

Investing in America's Workforce

Investing in America's Workforce Capstone Conference

Austin, TX

October 5, 2017

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President and Chief Executive Officer
Federal Reserve Bank of Philadelphia



FEDERAL RESERVE BANK
OF PHILADELPHIA

The views expressed today are my own and not necessarily those of the Federal Reserve System or the Federal Open Market Committee (FOMC).

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Good morning and thank you.

That's honestly one of the most impactful parts of being a Fed president: getting to see the real-life implications of the data I view on a daily basis and how it translates into life in my District and around the country. Talking to employers and job seekers and educators just resonates more than a line on a graph.

I'm going to talk today about several different aspects of workforce development, each of which can truly bring about phenomenal results. And I don't necessarily have a favorite program or approach, but sometimes the work speaks to you on a personal level.

The video you just saw was of the Philly Shipyard's apprenticeship program. You may have heard me say that I grew up in a family of steamfitters and pipefitters. My brother was a welder, my uncles were all pipefitters, as was my dad for a long time.

I saw how those jobs, those *careers*, gave people solid, middle-class lives, even without a college degree. I'm the result of that. I'm the beneficiary of a time and a place that offered a host of railways to the terminus of financial security. What you saw in that video was a program that can provide exactly that opportunity for this next generation of Americans. You saw people from all walks of life. Samantha, the young woman, has a B.F.A.; she's a former artist. You saw that they were of all different ages — Shawn started the program in his 40s. And most of all, you saw that each of them feels an incredible world of opportunity is open to them because of this

apprenticeship program. It's not just a job, it's a career — all of those people see a clear path up the company ladder. At a time when a lot of people have lost hope that fortune can favor anyone without a traditional four-year degree, it's heartening to see those prospects alive and well.

It's not all about the workers, however. On the flip side, companies can increase quality and output by stocking their ranks with incredibly skilled people. As people learn, adapt, and acquire new skills, the program can hone in on ways to make outcomes even better. And overall, organizations can minimize their risk by knowing they've got highly trained, expert tradespeople making up their workforce.

It's a win-win.

So apprenticeships aren't necessarily my favorite of all the workforce development approaches we'll talk about over the course of this conference, but they do have a special place for me.

In light of that personal observation, let me assure you, with the familiar Fed disclaimer, that all the views I express today are mine alone and do not necessarily reflect anyone else's in the Federal Reserve System.

The Research

So, why am I here today? They don't just trot out the presidents at these events, they make us earn it ...

And I'm here to talk about a really substantive report we've just released as a System, *Investing in America's Workforce: Report on Workforce Development Needs and Opportunities*.

The impetus for this research was the CRA clarification that allows banks to include workforce development as an investment opportunity. And I want to stress that word: investment. Because I'm going to be using it a lot over the next 20 minutes or so.

This report is essentially about the value of investing in our combined economic future. So whether this work is directly relevant to someone, we all have a lot to gain from its success.

The Fed has a dual mandate of price stability and maximum employment — ultimately, we're creating the conditions for economic growth. But those conditions won't be as fertile if we can't

fill the jobs that are out there now, not to mention the ones coming in the future. The U.S. can only reach its potential when the needs of both business and the labor force are addressed in stronger alignment. So, we took a deep dive into what's happening now and what we need to plan for the future.

Community Development teams from across the Federal Reserve System gathered information in more than 50 listening sessions, across 32 states and Puerto Rico, from almost 1,000 workforce development leaders who work at the intersection of training, recruitment, and finance.

My team used qualitative research methods to find central themes from industry respondents: They talked about the challenges they've observed across the country but also the promising strategies they see as well as opportunities for investment in workforce development.

A lot of the findings reflect what we see in the data and what we're hearing from our community and business contacts across the country.

But what makes this report stand out is the approaches they used. It let them take a deep and broad look at the insights shared by using a rigorous, qualitative research method.

For me, the methodology and the findings confirm the unique role of Community Development in the Fed System.

I often make the observation that while we make monetary policy on a national level, that's the 30,000-foot vantage point. It's a combined view of myriad microeconomies made up of regions and businesses and households. That's why our decentralized system is so important: It allows us to really understand our Districts and their specific needs on an in-depth, local level.

That same understanding of the unique needs of the communities we serve is what makes the Community Development function so crucial and what adds so much value. They've got depth and breadth of understanding and an interconnected system of networks that provides insight on this vast and diverse collection of economies.

Challenges in the Workforce

So, what are we working with?

A lot of what we heard in the listening sessions reflects what I see in the data. The JOLTS data, for instance, and the Philadelphia Fed's *Manufacturing Business Outlook Survey (MBOS)*, both show a skills gap. The *MBOS* shows that compared with 2014, the respondents identifying a labor shortage this year jumped from about 33 percent to over 60 percent. And the ones who saw a skills mismatch went from about 46 percent to around 68 percent.

Of course, there are other issues. Everyone here is familiar with the factors that impact or limit people's ability to enter the workforce, to find jobs that can support a family, or even to progress up the career ladder.

This report highlighted some of the factors we know contribute to these hurdles. They include the skills gap I mentioned, low educational attainment or poor quality of education, and a change in employer needs and demands due to increasing automation and technical advancement.

The research also highlighted the barriers that aren't related to skills, like addiction, incarceration, child-care costs.

There are also logistical impediments; in the case of housing and insufficient transportation — the simple consequence of place.

And there is the issue of job quality. While we're essentially at the point of maximum employment — in its simplest terms, if you want a job, you can get one relatively easily — that doesn't mean it's a good job, or that it pays a living wage, or that it comes with the benefits that can be truly family-sustaining.

This situation doesn't actually keep people from work, but it does affect their ability to move up the economic ladder.

And that's not just a problem for individuals, families, and communities but for the economy as a whole.

Looking at these barriers, they're each a brick in the wall, one that stands between people and either sustainable employment or economic mobility.

So, how do we chip away at the bricks? How do we knock that wall down?

What we heard in the listening sessions, and what a lot of experts and practitioners say, is that there needs to be a change in perspective.

That shift in thinking is going to be a theme because, sometimes, it's all about how we view things. When we change the way we look at things, those things can start to change. None of us is static, and none of us can view our work or our challenges through a single lens. The research showed that experts truly believe that a change in thinking will lead to a change in behavior, which can lead to a change in outcomes.

The Shift in Thinking: Public Sector

So, what for instance, would that mean for the public sector?

We heard consistently, and it is a central theme in the report, that we have got to stop looking at workforce development as just a social service. I mean everyone. We need to look at it for what it is: an investment in the American economy.

If we stop looking at workforce development as a cost and start looking at the long-term return on investment, we can change the conversation and the approaches.

From a purely economic standpoint, early childhood education isn't an expenditure; it's an investment in our future workforce. It's an investment in the next generation of entrepreneurs and health-care workers and teachers.

Likewise, investing in workforce development doesn't just benefit individuals; it helps create the workforce our businesses need.

If we ignore that investment opportunity, we aren't just losing the economic resources; we're likely creating a cohort that could actually be a cost.

In the same vein, we heard that we need to better align overlapping goals, like workforce development and economic development efforts. Or investing in intermediaries that connect people to jobs — not just the ones that train workers but the ones that train with an eye on what the industry's future needs will be.

And one of the key messages we heard was that people involved in this work need to start thinking like investors who look at long-term outcomes, rather than lenders that look at short-term risks.

Investors succeed when the company they're backing does well. The U.S. economy succeeds when we back programs that move people out of poverty and into stable, sustainable employment.

And when we shift to an investor mindset, it creates opportunities for financial institutions to become strategic partners.

For example, there's a new fund in Philadelphia that allows banks to work with a CDFI intermediary to drive capital to early childhood education. This is important because we know it's a two-generation strategy: helping the working generation find steady employment and knowing their children are getting the skills they need to be successful now and in the future.

The Shift in Thinking: Private Sector

So, what shift in thinking would they like to see in the private sector? Employers looking at their workers as assets to be invested in, rather a line-item labor cost to be limited or decreased. If employers do that, our experts believe their behavior might also change.

They may increase incumbent worker training or professional development opportunities. Those approaches both increase the skills of their current workforce and, as people start to move up within an organization, create entry-level positions to bring in a new generation of talent.

It could also encourage apprenticeship programs and work-based training. We know from experience that we're especially successful when people can learn and earn, supporting their families while increasing their skills.

So, if private sector partners can shift their thinking, we're more likely to see an increase in job quality, which is important. We're in a tight labor market right now, but we aren't creating quality jobs within that market; we won't see as big of an economic impact.

What did our listening session participants want from the financial institution side? They suggested favorable funding so businesses can invest in their workforce, which in turn can

contribute to the overall virtuous economic cycle. In California, for example, lenders are providing reduced-cost capital to businesses that are committed to improving job quality over time or offering quality jobs.

The Shift in Thinking: Philanthropy

And what did we hear from the philanthropic side? An invitation to be bold. Because philanthropy has the freedom to use real ingenuity.

Foundations can use their capital to promote innovation, collaboration, and capacity building; they can be venture philanthropists.

We know that shifting thinking and perspectives isn't always easy. We also know that it's often not lack of funding — but lack of risk tolerance — that stops new approaches and innovations. Philanthropy is the group that's able to take on that risk and prove best practices. They can be the catalysts for innovation and capacity building across the community development field.

If they can be the ones to bring their risk appetite up a notch, take the lead on facilitating increased collaboration and capacity building, and use those to prove best practices, they may be able to leverage additional investment based on solid track records.

We heard from a lot of people that there's a need for this kind of leadership and support to address challenges the best way the respondents see: holistically.

Instead of having very restrictive capital and rigid reporting requirements, organizations can be empowered to think about how they're investing and building capacity to meet the needs of their clients, the same way venture capitalists would invest in the capacity of businesses they want to succeed.

So, instead of paying for services or funding services, they're funding outcomes. And by doing that, we're giving organizations flexibility and trust and the space to better meet the unique needs of their clients. Those organizations can become more nimble, more sustainable, and able to operate more effectively in the context of the complex challenges they're facing.

This is also an opportunity for lenders to provide impact because they, rightfully, have to think about limiting risk. They can't take on the more adventurous investments that foundations can,

but they can support the capacity building that organizations need by offering flexible financial products.

For example, we heard that in order to effectively train people for the jobs of today and tomorrow, one of the pressing needs is cutting-edge, high-tech equipment. Which is expensive. So banks offering affordable financing can help organizations meet those challenges.

Conclusions and Next Steps

Those challenges aren't small. We wouldn't all be here if they were. But the changes in perspective we heard overwhelmingly in our research, the different approaches we all talk about wanting, can yield game-changing results.

Remember the barriers? The bricks that fit together to make the wall higher and harder to scale?

If we change the way we look at it, we see how it might change.

Climbing isn't necessarily easy. But with the insight we've already heard today; with the approaches our research participants highlighted; and with the capacity and talent of stakeholders from the public, private, and philanthropic sectors, we can absolutely turn that wall on its side.

Those steps form the ascendant path of economic mobility, and they're a climb everyone should have a chance at.

As many of you know, we've recently launched an Economic Growth & Mobility Project at the Philadelphia Fed, and this is exactly what we're focused on.

In addition to our work on the *Investing in America's Workforce* report, we recently released an apprenticeship guide for business. We are also currently exploring ways to put some of the investment opportunities we've found through this research into action in the Third District.

I truly believe we'll have people lining up to partner in this work if we can change people's perspectives. I met with a group of CEOs last week, and they confirmed that this is work the business community is crying out for.

Before I turn it over to questions, I obviously can't end without the requisite, and well-deserved, shout-outs. To our colleagues across the System who hosted listening sessions and collaborated

on this research: They've all done an incredible job contributing to the report. And to my team, of course; in particular, Theresa Singleton for her leadership and Noelle St.Clair for all her work on this report.

I also want to thank our other colleagues across the Federal Reserve System and at the Board of Governors, our partners in the room today and those that couldn't make it out to Austin, and those who have given their time and insight throughout the conference by speaking and sharing their work. I'm looking forward to the rest of it.

With that, I'm more than happy to take some questions.