

## DELVING INTO WORKFORCE DEVELOPMENT

During the 2007–09 recession and ongoing recovery, the Federal Reserve employed a variety of monetary policy tools in an effort to promote economic growth and reduce unemployment, but unemployment has decreased only slowly.

As president of the Federal Reserve Bank of Richmond, Jeffrey Lacker has argued against various aspects of these expansionary monetary policies. One reason is that at least some portion of persistent long-term unemployment can be attributed to nonmonetary factors, such as structural shifts in the labor market. And one of those structural changes is an apparent mismatch between the skills that employers seek and the skills (human capital) that unemployed workers possess.

In a 2012 speech to business and community leaders in Greensboro, N.C., Lacker suggested that investments in building human capital could be more effective in the long run than highly accommodative monetary policy.

“While perhaps not a quick resolution to the current unemployment problem, I believe such investments are likely to yield greater benefits for both workers and the economy as a whole than efforts aimed at providing short-term stimulus,” he said. “Improvement in the skill level of the workforce eventually leads to both higher productivity and wages.”

Lacker’s speech, “Technology, Unemployment and Workforce Development in a Rapidly Changing World,” can be found at [www.richmondfed.org/press\\_room/speeches/president\\_jeff\\_lacker/2012/lacker\\_speech\\_20120507.cfm](http://www.richmondfed.org/press_room/speeches/president_jeff_lacker/2012/lacker_speech_20120507.cfm). Also, the Bank’s most recent thinking on using monetary stimulus to reduce unemployment can be found in “Labor Market Conditions and Policy,” an essay in the Bank’s “Our Perspective” series at [www.richmondfed.org/research/our\\_perspective/labor-markets/index.cfm](http://www.richmondfed.org/research/our_perspective/labor-markets/index.cfm).

### REGIONAL PERSPECTIVES

Workforce development has been an important topic of research and discussion throughout the Federal Reserve System in recent years. In 2010, then-Fed Chairman Ben Bernanke highlighted the issue in a speech to members of Virginia’s Community College Workforce Alliance at a conference co-sponsored by the Richmond Fed.

“As the labor market recovers, innovative workforce development programs can play important roles in anticipating future job market demands and by helping workers improve their skills to meet the requirements of businesses as they adopt more advanced technologies,” Bernanke said. “Although forecasting future job opportunities can be difficult, ... the Bureau of Labor Statistics anticipates that the demand for workers in health-related occupations will continue to outpace demand in many other industries. According to the Bureau, many of the prospective opportunities in health, as well as others expected to be added in transportation and administrative areas, do not require a full four-year degree. Community colleges have responded to these specific training needs by offering condensed courses in medical billing and training to become a pharmacy technician.”

Bernanke’s speech, “Fostering Workforce Development,” is available at [www.federalreserve.gov/newsevents/speech/bernanke20100609a.htm](http://www.federalreserve.gov/newsevents/speech/bernanke20100609a.htm).

In the two years following Bernanke’s speech, the Richmond Fed collaborated with eight other Reserve Banks and the Board of Governors to gather regional perspectives on the causes of long-term unemployment—particularly in low- and moderate-income communities—and to identify promising workforce development strategies. At forums throughout the United States, the Reserve Banks collected a large quantity of anecdotal evidence that indicates a mismatch between worker skills and job requirements.



PHOTO: CHRIS RECORD, CENTRAL PIEDMONT COMMUNITY COLLEGE

*An apprentice sponsored by Siemens Energy works in the computer-integrated machining lab at Central Piedmont Community College.*

The Richmond Fed hosted a meeting in West Virginia, for example, where hospital administrators said that many job applicants with other workforce experience lacked the “hard” skills—particularly basic computer knowledge—required to fill vacant health care positions. Younger employees, on the other hand, were said to be “distracted by technology, often ignoring policies about cell phone and social media usage during work hours.” This comment was part of a broader discussion on a nationwide shortage of “soft” skills, such as professionalism and punctuality.

These and many other regional insights appear in the Board of Governors’ final report, “A Perspective from Main Street: Long-Term Unemployment and Workforce Development.” It is available at [www.federalreserve.gov/communitydev/long-term-unemployment-and-workforce-development.htm](http://www.federalreserve.gov/communitydev/long-term-unemployment-and-workforce-development.htm).

The Board of Governors completed the report in 2012, but the Richmond Fed has continued to seek regional information about workforce development throughout the Fifth Federal Reserve District. In November 2013, workforce development was high on the agenda when a delegation of Bank leaders and economists visited Charlotte, N.C. They participated in two roundtables: one about developing innovators, entrepreneurs, and professionals and one about other workforce training programs in the area. They also toured a Siemens Energy facility, where 15 apprentices are enrolled in a two-year program run by Central Piedmont Community College. Siemens pays for their education and hires them when they complete the program.

“It is exciting to see the growing number of high schools and community colleges that are partnering with businesses to offer vocational training and apprenticeship



PHOTO: KEITH MARTIN

*Richmond Fed volunteer Steve McCarther (right) mentors Dominique Rivers in the Bank's Lunch Buddies program.*

programs,” Lacker said in a speech to community leaders on the following day. Providing students with more information about such programs also might reduce the high school dropout rate. Nationally, more than 20 percent of high school students do not graduate in four years, and many of those students never graduate at all. That measure climbs to more than 40 percent in some large urban school districts. “If the only reason to graduate from high school is to enroll in college, then students who do not wish to attend college, or perceive large barriers to doing so, might not see much value in graduating,” Lacker added. “For these students, learning about viable career and educational alternatives could improve their appreciation of the value of finishing high school.” This speech, “Starting Early in Workforce Development,” is available at [www.richmondfed.org/press\\_room/speeches/president\\_jeff\\_lacker/2013/lacker\\_speech\\_20131105.cfm](http://www.richmondfed.org/press_room/speeches/president_jeff_lacker/2013/lacker_speech_20131105.cfm).

### RICHMOND INITIATIVES

In 2013, the Richmond Fed formed an internal workforce development group to study the topic in a more systematic way and to identify immediate and future opportunities for the Bank to make a bigger difference in the Fifth District communities it serves.

The interdisciplinary team surveyed the most prominent academic research, reviewed government policies and programs, studied existing workforce development initiatives, and inventoried the Bank's current efforts to address the problem.

The group defined workforce development to include the entire range of human capital acquisition. The research served mostly internal purposes, but it identified three areas for public policy consideration.

- **Early intervention:** The value of this approach is well-established in early childhood studies, but the team suggested that the concept also applies later in life. For example, young workers who develop flexible skills (the ability to adapt to new technologies and environments) might be protected from long-term unemployment even when their job-specific skills become obsolete.
- **Better information:** The group recommended providing better information to help students and their families understand the economic consequences of dropping out of high school and the potential risks and rewards associated with enrolling in a four-year college versus other types of higher education and





This is a preview of an online course the Bank is developing to help students plan for “life after high school.”

training. An *Economic Brief* on this topic can be found at [www.richmondfed.org/publications/research/economic\\_brief/2013/eb\\_13-06.cfm](http://www.richmondfed.org/publications/research/economic_brief/2013/eb_13-06.cfm).

- **Greater role for community colleges:** The team noted that community colleges are especially well-positioned to assist with college and workforce preparedness. Community colleges provide a cost-effective way for students who are uncertain about going to college or not fully prepared for college to evaluate their chances of earning a bachelor’s degree. Community colleges also have the ability to help workers develop flexible skills that apply to rapidly changing industries such as health care and advanced manufacturing.

The Richmond Fed’s workforce development group found that many of the Bank’s current efforts align well with one or more of these public policy areas. For example, working through the Bank’s new Office of Civic Engagement, as well as on their own, many employees already invest their time and talent in early intervention and dropout prevention. They mentor at-risk students in public schools and volunteer at a variety of nonprofit organizations such as Smart Beginnings, the Virginia Early Childhood Foundation, Big Brothers Big Sisters, and Boys and Girls Clubs of America.

The Bank also provides economic education resources, such as an online course it is designing to help students make well-informed decisions about which path to pursue after high school. Instead of a one-size-fits-all, four-year-college prescription, the course provides a series of exploratory lessons that culminate in an individualized plan for each student.

The Bank also supports community colleges and other workforce development organizations throughout the Fifth District by providing labor force information and analysis and by convening events where leaders of community colleges and other workforce development organizations share ideas and best practices.

## CONNECTING THE DOTS

In recent years, workforce development has become a greater area of emphasis in several areas of the Richmond Fed, including research, outreach, community development, economic education, and civic engagement. These departments have developed initiatives independently over the years, but in 2013, the Bank started making a more concerted effort to connect its workforce development dots and to look for the most effective areas of emphasis in human capital policy.

The Bank will continue to provide information designed to help students and their families weigh the risks and rewards of various education decisions. The Richmond Fed will continue to engage with community colleges and other organizations in the realm of human capital policy to exchange ideas and best practices. And the Bank will continue to explore the role of early investments in human capital.

Speaking to the Council for Economic Education in October 2013, Lacker said that early interventions “could help ensure that future choices about how much to invest in a student’s human capital aren’t limited by family background and that more people have the opportunity to achieve their potential.” This speech, “Human Capital Investment as a Major Financial Decision,” is available at [www.richmondfed.org/press\\_room/speeches/president\\_jeff\\_lacker/2013/lacker\\_speech\\_20131004.cfm](http://www.richmondfed.org/press_room/speeches/president_jeff_lacker/2013/lacker_speech_20131004.cfm). ■