

## *Starting Early in Workforce Development*

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Good afternoon. It is a pleasure to be here in Charlotte. I've enjoyed seeing firsthand some exciting new technologies and businesses in the area and meeting with the people who do the hard work of preparing the next generation to participate in those industries. That preparation is the focus of my talk today. I'll begin by reviewing some current facts about the labor market and the implications of those facts for economic inequality and mobility. I'll then share some observations on our nation's current system of workforce development. In particular, I'd like to suggest that workforce development programs targeted toward young people have the potential to affect not only individual employment outcomes, but also broader issues such as economic mobility and inequality. But first I must note that my opinions are my own and may not reflect the opinions of my colleagues in the Federal Reserve System.<sup>1</sup>

### **Skills, Inequality and Mobility**

As I'm sure you are all well aware, the U.S. labor market has been weak for quite some time, with the national unemployment rate still above 7 percent and more than 4 million people out of work for more than six months. Here in North Carolina, the unemployment rate is 8.7 percent — well above the national average. What is striking, though, is that the view of the labor market differs depending on workers' levels of education: Nationally, the unemployment rate for workers with only a high school degree is 7.6 percent, compared with just 3.7 percent for workers with a college degree. Following the Great Recession, the unemployment rate for non-college-educated workers peaked at 11 percent, more than double the peak rate of 5.1 percent for workers with at least a bachelor's degree. To put this number in perspective, consider that the highest unemployment rate suffered by college-educated Americans in the recent recession is similar to the lowest unemployment rates for the overall population seen in the past four decades.

In addition to being relatively insulated from the swings of the business cycle, college-educated workers earn significantly more than workers with less education. The median income for a college-educated worker is \$48,000, compared with \$27,000 for a worker with a high school diploma. Over a lifetime, the median worker with a bachelor's degree can expect to earn \$2.3 million, based on 2009 earnings data, compared with just \$1.3 million earned by the median worker with a high school diploma.<sup>2</sup> This difference is known as the "college premium," and it's

increased significantly over the past 30 years. Growth in the premium has slowed over the past few years, but the large gap now appears to be an enduring feature of the U.S. labor market.

Over the same period, the United States also has experienced a significant decline in manufacturing employment, a result of globalization and of changes in technology that have reduced the need for manufacturing workers. In 1980, more than 20 percent of Americans were employed in manufacturing, compared with less than 9 percent today. North Carolina was hit especially hard by declines in U.S. textile and furniture manufacturing, although the state, and the Charlotte region in particular, is now experiencing a resurgence in advanced manufacturing. Unlike the manufacturing jobs of the past, however, these new jobs require greater skills and significant postsecondary education. Other sectors that have traditionally employed workers without substantial formal education, such as construction, also are upgrading their skill requirements. We recently heard from a homebuilder who said that he won't hire a worker who doesn't have good math skills.

Many people are concerned about the effects of the large skill premium, especially those who see it not only as an indicator that some skills are scarce, but also as a nagging reminder of the decline in high-paying opportunities for those unable to acquire the needed skills. This viewpoint is supported by recent data on economic inequality and economic mobility, which show that inequality has increased in recent years, while mobility has decreased. The rich are increasingly likely to remain rich, and the poor are increasingly likely to remain poor. Many factors contribute to inequality and the persistence of that inequality both within and across generations. But the disparity in outcomes between those who have acquired skills, often in the form of college education, and those who have not likely plays a large role. The children of college graduates are much more likely to attend and graduate from college themselves, and this fact might have its roots in differences that manifest themselves very early in life.

There is a large and persuasive body of evidence that the foundation for academic and labor market success is laid very early in life, even in infancy. That's because the early mastery of basic emotional, social and other noncognitive skills appears to make it easier to learn more complex skills throughout life. As a result, children who fall behind early on have difficulty catching up: Gaps in cognitive skills are present as early as age 4 and tend to persist into adulthood. Research also shows, unfortunately, that poor and minority children — who are less likely to have college-educated parents — are much less likely to have access to high-quality early education programs.<sup>3</sup>

## **Workforce Development**

What do these facts have to do with workforce development? I will suggest that they should influence our understanding of why certain workforce development programs might or might not succeed, and what outcomes we can reasonably expect. They also suggest that the greatest potential may lie in workforce development programs that are targeted toward young people.

Two decades ago, workforce development was chiefly concerned with the competitiveness of American workers relative to workers in other countries.<sup>4</sup> More recently, the focus has shifted to addressing earnings inequality in the long run and assisting workers who have been affected by

separations in the short run. As many of you well know, the most recent piece of federal legislation addressing workforce development is the Workforce Investment Act of 1998. Included in this Act was an effort to consolidate numerous different programs into “one-stop” employment centers and to give more control back to states and localities by creating workforce investment boards composed of local business, education and labor leaders. Currently, about one-third of the nation’s public spending on workforce development flows through these boards. The boards direct three-quarters of their funds toward adults, including displaced workers, and one-quarter toward low-income youth who face specific barriers to employment, such as being a parent, a high school dropout or a juvenile offender.

In addition to the programs funded through the Workforce Investment Act, there are dozens of other workforce development programs administered by multiple federal agencies. These programs primarily provide training to low-skill adult workers. Relatively little is known about their effectiveness, however; a review by the Government Accountability Office found that only five of 47 programs had conducted an impact study to determine whether or not measured employment outcomes could actually be attributed to the program. The studies that were conducted were inconclusive, and the positive results were generally small and short-term.<sup>5</sup> A number of academic studies also cast doubt on the effectiveness of job training programs, finding that the effects on employment and job retention are modest at best.<sup>6</sup> Evidence also is mixed regarding programs funded through the Workforce Investment Act. Recent research has found that adults who receive general assistance with job search and placement are more likely to become and remain employed. But the same is not true for displaced workers who receive more job-specific training; in fact, several studies have found that such workers might actually be less likely to become employed, perhaps because they stop looking for a job while undergoing training.<sup>7</sup>

These results are not necessarily a reflection of the programs’ quality or of the hard work of the people running them. Here in North Carolina, we’re witnessing some important changes to the organization and operation of workforce development boards. One of the most significant is an increased focus on employer engagement to ensure that local boards are providing training for skills that are in high demand. Local boards also will conduct more worker assessment to help people determine which jobs and training programs will best fit their natural aptitude. Here in Charlotte, the local workforce investment board Charlotte Works has already put many of these changes in place.

But there may be a larger issue underlying the modest results of many traditional workforce development programs: These programs might simply be reaching some people too late. As I’ve discussed, early skill acquisition is crucial to laying the foundation for later skill acquisition. It’s also the case that the earlier an investment in human capital is made, the longer the worker will have to realize the returns on that investment. Many of our current programs may intervene too late for workers to make large investments in their human capital and have adequate time to recoup that investment. Of course, I’m not suggesting that older workers cannot or should not learn new skills, or that an adult who dropped out of high school cannot go on to earn a college degree later in life. But broadly speaking, there may be workforce development strategies that could be more effective in assisting the majority of workers.

## Getting an Early Start

As I mentioned, about one-quarter of Workforce Investment Act funds are directed toward programs that serve young people facing considerable challenges. Traditionally, the goal has been remediation: to help the participants achieve basic literacy or minimum credentials, such as a GED. As with adult programs, the results of these youth programs have been mixed at best. But we are now seeing a shift toward providing not just remediation, but also knowledge and inspiration about different career opportunities. Local workforce investment boards are touring labs and manufacturing facilities, arranging for young people to participate with first responders in disaster preparedness drills, and sponsoring robotics competitions. The private sector also is reaching out to young people, for example by partnering with high schools such as Charlotte's Olympic High School to offer advanced manufacturing internships and apprenticeships.

These programs also show young people that there are a variety of paths they can follow after high school. Given the rising college premium and the relative insulation from economic shocks provided by a college degree, it's understandable that many policymakers have focused on increasing college enrollment. But when promoting college as a pathway, we must acknowledge a sobering reality: Currently, only a little more than half of students who matriculate at a four-year college complete a bachelor's degree within six years.<sup>8</sup> What's worse, there is relatively little benefit, at least in terms of earnings, for students who attend for a year or two but do not graduate. Median weekly earnings for a worker with some college but no degree are about 15 percent higher than the earnings of a high school graduate, compared with about 80 percent higher for a worker with a bachelor's degree. And dropping out of college can be expensive: The average debt burden among all college dropouts is more than \$7,000; among only those dropouts who borrowed, it's more than \$14,000.

Many students and families could benefit from better information about the level of preparation required to succeed in college, as well as about options they could pursue after high school other than enrolling in a four-year college. Community colleges, for example, are a venue where students can learn more about their interests and aptitudes and practice the skills that are required for success at a four-year school, all the while preserving their option to continue on toward a four-year degree. And for some students, pursuing a bachelor's degree might never be their preferred path. These students would be well served by learning about other postsecondary education options that could improve their labor market outcomes relative to only completing high school or dropping out of college. Recent research suggests that people vary in the returns they're likely to earn from formal education versus learning on the job, and some are likely to earn higher returns from working than from, say, a bachelor's degree.<sup>9</sup> For these workers, 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 programs that equip students with specialized skills, such as those especially useful in advanced manufacturing.<sup>10</sup> Charlotte has been a national leader in this area with the Apprenticeship 2000 program, a partnership between local businesses and Central Piedmont Community College. I had the pleasure of seeing that program in practice at Siemens Energy yesterday.

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.\* Given that dropping out of high school has been described as an “economic death sentence,”<sup>11</sup> these numbers are unacceptably high. Some researchers have suggested that the focus of most high schools on college preparation, to the exclusion of other options, is a factor in the dropout rate. 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. For these students, learning about viable career and educational alternatives could improve their appreciation of the value of finishing high school.

## Conclusion

To sum up, I’ve noted that college graduates earn significantly more than people who have not graduated from college, and they also tend to fare better during economic downturns. Over the same period that the college premium has been growing, manufacturing employment, which used to provide relatively high-paying jobs for workers without college degrees, has declined significantly.

I’ve also talked about the possibility that some traditional workforce development programs are reaching workers too late to make large investments in their human capital. But we are now seeing a tremendous amount of energy devoted to programs targeting young people, both in the private sector and at some workforce investment boards. These programs have the potential to significantly improve educational and job prospects for students who might otherwise have dropped out of high school, or enrolled in but failed to complete college.

But we are not concerned with high school or college completion rates simply because of the implications for the production of goods and services. Instead, our concern stems from what these numbers indicate about the well-being of the people underlying those statistics and their ability to achieve a secure economic future for themselves and, perhaps more importantly, for their children. When we look at disparities in economic outcomes across our society, it is clear that differences in human capital accumulation play a large role — and human capital accumulation begins very early in life. Doing our utmost to help the next generation of workers make the best use of their talents and opportunities will lay the groundwork for their children to achieve their full potential, and for the United States to achieve a more inclusive prosperity.

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*\*An earlier version of this speech cited the 8 percent “status dropout rate,” which is the percent of 16- through 24-year-olds who are not enrolled in school and have not earned a high school diploma or a GED. The text has been corrected to reflect the percentage of students who do not graduate from high school within four years, according to the National Center for Education Statistics.*

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<sup>1</sup> I am grateful to Jessie Romero, Urvi Neelakantan, and Kartik Athreya for assistance in preparing this speech.

<sup>2</sup> Anthony P. Carnevale, Stephen J. Rose, and Ban Cheah, “The College Payoff: Education, Occupations, Lifetime Earnings,” Georgetown University Center on Education and the Workforce, August 5, 2011.

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<sup>3</sup> Kartik Athreya and Jessie Romero, “[Land of Opportunity? Economic Mobility in the United States](#),” Federal Reserve Bank of Richmond 2012 Annual Report, pp. 4-23.

<sup>4</sup> For example, see Lisa M. Lynch, “Training and the Private Sector: International Comparisons,” Chicago: University of Chicago Press, 1994.

<sup>5</sup> United States Government Accountability Office, “[Multiple Employment and Training Programs](#),” Report to Congressional Requesters, January 2011.

<sup>6</sup> Pierre Cahuc and André Zylberberg, “Labor Market Policies,” in *Labor Economics*, Cambridge, MA: Massachusetts Institute of Technology, 2004.

<sup>7</sup> Frederik Andersson et al., “[Does Federally Funded Job Training Work? Nonexperimental Estimate of WIA Training Impacts Using Longitudinal Data on Workers and Firms](#),” National Bureau of Economic Research Working Paper no. 19446, September 2013.

<sup>8</sup> Graduation rates are calculated according to where students started as full-time, first-time students. Transfer students and students who return to college after an absence are not included.

<sup>9</sup> Christian Belzil, Jorgen Hansen, and Kingfei Liu, “[Dynamic Skill Accumulation, Comparative Advantages, Compulsory Schooling, and Earnings](#),” IZA Discussion Paper no. 6167, November 2011.

<sup>10</sup> Betty Joyce Nash, “[Journey to Work](#),” *Region Focus*, Fourth Quarter 2012, pp. 17-19, 38.

<sup>11</sup> Julie Berry Cullen, Steven D. Levitt, Erin Robertson, and Sally Sadoff, “[What Can Be Done to Improve Struggling High Schools?](#)” *Journal of Economic Perspectives*, Spring 2013, vol. 27, no. 2, pp. 133-152.