

## Strategic Workforce Development: Training for Employability

**Dennis Lockhart**  
President and Chief Executive Officer  
Federal Reserve Bank of Atlanta

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Transforming U.S. Workforce Development Policies for the 21st Century**  
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### Key points

- Atlanta Fed President and CEO Dennis Lockhart, in October 16 keynote remarks at the Community Development Conference at Rutgers University, offers his thoughts on strategic workforce development.
- Lockhart focuses on three elements of strategic workforce development: soft skills, hard skills, and changing employer-employee work arrangements.
- Lockhart cites anecdotal input from the Atlanta Fed's business contacts, who report a deficit in soft skills among job applicants. Soft skills encompass work ethic, attitude, and interpersonal skills, and are often a prerequisite for employability.
- Lockhart believes job-specific requirements, or hard skills, will become more digitally demanding. In his view, problem analysis, troubleshooting, and critical thinking will be essential hard skills in the "second machine age."
- Lockhart says employer-employee work arrangements will be similarly fluid. Current trends—including the increased use of part-time, temporary, and contract workers—seem to have momentum.
- Lockhart believes more workforce training will occur outside of employers, which will require better alignment among workforce training providers, educators, and employers. To support this shift, the Atlanta Fed has catalyzed a new program, the Metro Atlanta Exchange for Workforce Solutions (MAX), which launches in December.



Good morning. On behalf of the Federal Reserve Bank of Atlanta and its Community and Economic Development team, I'm pleased to add my welcome to the conference. Together with our partners—the Kansas City Fed and the John J. Heldrich Center for Workforce Development here at Rutgers University—we are presenting this conference to encourage innovative thinking about workforce development.

Yesterday afternoon, Harry Holzer of Georgetown University ably set the scene and described the demographic, technological, and social context of workforce policy. He made the case for major changes, and I understand his remarks were well received.

The agenda for the remainder of the conference is appropriately ambitious. There are sessions on various target worker cohorts: the long-term unemployed, disabled workers, young workers. There are sessions on getting the facts straight and knowing what works through data analysis. The panel moderated by Ambassador Murphy will look at what we might learn from institutions and initiatives in Europe. And there are big-picture sessions that will build on Professor Holzer's opening session addressing questions like how to adapt formal workforce development efforts to changing realities and evolving challenges. This is a rich menu. I expect everyone here will find something of value to take away.

For my part, over the next few minutes, I want to offer some thoughts on preparing workers to be and remain **employable**. I will make a distinction between training for immediate, near-term employment and training (and retraining) to improve an individual's prospects of **lifelong employability**. I will comment on trends that will shape the reality of employer needs and wants over the longer run.

Jack Welch, the former CEO of General Electric, is reported to have said that he could not—as head of GE—guarantee a current GE employee employment, but he felt he could guarantee employability, even if somewhere else. He meant, as I understand it, that the experience of working for GE ought to make a GE employee employable elsewhere. Implicit in his statement was a sense of responsibility on the part of large employers to play a real role in fostering the employability of people in the workplace.

As I see it, the workforce development community, for its part, divides its attention between two areas of focus. One is what you might call remedial efforts to help the hard-to-employ or those looking for a second chance after losing a job. The other area of focus is **strategic workforce development**, with the ultimate aim of sustained economic development of a metro area, a state, or the country. In my remarks this morning, I will address the second of these—strategic workforce development including interventions to enhance employability.

Obviously this is a big subject. To make it manageable in the time I have, I'll reflect on three topics. They are: prerequisites for employability (sometimes called "soft skills"), "hard skills" (or harder skills) for the long run, and changing employer-employee work arrangements.

### Developing soft skills early

To introduce the topic of soft skills, let me explain that the Federal Reserve is required by statute to set monetary policy with two objectives in mind—low inflation and maximum employment. This is the Fed's so-called "dual mandate." To evaluate employment conditions, my Reserve Bank conducts frequent and systematic interviews of employers during the period between meetings of the Federal Open Market Committee, the entity that sets monetary policy. We ask businesses and other major employers about their hiring plans, their recruiting challenges, their willingness to spend on training, and their current wage policy.

Throughout the economic recovery, we have heard a great deal about a perceived soft skills deficit on the part of job applicants. This is anecdotal input from contacts, not empirically grounded hard data. We take care not to interpret anecdote as fact. I will say, however, that the frequency of such comments coming from a wide spectrum of contacts makes me wonder if there isn't something real there. I'm asking myself if our feedback from employers calls for a structured effort to determine the extent of the problem and devise purposeful responses.

According to many of these employers, their initial screening methods focus mostly on an applicant's readiness for employment. They look for prerequisite skills or individual attributes. Among the questions these employers try to answer are:

- Does the person have the necessary work ethic and attitude?
- Will the person reliably show up for work on time, every day?
- Can the person work with others?
- Does the person present himself or herself in a professional manner?
- And finally, can the applicant pass the drug test?

Judging from the number of mentions, this last question concerns itself with a very real hurdle to employability in certain vocations.

Formal efforts to engage prospective workers along these softer dimensions of attitudes, workplace conduct, and personal habits are most effective if started early in a working career or even before. Successful programs like "Year Up" are addressing these concerns head on by working with young adults in eight metro areas nationwide to develop professional demeanor and personal presentation skills. Year Up backs this up with stipends, internships, and college credits—all to put the individual on the path to economic self-sufficiency.

A second example is the STRIVE model. The STRIVE approach, a national program that started in Cincinnati, helps communities build a local education ecosystem with sustainable civic infrastructure. The idea is to create a cradle-to-career approach to development. In Atlanta, we've seen the STRIVE model in action in an organization called New Hope Enterprises. This group has been effective in raising soft skills as well as improving neighborhood life. Successful programs like "12 for Life" blend work education with content designed to raise students' commitment to, and even passion for, work. Mike Wiggins, a founder of Southwire's 12 for Life program, spoke yesterday evening, I believe.

I really think we need more work in the soft skills area, including development of effective training for adult workers. Complaints about soft skills are just too prevalent to dismiss entirely.

For many members of the workforce—especially, but not exclusively, the hard-to-employ—the prerequisites I've noted are just that. They are first tests of employability in advance of consideration of actual job qualifications.

#### **Fostering hard skills for the "second machine age"**

Let me shift the focus now to so-called hard skills and trends affecting employer needs.

A recent McKinsey article entitled "The Great Decoupling" starts with the statement, "As machine learning advances at exponential rates, many highly skilled jobs once considered the exclusive domain of humans are increasingly being carried out by computers." The same article quotes from a recent book by Erik Brynjolfsson and Andrew McAfee called *The Second Machine Age*.

That's a useful phrase, so I'll borrow it. We can quibble about the meaning of highly skilled, middle skilled, and low skilled, but I'll argue that *the second machine age* has seen the automation of many middle-skill jobs. It has contributed to the phenomenon of job polarization and middle-class income stagnation. Job polarization refers to the decline of mid-level positions relative to higher-level and lower-skilled jobs.

In work last year on job polarization, my staff cited a very useful framework for categorizing work that was developed by David Autor and David Dorn. Think of four quadrants involving the interplay of brain work and the nature of discrete tasks in a job. The four categories are routine/noncognitive, routine/cognitive, nonroutine/cognitive and nonroutine/noncognitive. Machine and computer substitution is bearing down on both the routine/noncognitive and routine/cognitive categories. Nonroutine/cognitive jobs are the high-skill positions requiring advanced education, critical and analytical thinking, sophisticated communication, and complex problem solving. As *the second machine age* accelerates, only the lowest-skill, noncognitive, nonroutine kinds of work will be immune from attempts at automation, in my opinion.

Twenty years ago, I attended a seminar featuring the great Peter Drucker. In the course of the conference, one of the presenters asked rhetorically, "Is there anything you would not buy online?" Participants mentioned a number of goods and services that are now routinely purchased online. Fast forward to today. It's worth asking, "Is there any work machines cannot do?" I predict that many of the tasks running through your minds at this moment will be automated in some form 20 years from now. Indeed, I would argue that even today, we're seeing machine *operators* of all kinds becoming machine *tenders* who monitor digital interface devices and intervene only if something goes wrong. As a prominent bank economist put it in a recent newsletter, "Manufacturing jobs are far less blue-collar today and more business casual." And who has not noticed changes in supermarkets and other retailers where one employee monitors the sales of four to six checkout stations?

We are seeing a wide range of relatively low- and middle-skill vocations under siege. As examples, I would point to production-line manufacturing positions, waiters, retail checkout clerks, hotel check-in personnel, and customer service staff. Maybe, before long, the list will include drivers.

The process of substitution will likely be gradual, but I find it hard to believe the trend will reverse. If you accept as reality the persistence and growth of automation, robotics, production algorithms, and digitization in general, I don't think it's difficult to imagine what jobs will increasingly require as hard skills and consequently what strategic workforce development will entail.

Here are some thoughts: Most workers will deal with a digital interface device of some kind. Familiarity with technology and the literacy and numeracy skills to operate such a device will be essential.

In a world where much that is routine and repeatable is done by machine, human work will call for problem analysis and troubleshooting, critical thinking where judgment and discretion are required, and fine, customized work involving customer or colleague interaction and communication. Making emotional connections is human work.

Workers will need lifelong learning skills to adapt to changing job requirements dictated by the pace of substitution of technology for what they used to do.

#### **Changing work arrangements between employers and workers**

Just as job-specific requirements will be fluid over time, employer-employee work arrangements have their own fluid character. A number of current trends in the field of workforce management seem to have momentum.

Workforce management practices include the use of temporary staff as a permanent and flexible workforce component, the use of contractors (I've heard them called "1099 employees") for project work or as a semipermanent workforce, and the structuring of job positions as part-time.

At the Atlanta Fed, we've done some research on the part-time phenomenon. I'll share some of our findings.

First, the share of employed people working fewer than 35 hours a week rose sharply during the Great Recession. That fact in itself is not surprising. Employers will often respond to a drop-off in demand by cutting hours of employees to avoid layoffs. However, the part-time share of employment has been slow to decline since the recession ended. Typically, hours are restored in a recovery, but this has not so much been the case in this recovery. Involuntary part-time employment seems to have become, to some extent, a structural thing. Part-time positions are prevalent in certain industries such as food service, hospitality, and construction, but our research finds that use of part-timers has become quite widespread.

To understand whether the shift to part-time jobs is structural in nature, we conducted a survey of 340 businesses in the Southeast, of which 86 currently have a higher share of part-time workers than before the recession. We found that two reasons were most commonly cited for elevated use of part-time employees. One was weak sales. This would suggest a cyclical driver. The other explanation was the perceived higher all-in compensation cost—even when adjusted for hours—of full-time versus part-time workers. We've concluded that there will likely be some falloff in use of part-time personnel as the economy strengthens further, but probably not to prerecession levels. In other words, preference for part-time workers is likely to persist. For Fed policy purposes, the balance of evidence suggests the labor market is still far from normal, even if normal is not what it used to be.

What might be the implications of the growth of part-time employment? Clearly, employers are seeking staffing agility. Employers want to stay nimble to adjust quickly to a fall-off of business. They increasingly want the flexibility afforded by a mix of employment arrangements with varying degrees of commitment to classes of employee. Impermanent part-time workers are least likely to receive significant employer-sponsored training. The training burden is likely to fall outside employers. The workforce development community is going to have to come to grips with this new reality.

### **Conclusion**

To close, I'll summarize: What I've called "strategic workforce development" for long-term employability must anticipate, to paraphrase the great Wayne Gretzky, where the puck is going. In my view, the employability of young people and adults who are deficient in soft skills will go nowhere but down. The job-specific requirements in most industries and vocations will evolve rapidly and become more digitally demanding, if you will, in *the second machine age*. Widening automation and digitization will reduce routine job tasks, both cognitive and noncognitive. To be and remain employable, workers will trade on what cannot be programmed. And work arrangements with employers may be structured to provide those employers more tactical flexibility in their workforce management.

This is what I imagine going forward. It's our view at the Atlanta Fed that to be responsive to this future, the workforce development system needs to operate with greater coherence, cohesion, and coordination if it is to remain relevant. Through our Community and Economic Development program, we're working to help workforce training providers, educators, and employers become better aligned. To this end, we've catalyzed a program called the Metro Atlanta Exchange for Workforce Solutions (or MAX). This effort brings together more than 25 entities as partners to think and act in a more coordinated and streamlined fashion. This initiative will be officially launched in December. It's our hope it will help prepare the region's workforce development stakeholders for the reality of a 21st century economy.

Thank you for your attention this morning. And thank you for attending this important conference.

**Contact:** [Jean Tate](#) 404-498-8035

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