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Workforce 2020 Conference summary

U.S. labor markets are extremely tight at present—tighter, at least, than for most of the past quarter century—and prospects are good that America will continue to face tight labor markets during the first quarter of the twenty-first century. On September 23–24, 1998, the Workforce 2020 Conference, conducted by the Hudson Institute, addressed a number of issues related to ongoing labor market tightness, including the impact on different regions, industries, occupations, skill levels, and ethnic groups; the implications for future economic growth; and the types of policy actions that will enable communities to prosper in this environment. This *Chicago Fed Letter* summarizes some of the conference presentations.[1]

Future work force and jobs

Job growth has slowed and it will continue to do so, according to Howard Fullerton, U.S. Department of Labor. U.S. employment will increase by 19 million jobs from 132 million to 151 million over 1996–2006, with a projected annual average rate of job growth of 1.3%. This compares with a gain of 21 million jobs in the previous decade, 1986–96, and an annual average growth rate of 1.7%. The projected 14% change in employment is slower than the 19% increase attained during the ten years from 1986 to 1996.

Among the major occupational groups, growth may also differ from the past, resulting in a change in the structure of employment from 1996 to 2006. For example, average growth is projected to be higher for occupations requiring higher education (at least an associate's degree) than for occupations requiring less training, though some occupations requiring less formal education are also expected to have above-average growth.

How will labor force growth compare with job growth? The labor force, defined as individuals working or looking for work, is projected to increase by 15 million from 1996 to 2006, reaching 149 million in 2006. This 11% increase compares with a 14% increase over the previous ten years, when the labor force grew by 16 million. Fullerton noted that the total number of jobs is expected to grow significantly more than the labor force (19 million additional jobs versus 15 million additional workers). Some of the shortfall will be offset by individual workers holding more than one job.

Part-time and contingent work

Max Lyons, Employment Policy Foundation, noted that a growing number of observers have been warning about "dramatic" and "unprecedented" changes in the nature of U.S. employment. These observers argue that employers are becoming increasingly likely to lay off full-time workers and hire *contingent* workers. However, considerable confusion exists about the size of this growing segment of the work force. That is because the category is often defined too expansively to include all part-time workers, temporary help, the self-employed, and contract workers. Such mistaken definitions arrive at estimates that contingent workers constitute at least 25% of the work force. Using a narrower definition, the U.S. Bureau of Labor Statistics recently reported that contingent workers constitute, at most, 4.9% of the work force. The treatment of part-time workers accounts for most of the difference in the estimates. Part-time workers constitute 18% of the work force. As defined by the Bureau of Labor Statistics, most part-time workers are not contingent workers because their jobs have lasted for at least a year and are expected to continue. Similarly, contingent workers are only a subset of self-employed workers. Thus, the inclusion of the self-employed in the count of contingent workers makes a big difference.

Entrepreneurship and the work force

Marilyn Kourilsky, Kauffman Center for Entrepreneurial Leadership, noted that the U.S. is in the midst of an entrepreneurial tidal wave. Kourilsky suggested that the nation will increasingly rely upon the lean and agile entrepreneurship of small businesses, which are already responsible for most recent new jobs, to fuel economic growth through employment opportunities and innovative goods and services.

Paralleling this trend is the growth of "intrapreneurship," which is employee application of entrepreneurial thinking and behaviors. Entrepreneurial development teams are applying this sort of thinking in many organizations to promote creativity and innovation.

Work force diversity

Anita U. Hattiangadi, Employment Policy Foundation, said that in today's increasingly tight labor markets, firms are paying more attention to the active recruitment of new workers to fill job openings. A recent survey of human resource executives found that 54% reported skilled labor shortages which they expected to continue into the future, and a Bureau of National Affairs survey showed that more than half of human resource executives listed recruitment among their departments' top three priorities for 1998. This increased emphasis on recruitment has created new employment opportunities for a broader group of job seekers, including many individuals from diverse ethnic and racial groups, women, older individuals, and those with limited skills and experience.

An outgrowth of employers' efforts to recruit an increasingly diverse work force is a growing "diversity training" industry that aims to create an environment in which workers' differences can positively affect productivity. Although the term diversity has traditionally referred to racial, ethnic, and gender differences, human resource professionals have extended the definition over time to include diversity in age, sexual orientation, and mental or physical abilities.

Immigration and the work force

George Borjas, Harvard University, addressed two fundamental questions: How many people do we want? And, which immigrants do we want?

What does the immigrant flow to the U.S. currently look like? While levels of illegal immigrants are difficult to pin down, the U.S. has reached a historical high with regard to legal immigrants. Immigrants are disproportionally numerous among today's job seekers. About 8.4% of foreign-born noncitizens in the labor force were unemployed in 1997, compared with 4.3% of foreign-born citizens and 5.4% of the native born. One reason for this high proportion is that immigrants increasingly tend to be less skilled than native workers. Over recent decades, evidence shows that each wave of immigrants earns less than other workers—from 16% less in 1970 to nearly 32% less in 1990.

How do immigrants affect native workers? The economic impact depends on whether incoming workers complement the native work force by taking jobs that native workers don't want or aren't qualified for or, on the other hand, act as substitutes for native labor, putting downward pressure on wages.

Immigration is highly skewed toward six states: New York, New Jersey, Illinois, Texas, Florida, and California. Even at that, the new wave of immigration is mostly a California phenomenon. Despite this localized geography of initial impact, the economic effects of immigration eventually spill over onto the highly integrated national economy.

Immigration has considerably increased the supply of workers with less than a high school education in the U.S. labor market. In 1979 the typical skilled (native) worker in the U.S. made 30% more than the typical unskilled worker. By 1995, the pay gap was 41%. Contrary to the findings of other studies, Borjas's research suggests that 44% of the widening of the wage gap between skilled and unskilled native workers can be attributed to the impact of immigration on the supply of unskilled versus skilled workers.

Regional implications of labor trends

William A. Testa, Federal Reserve Bank of Chicago, discussed the implications of labor market tightness for a particular region, the Midwest (comprising the states of Illinois, Indiana, Michigan, Wisconsin, and Iowa). Testa said that in the mid-1980s, when analysts forecasted slower work force growth and tighter labor markets nationally, such concerns seemed very remote in the Midwest because employment demand was weak in relation to work force availability. Yet by the late 1990s, labor market conditions had made an about-face in the region. Currently, Midwest unemployment is running more than one-half percentage point below the national average of about 4.3%. And business executives in the Midwest report "finding good help at current wage offers" as the most vexing of current problems. So, if today's tight labor markets continue, the region's policymakers and businesses must face up to the conditions associated with labor-constrained growth rather than underemployment.

From a demand-side perspective of the labor market, there are reasons to expect continued strong hiring plans among employers in the region. After a severe shock during the early 1980s, the region's mainstay industries seem to have regained profitability. Auto and truck production have not only regained competitive ability but have reconcentrated in the region, due to a complementarity between the changing organization of the industry, with its emphasis on just-in-time delivery, and the region's advantageous location and dense highway infrastructure. However, there are offsetting reasons that suggest labor demand may moderate somewhat in the Midwest relative to other regions. For one, the region's industry mix is concentrated in goods-producing industries—manufacturing and agriculture. These industries tend to shed labor or to experience slower growth in labor demand over time. Furthermore, the region's employment growth is highly procyclical with the U.S. economy and will tend to moderate along with U.S. economic growth. Finally, wages and incomes have revived in the region following the devastating shocks of the early 1980s. Market forces and rising wages are likely to moderate some of the demand for workers in the region.

Limitations on work force availability and supply would also indicate a future of slower work force growth. Much like other regions, the Midwest is likely to experience a tepid pace of entry of young adults into the work force. In addition, net migration of workers from other regions and immigration from other countries do not appear to be as significant in the Midwest as in many parts of the South and West. The robust work force growth of the past ten years has come about, to a significant extent, through reemployment of an underemployed population rather than through new workers.

If we are looking to an era of tight labor markets in the region, what should be done about it, if anything? The case for encouraging work force growth from outside the region is not unambiguous. While business and property owners clearly require an ample work force to ensure continued profits and rents, the gains for the region's workers are less clear cut. Tight labor markets are usually associated with rising real wages and incomes and with greater work force participation of indigenous workers. In contrast, competition for jobs from migrant workers can sometimes dampen wages. Nonetheless, overall work force growth can be desirable in other regards. In particular, growth may be needed to achieve sufficient work force and population sizes to sustain viable towns, cities, and industries. And as industries grow and prosper, opportunities for the region's workers will also grow.

Policies to boost labor supply from within the region may be less contentious than those that encourage in-migration. Most prominently, programs to enhance the effectiveness of public education and training can be considered. The high wage premiums that employers are placing on work force skills are the obvious benefit to be derived from achieving an efficient system of schooling. A less obvious bonus to work force availability are the higher participation rates or "employability" of the adult population that are attendant to greater years of schooling.

Policies and programs to bring workers and jobs together may also be deserving of further inspection. A much-studied problem in large metropolitan areas is the geographic isolation of low-income workers from the suburban sites of emerging job opportunities. Policy alternatives include efforts to develop more affordable housing in outlying areas; to encourage job site location in older areas; to discourage discrimination in housing and lending; to provide better information about suburban job opportunities to those living in isolated areas; and to improve transportation to emerging job centers from low-income residential neighborhoods.

Interregional migration of workers

Michael J. Greenwood, University of Colorado at Boulder, discussed the unprecedented shift in regional population distribution that took place during the 1970s and 1980s. Between 1970 and 1980 the nation's population grew by 23.2 million people, from 203.3 million to 226.5 million. Of these, 20.9 million, or 90%, accrued to the South and West census regions. The previous historical high percentage of incremental national population accounted for by the South and West was 65% during the 1930s. During the 1960s these regions accounted for only 61% of incremental national population.

The 1980s saw a continuation of the regional population shift. The nation's population grew by 22.2 million during the 1980–90 period, with 89% of the incremental residents accruing to the South and West census regions. During the first half of the 1990s, the regional population shift slowed somewhat. Of an estimated 14.0 million incremental U.S. residents between 1990 and 1995, the South and West accounted for 80%.

Moreover, the situation in the Midwest changed dramatically. Incremental population was 2.7 times higher than it had been during the entire decade of the 1980s. On the other hand, population growth in the Northeast slowed considerably during the early 1990s.

A major theme of Greenwood's research is that because the baby boom has now largely matured out of the most mobile age classes, population and employment growth differentials that strongly favored the South and West will moderate in the near future. The moderating of the regional trend that began in the early 1990s will prevail, Greenwood argues, until the baby boom generation begins to retire in large numbers, probably around 2015.

Labor market intelligence systems

K. D. Nyegaard, Eriss Corporation, discussed the implementation of the ERISS labor market intelligence system in certain metropolitan areas of California, Texas, Florida, Ohio, and Indiana. The system is designed to supplement traditional sources, such as the U.S. Bureau of Labor Statistics, with more current and highly focused labor market intelligence available via Internet Web sites. Economic development professionals can exploit a database of salary levels, occupational classifications, and levels of available workers. Human resource departments have access to current wage data, as well as supply and demand information by occupation. Employers can conduct local area research on competitive wages, supply and demand pressures, and benefit offerings as an aid to more effective recruiting and retention. Job hunters can get a clear picture of the most up-to-date skill requirements and educational minimums for jobs they may be interested in. Placement firms, employment and welfare agencies, and career centers can use the system to direct qualified applicants toward high-demand occupations. The database also supports the efforts of economic development and local area business associations to attract employers to their community. The system is also being used by educators and parents to better educate children about local job opportunities and the fastest-growing fields.

Discussion

In the words of one conference participant, "We cannot continue to talk about our competitiveness in the world without talking about our work force. We can't talk about our work force without talking about education. In turn, we can't talk about education without recognizing the serious shortcomings in

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the existing system. One of the conclusions, therefore, is that business must develop the will to change and improve the American educational system or the United States will not be able to compete successfully in a global marketplace."

Employers and educators also spoke about the need for more realistic, skills-based education that will continue throughout a person's career and the importance of putting more emphasis on performance than on credentials in the work environment.

Some participants pointed out that employers do not have good information about the costs of firing versus the costs of retraining workers in order to place them in other productive jobs within the organization. Such retraining might be particularly valuable for older employees, those with disabilities, and parents of young children who want to reenter the work force or work part time. The consensus was that employers need to explore retraining opportunities as an alternative to laying off workers.

Researchers at academic institutions also raised concerns about information needs. Cuts in the federal budget have significantly strained the resources of agencies that produce statistical information, in many cases causing them to cut back on regional studies. This is unfortunate because evidence for the success or failure of work force initiatives will emerge much sooner at the regional level than at the national level. There is also the issue of comparability and compatibility of data provided by different sources.

Participants suggested that the Hudson Institute's new Workforce Development Center should help state governments identify core problem areas and develop appropriate strategies.[2] In addition, participants highlighted the following new areas of research: developing curricula that will give students the skills, knowledge, and attitudes they need to succeed in the twenty-first century; analyzing the skills gaps of older workers, particularly at lower income levels, to determine how they can be retrained for fast-growing occupations; changing the tax structure to encourage older workers to remain in the work force; analyzing how other countries attract and keep skilled workers, with a view to increasing immigration of skilled workers; and assessing the continuing impact of information technology on the global economy.

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[1]The Federal Reserve Bank of Chicago was a cosponsor of the conference. A conference proceedings volume will be available in spring 1999 from the Hudson Institute at 1-800-Hudson-0 or online at www.hudson.org

[2]The Hudson Institute's Web site, www.hudson.org, provides updates on the latest research in work force development and the best business practices in recruiting and retention.