WORKFORCE NARRATIVE PROJECT

Why Workforce Investment Matters to Regions

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WHY WORKFORCE INVESTMENT MATTERS TO REGIONS

Workforce investment matters to regions because it has become a critical ingredient for regional economic competitiveness. To compete in the global economy, regions must have a skilled and adaptable workforce.

Global competition is transforming industries in every region, creating demands for new occupations which are not being filled by the current adult workforce training system. This gap between demand driven by the dynamics of specific industry clusters in each region and supply in the adult workforce in each region is creating a competitive disadvantage in most regions. The challenge must be understood and addressed at the regional level because geographic clusters vary by region and labor markets vary by region.

Only by "disaggregating" the economy by region and industry clusters and determining how specific demands for skills and career paths are changing relative to skills in a regional labor market, is it possible to develop a more dynamic understanding of technology change and occupational restructuring. A "clusters of opportunity" framework incorporates the dynamics of both export and population driven industries as well as career potential within those industries provide regions a way to diagnosis their specific challenges on a region-by-region basis.

It is in the interest of regional businesses as well as workers to recognize how the transformation of both demand and supply—the acceleration of technology change and globalization rippling through the economy, the occupational restructuring in response to these changes, and the demographic trends that are shaping the pool of available workers directly impacts the bottom lines of both business profitability and the real wages for workers. Growing regional gaps between demand for skills and available supply harm both firms and their workers.

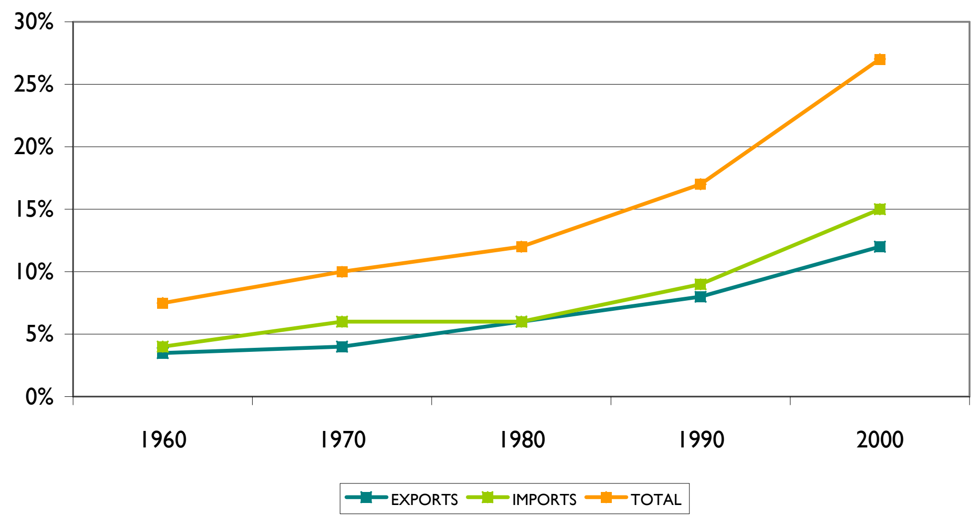
CHALLENGES FACING ECONOMIC REGIONS

Technology Change and Globalization

The first challenge is the accelerating pace of change in industries, occupations and skill requirements. Technological and management innovations are leading to new products and new ways of delivering services. Even within existing occupations, workers are required to learn new skills with increasing frequency. And the media is filled with stories about how foreign countries are preparing students and workers with more skills than the average American high school graduate possesses.

The second challenge is the increasing pace of globalization. The macro trends are clear. Both exports and imports account for a steadily growing share of GDP.

FOREIGN TRADE AS SHARE OF U.S.



In 1960, foreign trade was equal to 7.5% of GDP. By 2000, foreign trade was equal to 26% of GDP.

Globalization raises two sets of complicated tradeoffs where there are both winners and losers in the United States.

For the first two decades after World War II, America had a large productivity advantage over the rest of the world, where most major industrial countries had to rebuild their economic infrastructure. The 1947-1973 period was a "golden era" of growth in real wages and the standard of living for American families.

The first major sign of globalization came in the late 1970s and 1980s when Japanese and then European automobiles made large inroads into Detroit's share of car sales. Consumers experienced substantial gains from the availability of high quality cars at comparatively low prices. On the other hand, domestic automakers and their suppliers saw the end of an era where they had no significant competition.

The auto example has since been repeated in many product areas—consumer electronics, apparel, shoes, furniture and many others. The tradeoff is always the same—reduced American production in return for greater consumer choice and lower prices.

Outsourcing is another variation of foreign competition. American firms are increasingly buying more inputs from abroad or, as in the case of call centers, having more of their technical services provided off shore. Again, there is a complicated set of tradeoffs.

Outsourcing allows companies to produce and offer products and services at a lower price to consumers. In some cases, the existence of outsourcing allows American companies to stay competitive with foreign companies. One tradeoff is whether it is better to outsource some components of production than to have the company quit any production in the United States.

The arguments over globalization and outsourcing will probably continue precisely because there are both winners and losers. Some people clearly benefit from foreign competition and some people clearly lose jobs as a result of foreign competition.

Moreover, even if globalization and outsourcing provide net benefits to the economy, there are some losers. Workers and suppliers who lose jobs in one industry cannot immediately switch over to the new jobs being created. Perhaps some workers and companies can find new jobs and business only with great difficulty and over a long period of time.

The competitive pressures of globalization are creating an adversarial relationship between the winners and losers from increased foreign trade and competition. This creates a difficult policy challenge of balancing widespread benefits from foreign trade with the losses to some specific individuals and industries.

Occupational Restructuring

In most past economic cycles, layoffs were followed by rehiring as the economy picked up. Increasingly today, layoffs are permanent and the jobs that are created in economic recovery are different from the jobs that were lost in the downturn. Moreover, more job losses are occurring in periods of strong economic growth as industries and occupations experience more change.

There is continuous job "churn" or occupational restructuring taking place. According to a recent report by the National Governors' Association:

> Every year, up to a third of all jobs are either additions to or are soon to be eliminated from the economy. This churning has contributed to the demise of the social contract between employees and employers and has reduced the incentive for employers to invest in their workers. For many workers, the traditional concepts of job security, career ladders, and job progression are a thing of the past. (*A Governor's Guide to Creating a 21st Century Workforce*, p. 12, NGA, 2002).

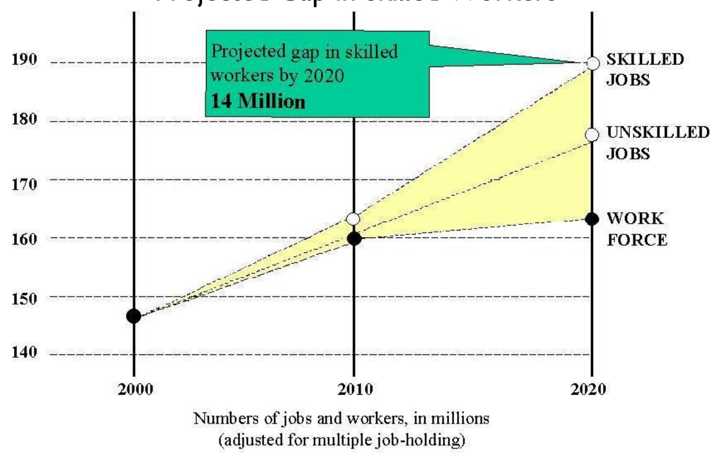
This reality has shattered traditional assumptions about jobs, occupations, and careers. Between 1983 and 2000 the percentage of workers that had been with their employer for 10 years or more dropped in every age group. Adding to this challenge, firms with fewer than 50 workers, who employ 94% of the nation's workforce, typically provide limited internal training opportunities. In fact, as a percentage of gross domestic product, business investment in training fell 18% between 1988 and 1999 (NGA, p.16).

Only a focus on continuous workforce transition is relevant in this competitive environment. The increasing frequency of job transitions calls for a new approach to workforce investment—an approach that directly acknowledges the need to help workers move from job to job and help the economy adapt to ever more frequent changes and challenges. Such a policy may also reduce the amount of conflict that potential "losers" raise in response to the pressure of globalization.

Changing Demographics

In addition to the forces of demand—technology, globalization, and occupational churn—the supply side of the equation is also changing. We are likely entering a period of skilled worker shortage. Between 2000 and 2020, the nation's prime age workforce (ages 25-54) is expected to grow by about 3%, much lower than the 54% growth from 1980 to 2000. In addition, the prime age skilled workforce (those ages 25-54 with more than a high school diploma) will grow 7% from 2000 to 2020, far less than the 42% growth from 1980 to 2000. The nation is expected to both add fewer skilled workers, and lose more through retirement. The oldest baby boomers will turn 65 in 2011, and even with longer work lives and partial retirements, the impact is likely to be substantial.

Projected Gap in Skilled Workers



Sources: David Ellwood/Aspen Institute's Domestic Strategy Group; Anthony P. Carnevale and Donna M. Desrochers, Educational Testing Services

Shortages, of course, will vary by industry and location. However, the key questions will be how many of these new workers will be prepared for or can be rapidly upgraded for the skilled jobs of tomorrow—and how many current workers with lower skills can transition to higher skill occupations. In either case, the need for an effective workforce transition system is clear.

IDENTIFYING CLUSTERS OF OPPORTUNITY BY REGION

While there are numerous training programs and institutions in every region, the resources of these organizations are not always focused on clusters of opportunity. Even in regions with overall job losses, there are specific industries such as health care, logistics and construction where there are employment opportunities at the entry level as well as career progression opportunities. The first step is better information that can help workforce and economic development organizations target their scare resource to achieve most impact for people as well as employers.

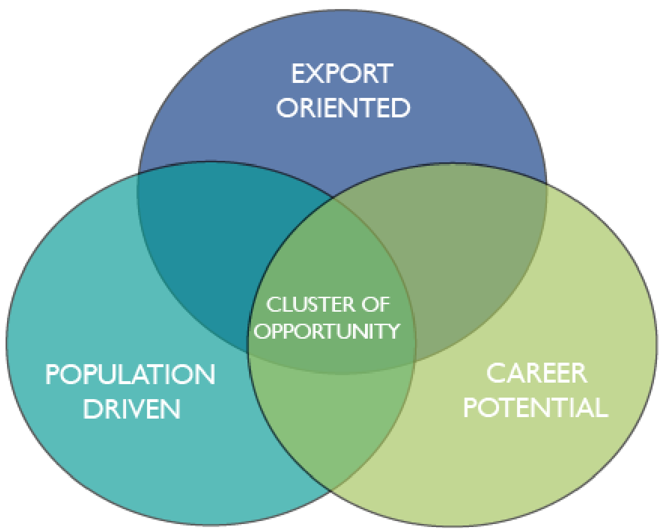
Industry clusters have increasingly become the focus of workforce and economic development efforts nationwide—for good reason. The geographic concentration and interdependence of certain export-oriented and support sectors, creating a comparative advantage for states and regions is a critical source of economic prosperity. Industry clusters are driven by clusters of talent—pools of skilled workers in key professions. Building these talent pools is critical to fueling the continuing growth and competitiveness of clusters. The California Regional

Economies Project has taken the concept a step further. Using a mix of criteria, the Project identified several clusters of opportunity in regions across California:

- Consistent with most research and practice, the Project identified clusters that are export-oriented, geographically-concentrated, and interdependent industry sectors characterized by competing firms and buyer-supplier relationships, as well as shared labor pools and other specialized infrastructure.

- Building on this general definition, the Project added two additional considerations that focused on "opportunity"—that is, employment opportunities for regional residents. Thus, the definition of a "cluster of opportunity" focuses not only on export-oriented sectors, but also population-driven sectors—as well as sectors that offer occupations with "career potential."

CLUSTERS OF OPPORTUNITY



Using these criteria, potential clusters of opportunity were identified for discussion at each of nine regional forums. In identifying potential clusters of opportunity, the Project examined the size, concentration relative to the California average (location quotient), growth, and wages (when available)—as well as past cluster studies and perspectives from regional employers. A panel of employers at each forum offered their perspectives on key clusters, with users concluding the meeting by suggesting certain clusters of opportunity for further analysis. In essence, clusters of opportunity were treated as core customers for workforce transition—as areas of potential priority-setting for the investment of limited public funds and the focus for public-private collaboration to meet the dual needs for workforce transition and cluster talent.

A workforce transition system must respond to two sets of regional priorities. Today, many regional organizations are focused on efforts to promote long-term economic growth that is broadly shared among each region's residents. The Project's economic base analyses helped identify sectors that have the potential for high-wage job growth such as, for example, biotech.

Workforce investment boards play a role in promoting economic growth but they also have mandates to help residents train for and find jobs when they are unemployed. Workforce boards are moving beyond the traditional job-finding role to develop programs focused on career paths and upward mobility.

Many areas of workforce shortage are not in the center of a region's economic base. They are in the many population-serving sectors like health care, construction and education. So, the Project focuses on the size of sectors, not just their potential for rapid growth and look closely at population-serving activities as well as each region's economic base.

The regional workforce transition system must provide a bridge connecting the goals of workforce and economic development. Workforce development is naturally most focused on preparing people for jobs that exist today, while economic development is often about nurturing not only the industries of today, but those of tomorrow as well. Thus, the sectors or clusters championed for long-term economic development purposes may be providing few jobs today, and even fewer opportunities with career potential, simply because it is not yet at the necessary size and maturity in a given region. A workforce transition system must enable regions to bridge this natural gap between these goals by including some sectors and occupations with requiring immediate workforce development, and some sectors and occupations that are emerging and may be more important in the future. Clusters of opportunity as a focus for workforce transition can provide that critical linkage between these goals.

An immediate step is to focus regional and state-level strategic planning and funding on clusters of opportunity. Following core elements such as those articulated for communities with a competitive workforce advantage or other suggestions described above requires more strategic planning at both the regional and state levels focused on clusters of opportunity. Capacity for improved strategic planning needs to be built within a system that both supports more effective use of real time economic information for both economic development and workforce policy making, and encourages pilot projects and demonstrations to test new ideas within an overall strategic framework.

WHY A REGION-BY-REGION APPROACH TO WORKFORCE INVESTMENT IS ESSENTIAL TO BUSINESS AND WORKERS

The gap between demand for skilled workers by clusters and the available supply can be addressed on a region-by-region approach using a cluster of opportunity framework.

Several lessons can be drawn from a region-by-region approach to workforce investment

- Workforce demand varies by industry clusters within specific regions, so understanding clusters of opportunity is a critical first step in determine demand.

- Clusters of opportunity involve more than export industries. By understanding better the relationship between export and population driven industries, it is possible to determine career ladders more clearly.
- Labor supply varies by regional labor markets and therefore it is important to take a region-by region approach to determining skills within a region and how that matches with industry cluster demand by region.

By "disaggregating" the economy by region and industry clusters and determining how specific demands for skills and career paths are changing relative to skills in a regional labor market, it is possible to begin to develop a more dynamic understanding of technology change and occupational restructuring.

Those regions that understand changing demand and supply based on industry cluster and labor market dynamics are more competitive in the global marketplace. Those regions that do not understand these changes and fail to act are suffering in terms of business profits, jobs and wages. It is in the interest of both businesses and workers in regions to better understand and act on these trends.

While there is a public interest in training a skilled workforce, there is also a mutual self interest on the part of regional businesses and workers in making the investments required to reduce the gap between demand and supply. This mutual self-interest arises from a need to have a regional economy and community that can attract and retain the workforce necessary for competitive businesses. This creates a "vital cycle", whereby skilled workers are prepared, attracted and retained in the region and thereby help sustain strong businesses that generate the regional resources to invest in a skilled workforce.

At time of rapid transformation of regions as a result of globalization, technology change, occupational restructuring and demographics trends, it is the best insurance policy of regional businesses and workers to invest in skills that meet the needs of their industry clusters in order to remain competitive. A failure to make these investments will result in regions that will not have a rising standard of living.