

Investing in America's Workforce Book Launch

Federal Reserve Bank of New York
New York, NY

November 9, 2018

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President and Chief Executive Officer
Federal Reserve Bank of Philadelphia



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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. It's always a pleasure to be in New York, and I want to thank President Williams and the entire team at the New York Fed for their hospitality.

I also want to thank John for going first and saving me the extra time of delivering the full Fed disclaimer — I'll just go with, "What he said."

I want to use my time today to talk a bit about the context of *Investing in America's Workforce*, and how that research — and the gist of its findings — resonates across the work we're doing at the Fed, both at our Bank in Philadelphia and across the System.

Just last month, the Philadelphia Fed hosted our flagship community development conference, *Reinventing Our Communities*, or ROC, in Baltimore, in partnership with the Richmond Bank. Fed officials like to talk about how data-driven we are, and this applies to our CD work as well. Our focus in Philadelphia has been putting research into action to find sustainable approaches to economic growth, and ROC is about working at the intersection of research and practice.

We had some truly phenomenal speakers, but Joyce Bacon was a standout. And while almost everything about her is exceptional — her story, her presence, her work and commitment — she is, in one way, all too ordinary. And that is in her experience with some workforce programs.

Joyce essentially went through training for a job that wasn't there. Anyone involved in workforce development has seen something like what she experienced – or they've seen people train for jobs that disappear, jobs with no opportunity for growth, or jobs that don't pay a living wage. It's one of the pitfalls of a system that is all too often transactional in nature. It's often called the "train and pray" model.

The happy turn to Joyce's story is that she found her way to the West Philadelphia Skills Initiative, which does what everyone in this room would say is absolutely crucial to any successful training program: It works with employers, identifies skills that are in demand, and offers relevant training that prepares candidates both for jobs and for growth within their fields. They make that connection between local economic activity and job seekers.

Joyce went straight into an entry-level position at the Children's Hospital of Philadelphia, and within six months, she was promoted. But she was also very moved and motivated by her training experiences — both the good and the bad — and went back to West Philadelphia Skills Initiative as a coach. She comes in to talk to candidates, give them support, and let them know they can do it — a lot of them have gone through the same thing she did. She can tell them from experience that this time really is different; this is a place that doesn't just train you for a job, it trains you for a career.

All too often, we're spending time and energy on training that doesn't address employers' needs, leaving qualified talent on the sidelines. That doesn't just waste money, it depletes people's reserves of hope. We need more investment in programs like the one in West Philadelphia, that think about the evolution of the employment landscape. That's even more important as technological advancement affects jobs and industries on a daily basis.

We recently published research on the likely effect of automation in both our District and in the U.S. We identified the jobs that were in danger, as well as assigning degrees of likelihood to their eventual disappearance. We also looked at the people doing those jobs, who would be hardest hit, and where new jobs would likely be created.

Our conclusion? Almost one in five jobs in our District have a 95 percent or better chance of becoming automated, and the people most likely to be displaced are some of the economy's

most vulnerable workers — women, people of color, younger people, and workers in lower-skilled positions.

Some people will be absorbed into new jobs, but there's a risk that others will not.

Now is the time to shift our thinking about how we train and prepare our workforce. That's how we ensure that, instead of getting automated out of work, people have the skills to move into the jobs that arise from the change.

If you take Joyce's far-too-common first training experience, add discouragement, and multiply it by a rapidly automating workforce, the results for the vast majority of both workers and employers run to negative territory. But we can change the outcome of the equation if we change how we approach the problem.

Investing in America's Workforce

A little over a year ago, many of us were in Austin for the release of the Investing in America's Workforce (IAW) research. My remarks that day focused on the need to change the thinking about workforce development — and that in changing perspectives, we'd change behavior, and, ultimately, change the outcomes.

One year on, I'm delighted to say ... that speech fixed it! Everyone can go home now!

Obviously, I'm kidding. And obviously, there's still a lot of work to do, even on that first step of perspective change. Miraculously, no matter how many times I say to an audience that business has to start viewing workforce development as an investment, rather than a social service, it hasn't moved the needle much. Even when every head is nodding in agreement.

It seems like common sense — in fact, it *is* common sense — that an investment in skills is an investment in the overall economy. But changing a commonly held assumption is almost as difficult as changing a deeply ingrained belief. And after the speeches and panels and plenary sessions, it is very, very easy to go back to business as usual.

Perhaps if policy wonks were given to more sweeping oratory, we could change minds in a single speech. Unfortunately, my children tell me I'm not persuasive enough to make them

change the channel ... And this incredibly important, incredibly necessary, incredibly valuable work that you all do takes more than rhetorical flair. But with the continued commitment and effort everyone here puts in, we can chip away at the status quo until we've carved out a new, better reality.

Back in Austin, I recapped the IAW findings on where and how various aspects of the system can change perspectives and approaches.

One of the messages that resonated throughout this work was the idea that everyone involved in workforce development should start thinking like investors looking for long-term rewards, rather than lenders thinking only about short-term risks.

The research showed that the public sector could be more effective by better aligning overlapping goals, such as workforce and economic development. They could also maximize benefits from investing in intermediaries that see the bigger picture — ones that don't just train workers, but connect them to jobs, or train them with an eye on what the industry's future needs will be.

As Joyce's experience perfectly demonstrates, that can make a life-changing difference.

Foundations, for their part, can take on the mantle of venture philanthropists, promoting innovation, collaboration, and capacity building.

And employers should see their workers as assets to invest in, instead of line-item labor costs that can be limited or decreased. Our experts believe that the shift in outlook may result in a shift in behavior.

There are any number of ways that change could be beneficial, particularly if it means increased training opportunities for existing employees or professional development opportunities. It means a workforce with better skills, and creates entry-level openings for a new generation of talent, as existing employees move up the professional ladder. It will also likely save capital in the long run: Consider the accumulated cost of employee turnover versus investing a fraction of that in upskilling a current or potential worker.

That change in outlook could also encourage apprenticeship programs and other work-based training. We know from experience that programs that let people learn and earn are especially successful.

Overall, if private sector organizations can train an investment lens on their approach to talent management, we're more likely to see an increase in job quality, which is important. And, of course, the organizations themselves will likely see a huge benefit.

Outcomes-Based Investments

That's the perspective that informed a funding model we recently launched as part of the Economic Growth & Mobility Project. The model brings partners together to fundamentally rethink the way we fund workforce development — in both the public and private sectors — and how we pay for results.

It was born of, and is fueled by, two years of research and outreach by my team. It will utilize growing interest in new financial models to tap private sector investment in workforce development and provide 21st century digital skills to workers, ultimately moving its participants into the middle-skill jobs of the future.

Earlier this year, we brought on Social Finance, a national leader in innovative Pay for Success projects, to help us think about how to make the case for employer investment in workforce development. We saw there were dollars on the table that could be better spent, and the missing capital could often be found in the money employers spend on recruitment, hiring, and training new workers.

We approached our local workforce development board, Philadelphia Works, to propose a new type of public-private partnership: one that would include employer investment but also provide feedback to the current workforce training programs. In this model, Philadelphia Works assumes the role of investor, providing the initial funding to launch the outcomes-based pilot training program.

With Philadelphia Works on board, we approached a large national technology employer that just happens to be headquartered in our fair city. It saw an opportunity to use this model to

expand the local talent pool by building out the necessary technological training in specific fields, particularly for middle-skilled jobs with growing demands for technological proficiency.

Outcomes-based finance, or Pay for Success, is not a new concept, of course. What makes this initiative different is that instead of issuing social impact bonds and having government paying for outcomes, the employer will pay the bill once the training meets its business needs and demonstrates return on investment. Repayments can then be recycled to pilot other projects and meet the needs of even more job seekers and employers in Philadelphia.

In August, Social Finance announced that it will provide technical assistance on the project's structure, which will be funded by a grant from the White House Social Innovation Fund. The community development team at the Philadelphia Fed will assist with evaluating the project and analyzing return on investment to the employer. They will also design a toolkit so that other employers and cities can launch similar projects, including the ever-important wisdom of the lessons learned from this maiden voyage.

The first class of trainees will be announced in late spring of next year.

Conclusion

What makes this work especially resonant is that it's the embodiment of what we learned last year in Austin. The message of Investing in America's Workforce is that it's time to change the way we look at things.

The new funding model is a way of changing our perspective on workforce development. And with a private sector partner taking the step to be the investor, we're sending a message that workforce development truly is an investment, one that major employers are willing to make.