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"American Tragedy: People without Jobs – Jobs without People"

EXPLAINING THE JOB MARKET

In April 2014 the U.S. jobless rate fell to 6.3 percent. Yet the number of people working also has fallen. Hiring usually increases during a normal economic recovery. People see more job opportunities and rejoin the labor force.

Private payrolls hit a new high in March 2014. But according to U.S. Department of Labor data, an additional 7.2 million jobs need to be added to the economy just to keep pace with U.S. population growth.

Even Janet Yellen, the Federal Reserve Chairperson, is confused. She said, "And the labor market is behaving in some perplexing ways and showing patterns that are novel." (April 16, 2014).

Where have all the workers gone? Extended unemployment compensation, government disability payouts, and boomer early retirements account for some worker dropouts. But the percentage of adults remaining in the U.S. workforce is near a historic low. Too many people appear to be out of the job hunt. What is the explanation? How important is the so-called skills-job disconnect? Does it exist or is all this just part of the economic recovery in a normal business cycle?

Paul Krugman at the *New York Times* tells us there is no support for the claims that inadequate worker skills explain the persistence of high U.S. unemployment. He believes that America has plenty of skilled workers. Krugman favors utilizing monetary and fiscal policy to fix what he sees as cyclical economic problems in the American labor market. Peter Cappelli at the Wharton Business School generally shares the same viewpoint.

However, Alan B. Krueger, Judd Cramer, and David Cho of Princeton disagree. They have documented the rise of an underclass of the long-term unemployed. These people will not be helped by continuing present fiscal and monetary policies.

Economist Glen Hubbard, Dean of the Columbia Business School and Tyler Cowen also don't believe that the current unemployment picture is part of a normal business cycle. They both claim that too many younger people with "restless temperaments" or "inadequate schooling and training" are causing structural changes to the U.S. job market. Also, Gad Levanon, Director of Macroeconomic Research at the Conference Board, projects that labor shortages will reach crisis levels over the next 15 years. He believes that high unemployment will persist due to the dearth of people with the skills employers are seeking and that the large number of baby boomer retirees will add to the magnitude of labor shortages. A May 2014 USA Today survey of 40 economists reported that a majority believed that wage gains will accelerate as the U.S. unemployment rate approaches 6 percent due to the limited supply of available educated, career-skilled workers.

The Federal Reserve Beige Book (April 16, 2014) reported that labor markets continue to tighten. Six of the its 12 districts noted problems in finding skilled workers including Dallas, New York, Cleveland, Richmond, and Kansas City. For example, Chicago and Kansas City businesses reported rising difficulty in filling positions in engineering, information technology, accounting, machining, and other technical occupations. North Dakota rated filling vacant positions the top adverse business problem. Difficulty in filling healthcare positions across the state was particularly noted.

In an April 16 speech, Richard Fisher, President of the Federal Reserve Bank of Dallas, said, "We are seeing a skills mismatch around the country." He indicated that American education and current immigration programs "are not meeting our needs."

Today, 9.8 million U.S. workers remain unemployed. Others are underemployed – working part-time jobs while seeking full-time employment (7.5 million). Still others (2.2 million) are categorized by the U.S. Bureau of Labor Statistics as "marginally attached to the labor force," meaning they had sought employment in the past year but had not looked for work in the prior month. They all add up to 19.5 million or 12.5 percent of the U.S. workforce.

Part-time employment is a significant factor in the U.S. labor force. In the first 3 months of 2014 the number of part-time jobs increased by 10 percent. In March 2014, 28,500 new part-time jobs represented 15 percent of all the jobs added in the previous month.

Additionally, 80 million people in 2007 were not in the U.S. labor force. By April 2014, this had risen to 92.6 million. This increase of 12.6 million is spread across all age groups: younger, ages 15 to 24, -6.5%; prime, ages 25 to 55, -4.6%; and older, ages 55 to 64, -4.6%. Yet, our latest estimate is the 7.3 million jobs are vacant. As Yellen said, this labor market is "perplexing". Too many people are without jobs and too many jobs are without people. This is not your grandfather's or father's unemployment situation. Clearly a broader explanation is needed. Something fundamental has changed in the U.S. labor market.

We need to address the current jobs situation using a blended socio-economic perspective. Economics alone cannot explain the present condition of the U.S. labor market. It is only one component in the much larger interdisciplinary mix of systemic and structural factors affecting it. Fisher at the Dallas Fed agrees that "we at the central bank cannot affect structural unemployment."

A NEW LABOR-MARKET ERA

In the twentieth century, the United States had an abundance of low-skill, relatively good-paying jobs that allowed people with a high school education – or even less – to achieve a middle-class income. But during the past 20 years digital technology has revolutionized almost every workplace, and consequently many low- and medium-skilled jobs have vanished.

The magnitude of the resulting socio-economic imbalance is rapidly increasing. On one side, due to advancing technology good-paying jobs now require a quality general liberal arts education plus specialized post-secondary career preparation. On the other side, the antiquated U.S.

education-to-employment system is not changing fast enough to provide people with the education and skills required for this new jobs era. A substantial segment of American society is woefully uninformed about the wide range of in-demand careers in modern workplaces and their educational and skill requirements.

An increasing proportion of mid-level jobs will require some type of post-secondary education. This includes two- or four-year degrees, certificates, or apprenticeships. Today's employers across all business sectors increasingly expect applicants to have specialized career training plus good math, reading, and communication skills. They are seeking employees who have advanced thinking skills that enable them to employ technology to develop and deliver innovative products and services and make better decisions.

Many people who are seeking jobs or who have dropped out of the labor market lack these qualifications. The result is a growing pool of low- and middle-skill workers pursuing a decreasing number of low-skill, low-paying jobs.

Also a major demographic shift is under way. Every day 10,000 baby boomers are retiring; 70 million will retire between 2010 and 2020. Employers are struggling to find workers with the level of job-related skills equivalent to those of the retiring boomers, as too many members of the Millennial generation are more "button savvy" than tech savvy.

The United States and the world are locked into a structural labor-market race between advanced technology on one side and demographics and education on the other. Today too few Americans are prepared to run in this race of job-transforming technical change.

We now have reached an employment tipping-point. The broad deterioration of the U.S. job market can no longer be explained as part of the business cycle or shored up by maintaining the current failing education-to-employment system. The talent shambles is set to worsen.

Many still fail to grasp that technology has outpaced our society's capability to provide a suitably educated workforce. These talent problems are structural. They also are systemic. We are in a new labor-market that requires broad social and cultural adjustments.

Society has been in denial. Instead of the needed systemic overhaul, many leaders in business, government, and education still think they can make the old system well again. As Matt Ridley, author of *The Rational Optimist* (2011) says, "We all think that we know certain things to be true beyond doubt, but these things often then turn out to be false, and until we unlearn them, they get in the way of new understanding."

SEEKING BROADER SOLUTIONS – RETAINs

With these factors in mind, it seems incredible that controversy still rages over the reality of a growing skills-jobs mismatch. However, as Martin Wolf, a *Financial Times* columnist has stated, "Technology itself does not dictate outcomes – institutions do. If the ones we have do not give the results we want, we must change them."

There are signs that the momentum for change is building. A March 2014 Bank of America/Merrill Lynch survey of fund managers showed near record support for increasing capital spending, while returning cash to shareholders or buying back stock sharply declined in popularity. In April the *Wall Street Journal* reported that J.P. Morgan Chase, Citigroup, Bank of America, and Wells Fargo "are boosting their lending for businesses to increase spending on workers."

The recent death of University of Chicago economist Gary S. Becker brings to mind his wisdom that the knowledge and skills of a nation's workforce are the prime engines of its economic growth. Today much of the blame for the declining fortunes of America's middle class and growing U.S. economic inequality can be traced to the current skills-job disconnect.

"Countries that invest heavily in educating their citizens are also those that tend to experience high economic growth following such investments," Becker wrote. "For these reasons it is important that tax policies encourage investment in human capital."

Changing U.S. accounting standards to allow publicly traded business to capitalize training, development, education, internships and apprenticeships could provide a significant incentive to increase human capital investment. By allowing such expenditures to be depreciated over time, as is allowed for investments in building and equipment, training and education could be moved from a cost to an investment on business balance sheets. Privately held business could be given tax credits to encourage them to invest in upgrading the skills of their workers.

In April 2014, 288,000 people found jobs. An important factor is that employer job training may be coming back into the marketplace. Now more employers are beginning to build up their in-house training and development capabilities. Bersin reports that in 2013 large tech firms like Adobe, IBM, Xerox, and Motorola Solutions had increased their training budgets by 15 percent on average. Recent Deloitte and CareerBuilder surveys indicate that an increasing percent of businesses plan to increase investments in their human capital development by ramping up training to fill vacant jobs. The Center for Regional Economic Competitiveness reported that in 2014 more states intend to increase spending by over 14 percent on worker training and education programs.

In April the Federal Reserve reported that businesses in Chicago region are exhibiting increasing willingness to train workers for vacant positions through in-house programs, tuition reimbursement, or forming partnerships with local high school career academies or community/technical colleges.

Beginning in the 1990s, there has been a gradual acceleration of regional cross-sector, public-private, non-profit intermediaries to rebuild the antiquated education-to-employment pipeline. In *Future Jobs: Solving the Employment and Skills Crisis*, I coined the term RETAINs (Regional Talent Innovation Networks) to describe the key elements of these diverse local collaborations for talent/workforce development and growth. Over 1,000 RETAINs now exist across America.

Our society needs to accept the fact that a new U.S. job era has arrived. The availability of better educated talented people with up-to-date career skills now largely determines where businesses will locate in the United States or anywhere in the world. Those communities that break down the cultural structural barriers between businesses, education, and community groups, and that collaborate to renew their talent creation and economic systems will attract new businesses and retain current ones. Those that don’t will wither and die.

As the number of vacant jobs continues to grow to over 7 million, businesses and local communities are finding that the pain of trying to maintain current labor supply practices is becoming greater than taking steps to rebuild regional education-to-employment systems. The task before the United States and other developed nations is to recognize that a socio-economic revolution has produced this new job era. We need to accelerate the pace of our response by creating more RETAINs. They offer interdisciplinary solutions that rebuild regional service delivery systems that are developing the education and skills of a larger proportion of students and workers. High school dropouts rarely become presidents of Boeing, but one-third of them end up in jail. RETAINs will help us meet the new career opportunities of a 21st-century high-tech world economy rather than just continue to debate these issues.