanta will produce two companion pieces that will explore many promising practices and models of workforce development and job training. The first of these publications will identify and examine effective models for workforce development intermediaries; the second will explore examples of career-based training for secondary students, incumbent workers, and hard-to-serve populations. These cases will help promote stronger alignment between the workforce development community and outside stakeholders, and will suggest powerful approaches to training.

Note

1. According to the Bureau of Labor Statistics, after increasing in the 1970s, 1980s, and 1990s, the labor force participation rate reached and maintained an all-time high of 67.1 percent during 1997–2000. Since then, the labor force participation rate has been falling and is currently 63.7 percent, the lowest the rate has been since the early 1980s (see Toossi [2013]).

References

- Federal Reserve Board of Governors. 2013. *A Perspective from Main Street: Long-Term Unemployment and Workforce Development*. Washington, DC: Federal Reserve Board of Governors. <http://www.federalreserve.gov/communitydev/long-term-unemployment-and-workforce-development.htm> (accessed March 13, 2015).
- Furman, Jason. 2014. *The Employment Situation in November*. Washington, DC: Council of Economic Advisers. <http://www.whitehouse.gov/blog/2014/12/05/employment-situation-november> (accessed March 13, 2015).
- Krueger, Alan B., Judd Cramer, and David Cho. 2014. “Are the Long-Term

- Unemployed on the Margins of the Labor Market?” Presented at the Brookings Panel on Economic Activity, held in Washington, DC, March 20–21.
- Schwartz, Nelson D. 2014. “Hiring Rises, but Number of Jobless Stays High.” *New York Times*, April 4, B:7.
- Szeltner, Mark, Carl Van Horn, and Cliff Zukin. 2013. *Diminished Lives and Futures: A Portrait of America in the Great-Recession Era*. New Brunswick, NJ: Heldrich Center for Workforce Development, Rutgers University.
- Toossi, Mitra. 2013. “Labor Force Projections to 2022: The Labor Force Participation Rate Continues to Fall.” *Monthly Labor Review*, December. <http://www.bls.gov/opub/mlr/2013/article/labor-force-projections-to-2022-the-labor-force-participation-rate-continues-to-fall.htm> (accessed March 13, 2015).
- U.S. Bureau of Labor Statistics. 2015a. *The Employment Situation, February 2015*. Washington, DC: U.S. Bureau of Labor Statistics. <http://www.bls.gov/news.release/empsit.nr0.htm> (accessed March 13, 2015).
- . 2015b. *Current Unemployment Rates for States and Historical Highs/Lows*. Washington, DC: U.S. Bureau of Labor Statistics. <http://www.bls.gov/web/laus/lauhsth1.htm> (accessed March 13, 2015).
- Van Horn, Carl E. 2013. *Working Scared (or Not At All): The Lost Decade, Great Recession, and Restoring the Shattered American Dream*. Lanham, MD: Rowman & Littlefield.
- Wessel, David. 2014. *America Isn’t Working: More than One in Six Men between 25 and 54 Is without a Job*. Washington, DC: Brookings Institution. <http://www.brookings.edu/blogs/up-front/posts/2014/02/06> (accessed March 13, 2015).

