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“Talent Boom or Bust?”

As an economic historian and business management consultant, I have major concerns about current state of the U.S. economy and its workforce.

After World War II America’s economic growth was fueled by its well-educated middle class who had the skills needed to expand and diversify U.S. products and services. The booming economy greatly increased the proportion of Americans earning middle-class incomes. This rise of the middle class also led to greater wage equality across the economy, an issue that is frequently in today’s headlines.

Why has the proportion of Americans earning a middle-class income shrunk so precipitously over the last decade? The worldwide recession that led to a loss of millions of jobs was undoubtedly a factor. But the spread of automation and computerization in all sectors of the economy also eliminated many lower-skill and middle-skill jobs. This in turn has transformed the U.S. labor market as it continues to create new jobs requiring higher skills, especially in technical areas. Neither the U.S. education-to-employment system nor the U.S. business community has faced up to the challenges of reskilling Americans for this new labor era.

BUSINESS TALENT NEGLECT

In many ways business owns this problem. For the past 25 year management has tried to “off-shore” many higher-skill jobs, “outsource” jobs and training to external contractors, or “empower” their employees by basically telling them it is their responsibility to get further training and education on their own time, at their own expense. Now the cumulative effect of business failure to face up their needs has backfired across the economy. These short-term fixes have contributed to the gradual hollowing out of the overall education and skill levels of both current and future U.S. workers. This has created today’s growing skills-job gulf. As a result over the next 10 to 20 years a severe talent mismatch threatens the survival of many companies and America’s overall economic stability. Until U.S. talent creation expands, America will not be able to wake up from its economic nightmare.

U.S. businesses at every level need to rethink their short-term and long-term talent solutions. A 2014 Manpower survey found that 40 percent of U.S. employers reported difficulty filling jobs, and 56 percent of these employers responded that the talent shortage now has a medium to high impact on their ability to meet client needs. These deficits are set to worsen. This new labor-market era urgently calls for a renewed business commitment to invest in appropriate levels of training and education. Providing people with the knowledge required for high-skill jobs that employers are finding difficult to fill will bolster the ranks of the American middle class and help overall economic growth.

INVESTMENTS AND CHANGES NEEDED

Where will these investments come from? Profit margins of U.S. companies are extremely high. In 2013 after-tax corporate profits were \$1.7 trillion (U.S. Department of Commerce). This was a record share of the GDP. Profits levels are projected to be even higher in 2014.

Much of these earnings have been used to fund mergers and stock buybacks, and to raise dividend payments. Also companies are sitting on record amounts of cash. Business capital investment in plants and equipment or “capex” has remained depressed. Investment in human capital through training and development has also been weak.

A 2014 Morgan Stanley report found that the average age of the industrial equipment of U.S. firms is 10.3 years. This is the highest since 1938 during the Great Depression. Failure to replace aging equipment has helped to slow U.S. productivity growth.

If U.S. businesses are to maintain their record profit levels, America must increase economic growth. Businesses must start committing to long-term investments in plant and equipment, expansion of the workforce, and greatly increasing worker training and education. Without such future investments, another U.S. economic bust is a distinct possibility.

A shift in business culture that includes significant talent creation efforts will enhance both the capabilities of employees and their loyalty. Business short-termism has played a significant role in the current shrinkage of the American middle class. Until now this group has been the economic goose that laid our golden eggs. Any organization that wishes to innovate and thrive must shape its internal culture to again value its human capital as a key component in its own survival and for the continued prosperity of the American free enterprise system.