

The Importance of an Equitable Workforce Recovery

A New Kind of Back to Work:
Talent, Recovery, and the Future of Greater Philadelphia
Federal Reserve Bank of Philadelphia
Philadelphia, PA (virtual)

October 2, 2020

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President and Chief Executive Officer
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Good morning and welcome! Thank you so much for joining us today for this absolutely crucial series of discussions. And, by the way, it was great to be introduced by my old friend Art and to see him after so long ... well, sort of “see” him.

As you probably have noticed, we’re meeting under unorthodox circumstances today. But some things never change. One of those is my standard Fed disclaimer: The views I express today are my own and do not necessarily reflect those of anyone else on the Federal Open Market Committee or in the Federal Reserve System.

Our Unequal Economy

We’re gathered here today to discuss a topic that simply could not be more urgent: building an equitable workforce recovery.

Before the COVID-19 pandemic struck, the U.S. economy was, in many respects, very healthy. Unemployment was low, and GDP growth was humming along steadily. But even then, stresses were mounting, inequality was widening, and racial disparities dating back to the founding of our country persisted. That has been painfully obvious here in Philadelphia, America’s poorest big city and its largest plurality-Black major city.

Even before the COVID-19 crisis, racial minorities – particularly Black Americans – had higher unemployment rates, lower wealth, and poorer health outcomes than White Americans. That was just as true across the country as it was here in Philadelphia.

And just as the virus itself attacks those with preexisting conditions most viciously, the economic effect of COVID-19 has been to further accentuate the preexisting conditions that existed in the American economy even before the crisis.

The Philadelphia Fed has been conducting extensive research into the economic effects of the pandemic. The results have been sobering — if depressingly predictable.

Our researchers have found that those who have lost their jobs are disproportionately Black and Latino, disproportionately younger, and less likely to have a college degree than other workers.

And even among those who have kept their jobs during this period, those same historically disadvantaged groups are also more likely to work in fields that may put them in harm's way. Our researchers have also found that workers of color disproportionately hold jobs that one cannot perform from home, for instance.

It's often said that our current circumstances are the *new normal*. I refuse to accept that — a raging pandemic that is displacing millions of workers and killing around 1,000 Americans a day is anything but *normal*.

But as we begin to map out what our recovery from the COVID-19 pandemic is going to look like, I also want to make sure that we don't simply return to the *old normal*. We need to keep laser focused on building a *better normal* — one in which growth is shared more equitably and all Americans have an opportunity to participate fully in the economy.

Pathways Forward

So, how do we do that?

Given that I am a Fed president, you probably guessed that I might say *monetary policy*. And I do think that's part of the solution. That's why I'm pleased that, in late August, following a nearly two-year review, the Fed announced a shift in our approach to fulfill our dual mandate of providing for maximum employment and stable prices.

No longer will we head off higher inflation by preemptively raising interest rates before we have achieved full employment. Moreover, after long periods of sub-2 percent inflation (as we now find ourselves in), we will accept periods of above-2 percent inflation. Tolerating the risk of slightly higher inflation, in our view, is worth it if it helps us achieve our employment goals. That's important because

one of the salutary trends of the pre-COVID economy was that economic gains, at least on a limited basis, were finally being enjoyed by lower-wage workers, a disproportionate percentage of whom are racial minorities. We still had a very, very long way to go, of course. But it's clear that we must achieve full employment to have any hope of beginning to narrow the yawning gaps that bedevil our society.

At the local level, we also need to do a better job of transitioning workers into careers that offer solid pay and strong future prospects. Here at the Philadelphia Fed, we've been thinking hard about how to get workers into what we call *opportunity occupations* — that is, jobs that pay the median wage or better, and that don't require a college degree.

I'd like to share the results of just one study we've done because I think the results are truly exciting.

The study began when Philadelphia Fed researchers, in partnership with the Cleveland Fed, asked a question: How do we transition workers now in jobs into stable, higher-wage positions?

They came up with an ingenious idea: They looked at the skill sets of people who are holding those jobs and are most at risk of disappearing. They then matched those skills to jobs that would pay at least 10 percent more than their current wage and that don't require a traditional four-year degree.

The findings were incredibly encouraging. Looking at 33 metro areas nationwide, they found that nearly half of lower-wage employment can be paired with at least one higher-paying occupation requiring similar skills. For transitions connecting the most similar occupations identified in the study, the pay differences are significant, with an average bump in wages of almost \$15,000 — a 49 percent increase in salary.

The opportunities for public-private partnerships to initiate these kinds of transitions are obvious, and I'm proud to say that the Philadelphia Fed helped launch one with Comcast and Philadelphia Works, which you will hear more about later today.

The workers themselves will benefit from these transitions, of course, but so will the employers, who will have access to a vast, untapped pool of human capital. All too often, incredible talent is being overlooked because employers are hiring for credentials, like a four-year college degree, over skills. And yes, I realize there is irony in a former college president saying this.

There are, of course, myriad other barriers to break down. Structural impediments like a lack of access to childcare — another problem only heightened by the pandemic — or an inability to access broadband

Internet stand in the way of far too many of our fellow Americans reaching their full economic potential. We need to think hard about how to tear down those walls.

There are also large segments of our economy that are starved for capital. Minority-owned small businesses, for instance, received far fewer emergency loans through the Paycheck Protection Program, initiated at the start of the crisis, than White-owned small businesses. This happened in many cases because those minority-owned enterprises lacked relationships with banks. We need to think hard about ways to break down those barriers as well.

Building an equitable workforce recovery is not just — in my view — a moral necessity, but an economic one as well. The International Monetary Fund has found that when an additional 1 percent of income goes to the top 20 percent of income earners, GDP falls. But when the same gains are made by the bottom 20 percent, GDP rises.

That makes sense, of course: Those who earn less money are likely to spend it, whereas high earners save. That's crucial because consumer spending accounts for about 70 percent of our country's total GDP. And so, the basic idea is this: Get money into the hands of people most likely to spend it, and you'll see a multiplier effect throughout the broader economy. And that's why ensuring an equitable recovery from the COVID-19 crisis is critical in making sure the next expansion is not only fair — but also strong and durable.

Today, we are excited to officially launch our Equitable Workforce Recovery strategy. As many of you know, three years ago, the Philadelphia Fed launched the Economic Growth & Mobility Project to create pathways to opportunity across the Third District. Our goal? Leverage our partnerships throughout the District to bring research into action. Now, as we look to the country's coming economic recovery, we intend to double down on our work to create equitable growth that benefits all.

Over the course of the next year, we will be focusing on the issues I outlined here: investing in small businesses, creating upward mobility for workers, and addressing structural barriers like the digital divide and access to childcare. We are looking forward to continued partnerships across the District through our Research in Action Labs and conversations like the ones we are having today.

Our recent research on automation has emphasized the importance of this moment to invest in workers. Many jobs will not be coming back, and preparing workers for the jobs of the future is critical to our economic health and recovery. This is why I am excited about the panel that you will hear from

next, which could not be timelier. The topic of this discussion will be Building the Jobs of the Future, and we are delighted to be joined by the moderator of this discussion, Uva Coles.

Uva is an expert on issues of workforce diversity and inclusion. She is the founder, president, and CEO of Inclusiva, LLC, a boutique consulting firm specializing in the development of inclusive workforce strategies. Uva was formerly the assistant vice president of civic and global engagement at Widener University in Chester, PA. We will also hear from business leaders on how they are tackling issues of equity and opportunity in their respective workplaces.

So, without further ado, please welcome Uva Coles and the rest of our esteemed panelists. Thank you.