

The Urgency of an Equitable Workforce Recovery

Official Monetary and Financial Institutions Forum: Fed Week
Philadelphia, PA (virtual)

June 24, 2021

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President and Chief Executive Officer
Federal Reserve Bank of Philadelphia



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Hello and welcome! It's wonderful to be here and as nice as it would be to have met in person, it's pretty great that we were able to do this without any jet lag. Though given how international a crowd we have here today, I suspect some of you regret missing the opportunity to pad your frequent flyer account balances ...

This has been a great series of meetings so far this week, and I'm thrilled to be here with President Bostic to discuss such a vitally important topic: rebuilding our economy sustainably and equitably. I really like the framing of this conversation because you can't have one without the other. An equitable recovery will be, by its very nature, more likely to be sustainable — and vice versa.

Now, given that you've already heard from several Fed presidents this week, I'm pretty sure you know what I am going to say next. Yes, once again, it's the 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.

The Job Deficit

Now, another thing I'm sure you've heard from other Fed presidents this week is that the U.S. economy, by and large, is in good shape overall. GDP has come roaring back after a record contraction during the first half of 2020; consumption, housing, and manufacturing are extremely healthy; and workers' incomes are rising.

But even as GDP has almost entirely recouped its losses from last year, employment remains down significantly. We still have nearly 7.6 million fewer people working than we did before the pandemic.

And if you assume we would have maintained our prepandemic job growth of around 200,000 jobs a month had COVID-19 never arrived, we're really down around 10.6 million jobs.

Many millions more are in low opportunity jobs — those that pay little, don't offer flexibility or paths to growth, or don't take advantage of the skills they possess. Perhaps most disturbing has been a long-term decline in economic mobility, with Americans born in poverty increasingly likely to stay there.

One of our most important responsibilities as we emerge from the pandemic — as central bankers, policymakers, and simply concerned citizens — is building an equitable workforce recovery and charting a society in which all citizens, no matter how humble the circumstances in which they are born, have a shot at achieving their full economic potential.

So, what will an equitable workforce recovery look like in practice? I'd like to sketch out a few ideas before we proceed to the discussion with President Bostic.

Building an Equitable Workforce Recovery

For central bankers, first and foremost, an equitable workforce recovery will mean using monetary policy to fulfill our dual mandate of achieving both stable prices and maximum employment. You'll recall that before the pandemic, when the job market was very robust, we were finally starting to see the kind of wage growth at the bottom half of the income spectrum that we've all been hoping for. The racial wage gap, which has bedeviled the United States since, frankly, *before* its founding, was finally starting to narrow as well. A robust job market, where businesses are competing for labor, will do a lot in and of itself to build an equitable recovery.

But it won't do everything.

That's why building an equitable workforce recovery will also mean getting more people into what we call *opportunity occupations* — jobs that pay above the median wage but that don't require a four-year college degree. We know that many Americans have the skills and talent to make these transitions because we've done the research to prove it.

My colleagues at the Philadelphia and Cleveland Feds looked at the skill sets of people who hold low-opportunity jobs that are 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 results were incredibly encouraging: Examining 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. For instance, bill collectors here in Philadelphia could increase their salary 45 percent, from an average of about \$38,000 to nearly \$55,000, by becoming a credit counselor — with the added bonus that people will actually want to answer the phone when you call.

While the equilibrium effect will undoubtedly smooth out some of these wage differences as the labor force shifts, more people being aware that their skills are transferable will no doubt improve matches between employers and employees — and boost employee bargaining power. That is to say, simply *informing* workers that their skills are transferable — and monetizable — is an important foundation in an equitable workforce recovery. It should also make firms more productive, which benefits all of us in the long run.

Building an equitable workforce recovery also will mean that all who want to be in the labor force, can. And that especially includes mothers of young children, whose participation rates fell at the beginning of the pandemic and have yet to recover. It's no mystery why this has happened: childcare woes. Many parents — and let's be frank, *mothers* — left the labor force to take care of their kids as schools closed and other options proved prohibitively expensive. And even as the pandemic has waned here in the U.S., some scarring has become apparent. Around 1.5 million mothers who were working in February 2020 still aren't. At the Philadelphia Federal Reserve, we're currently working on what we call a Research in Action Lab in the state of Delaware that will link several local partners, including the state's chamber of commerce, to help provide affordable childcare for families.

And lastly, building an equitable workforce recovery will mean ensuring that workers have access to the training and education they need to advance in the job market. This doesn't have to be a traditional four-year degree, but we do know that at least some post-high school education is vital for career development in the current economy.

This could mean the creative use of public-private partnerships. Here in Philadelphia, we've partnered with local stakeholders to advance a one-of-a kind "pay for success" job training model that links Comcast, a major employer here, with Philadelphia Works, our local publicly funded job training board. The workforce board pays for training for new hires up front; the employer then reimburses the city if certain benchmarks, such as staying on the job for six months, are met. This is good for both parties:

Workers get the skills employers need, and the workforce organizations know they are training for real job opportunities.

Or it could mean increased investment in microcredential courses that teach workers a marketable new skill in a short period of time — as brief as two months. According to a recent Georgetown University study, these can make a meaningful difference in enrollees' careers: Certificates in engineering technologies can lead to high earnings, as do those in fields like information technology and legal studies.

Of course, even as we look for creative ways to employ short-term programs as an alternative to traditional degrees, we must ensure equal opportunity to all types of degree and non-degree programs. We must not allow for a two-tiered system of higher education to flourish, with low-income and minority students funneled into experimental programs while facing barriers to obtaining traditional degrees.

And that's why building an equitable workforce recovery will also mean employing creative ways to finance traditional four-year college degrees that — despite the sundry and well-known flaws of our higher education system — remain one of the most dependable ladders to middle class. Income share agreements, for instance, where students pay back a portion of their salary after graduation in exchange for borrowing less — or nothing — up front, are a potential path forward.

Colleges and universities, too, should think hard about ways to lower their own costs, such as through the thoughtful use of technology to achieve economies of scale. Here, the task is truly urgent: New research from the Philadelphia Federal Reserve's Consumer Finance Institute projects that our nation's colleges and universities will suffer revenue declines of between \$70 billion and \$115 billion over the next five years, with some 80 percent of institutions nationwide suffering declines. These losses must not simply be passed onto students, the magnitude of whose student debt load is already unique in the developed world.

Conclusion

Ultimately, an equitable workforce recovery isn't merely a "nice to have." Nor is it exclusively a moral issue for our society — though it is, in my view, precisely that. It's a necessity for building a recovery that will prove durable and sustainable.

We know this because highly unequal societies tend to be brittle. Their political systems are frequently unstable. Their periods of economic growth are often short lived and unimpressive. Ensuring an equitable recovery will, in the end, benefit us all.

So again, thank you all for joining us. And now let's move on to the discussion.