Capable Workforce?
This article is the fourth installment of “American Competitiveness – A National Assessment through the Eyes of Job Creators” – a ten-part report that explores how well the United States is positioned to excel in today’s tightly-contested global economy. The series examines America’s standing in each of the eight factors that job creators consider most important when determining where to locate, invest, grow, and hire in a world of expanding alternatives.

In previous chapters we addressed the importance to job creators’ of having access to ample customers and of reasonable and competitive costs. Today we address another preeminent question in the calculus of business decision making: Will we have access to a properly skilled and competitively-priced workforce?

As Fed Chairman Ben Bernanke observes, “no economy can succeed without a high-quality workforce, particularly in an age of globalization and technical change.” Human talent is the engine of innovation, productivity, and, ultimately, national prosperity, and without the world’s best workforce, all other elements of national competitiveness are hollow.

**Skills Gap**

The simple truth is that America’s schools and job training programs are not producing a sufficient number of people qualified to fill the jobs in highest demand. A recent survey of human resources managers for large companies found that 42.4 percent of employers rate the overall preparation of workers who graduated from high school as deficient in basic skills such as reading, writing, and decision making.2

Even now when the United States is experiencing near record unemployment sixty-one percent of U.S. employers surveyed experience difficulty finding qualified workers to fill vacancies.3 McKinsey Global Institute (MGI) reported that while half of the companies they surveyed planned to expand employment over the coming year, “40 percent of these companies also say they have had positions open for six months or more because they cannot find the ideal candidates.”4

These statistics are alarming in the face of a global labor supply that is expanding rapidly and when other countries are vigorously pursuing national economic strategies centered on workforce excellence to attract employers. America’s comparative advantage must be in the technical expertise of our workforce, but projections based on current trends are unpromising. The U.S. Department of Education estimates that 60 percent of the new jobs that will open in the 21st century will require skills possessed by only 20 percent of the current workforce. Some experts predict that within a decade, 123 million high-skills, high-paying jobs will exist, but just 50 million Americans will be qualified to take them.5
Failing the Grade

Our workforce deficiencies are rooted in America’s failing education system—one the World Economic Forum Global Competitiveness Index places 26th worldwide in quality, while ranking us a dismal 51st in quality of math and science education.6

In the latest standardized test of elementary school students in OECD-member nations, U.S. students placed 14th in reading literacy, 25th in math literacy and 17th in scientific literacy.7 As Secretary of Education Arne Duncan said of our students’ performance in the PISA exams, “we can quibble, or we can face the brutal truth that we’re being out-educated.”8 According to the OECD, boosting average U.S. PISA scores by 25 points over the next 20 years (a result achieved by Poland between 2000 and 2006) could lead to a gain of $41 trillion for the U.S. economy over the lifetime of the generation born in 2010. Bringing the United States up to the average performance of Finland, the best-performing OECD country, could result in gains on the order of $103 trillion.9

Poor elementary school performance, not surprisingly, is revealing itself in flagging high school achievement. U.S. high school graduation rates, which once topped the world, are now 18th among the 24 industrialized nations.10 Nearly one-third of the overall student population does not complete the twelfth grade, and the rate hovers around 50 percent among African Americans and Hispanic students—groups that will soon compose 40 percent of the nation’s workforce.11 As the Brookings Institution points out, “there are huge disparities in postsecondary education, high school education, across racial and ethnic groups. This isn’t just an issue of equity or fairness anymore; it’s a competitiveness proposition for the country.”12

Despite the persistently weak performance of the U.S. elementary and secondary schools, our system of higher education has been among the best in the world—a central pillar of America’s greatness and global influence. Leaders in government, industry, and academia worldwide are educated in the United States. But with a crumbling primary education system for how much longer will our colleges and universities remain on top? According to a Pew Center survey, “Nineteen percent of college presidents say the U.S. system of higher education is the best in the world now, and just 7% say they believe it will be the best in the world ten years from now.”13

Vocational Education

While traditional systems of high school, college, and university education are crucial to our future, so too are vocational education and other alternative job training institutions. The Council on Competitiveness stated the challenge: “We must ensure that the 70 percent of Americans who don’t complete college have the skills necessary to compete for tremendous opportunities in technical middle-skilled jobs.”14
A report from the Harvard School of Education noted, “If you look at the U.S. secondary education system through a comparative lens, one big difference becomes immediately apparent: most advanced nations place far more emphasis on vocational education than we do.” Yet, according to the Harvard study, “[R]esearch suggests that young adults in some countries with strong VET [vocational education and training] systems find it easier than Americans to successfully transition to the labor market. In Germany, for example, over 80 percent of young adults found jobs within six months of completing their education in 2007, versus just 48 percent in the U.S.”

Given the effective role that vocational education is capable of playing, and indeed is playing worldwide, in developing skills relevant to the modern job market, it deserves greater attention, resources, and support from policymakers, parents, students, and workers.

**Lagging STEM**

What is certain is that our education system, whether vocational or traditional, is not producing enough graduates with all-important technical skills. Too few of our people are specializing in science, math, engineering, and technology—the indispensable catalysts of the innovation that spawns new industries, higher-paying jobs, and rising living standards in the knowledge economy.

The Council on Competitiveness reports that the United States ranks 17th among developed nations in the proportion of college students receiving degrees in science or engineering, a fall from third place three decades ago. We rank 26th in the proportion receiving undergraduate degrees in mathematics. Europe produces three times as many engineering graduates every year as the United States, while China produces five times as many.

We are failing miserably to inspire our young people to enter the STEM fields where the jobs of the future are to be found. This deficiency is compounded by short-sighted immigration policies which ensure that the technologists and other highly skilled individuals from around the world who train in our schools are ushered back out the door when their studies are complete. This practice deprives us of valuable human capital under the false premise that such talent consumes jobs rather than helps to create them.

**Training**

Along with a poorly performing education and immigration system, our country’s job training programs funded by the Workforce Investment Act (WIA) of 1998 remains mired in another time and must be modernized.

The demand for WIA services has more than tripled in recent years. Yet as the National Skills Coalition noted, “Federal funding for key education and training programs under the U.S.
Department of Labor declined by over a quarter in inflation adjusted terms between 2001 and 2009.” The group further observed, “At the same time, U.S. employers have shouldered the burden with greater investments in skills training, but this comes at a heavy cost, $134 billion annually as of 2008. Importantly, this places American companies at a distinct disadvantage when their foreign competitors enjoy access to strong, public supported job-training programs. The U.S. ranks 22nd among OECD countries in public investment for job training.”

The HR Policy Association warns, “The Federal Government’s education and training programs lack focus and are not adequately meeting employer needs, particularly for large, multi-state employers. . . . Only nine percent of Association members are satisfied with the government programs that they use. . . . Without better coordination between and within federal agencies, job training funds will be squandered on low-skill training when they should be invested in new and emerging fields that offer great employment opportunities.”

Bridging the nation’s gap between jobs and skills mismatch will require a major national commitment to lifelong learning and a robust suite of services that deliver state-of-the-art training in the proficiencies demanded in the workplace through “whole-of-society” partnerships that leverages our limited resources for maximum effect. Yet we seem to be spending more on planning services than on delivering them. The American Society for Training and Development found that in 2009, nearly two-thirds of the $125.9 billion dedicated by U.S. organizations to employee learning and development “was spent on the internal learning function, such as staff salaries and internal development costs. The remainder ($47.3 billion) was allocated to external services such as workshops, vendors and external events.”

Cost and Productivity

A widening skills gap is not the only challenge facing America’s competitiveness. Too often public policy inflicts a double whammy on enterprise by increasing the cost of employing people while constraining the flexibility and mobility needed if the workforce is to remain relevant and productive in the modern economy.

A defining characteristic of the global commerce age is stiff price competition -- a phenomenon that greatly benefits consumers, particularly Americans living on low or fixed incomes, but at the same time can strain wages, profits, and reinvestment. Labor costs are a major factor in the price of goods and services and are often among the first considerations of a corporate board determining where to locate a new facility or whether to hire.
At our advanced state of economic development, America is a relatively high wage economy. What is evident is that the United States can’t compete with the developing economies on the basis of low wages. Clearly, if we are to avoid the loss of jobs and income that results when global companies locate or relocate overseas rather than here, U.S. workers have no choice but to improve their skills, position themselves to transition to high-value sectors, and improve their productivity.

As MGI declares, we must ensure “that productivity-driven growth will continue to be the United States’ true competitive advantage.” In a 2011 report, the OECD ranked the United States ranks 5th among its 34 member nations in the widely used measure of “GDP per hour worked.”

Higher productivity will be particularly important given America’s demographic challenges. As the baby boom generation retires, McKinsey points out, “the U.S. economy will receive significantly less lift from increases in the labor force, and will therefore have to rely increasingly on productivity gains to fuel growth.” If we are to meet the productivity challenge, we must keep skilled, older Americans working longer; reform immigration policies to promote a workforce of sufficient size and with diverse skills; and make greater use of technology. And if increased productivity is to be accompanied by rising American living standards, job number one is better preparing the U.S. workforce for a transition to jobs requiring high and mid-level skills.

Even so, cost containment will continue to be a vital element of America’s global competitiveness—particularly those universal to enterprise including work force and employment costs. As a previous section of this report has pointed out, among the greatest cost concerns to American executives is the rising price of health care for their employees.

As McKinsey warns, “the burden of insurance cost is borne by businesses,” which therefore have a disincentive to hire workers, particularly older ones. In 2008, the United States spent nearly 16 percent of GDP on health care, or approximately $7,538 per capita—more than double the average of among OECD nations. Over the past four decades spending on health care in real terms has grown at a torrid pace, an average of 4.9 percent per year while per capita GDP has grown at 2.1 percent over the same period.

Mobility and Flexibility

Not only must a modern, competitive workforce be highly skilled and affordable, but it must also be mobile and flexible, able to respond agilely to rapid alterations in labor market demand and opportunity. Changes in the world economy are occurring at an ever-increasing rate. Sectors, industries, and enterprises rise and fall swiftly with continuous shifts in consumer demand, unceasing technological advancement, constantly evolving competitive forces, and swings in comparative advantage among nations, industry segments, and enterprises. Today, the average American
can expect to hold nine jobs between age 18 and 34. Our leaders must be attuned to the needs of the modern workforce and must use public policy to foster agility and mobility. Yet many of our workforce and workplace rules, programs, and initiatives are geared for another epoch, dis-serving workers and hamstringing the economy.

As a recent OECD report noted, “[T]hose communities that are recovering the quickest following the recent down-turn are those that have a labor force that is adaptable to external trends and shocks. In order for communities to be more adaptable, it is important that the workforce has access to lifelong training and benefits that are portable, so that individuals can respond to changing markets.” The International Monetary Fund’s country report on the United States pointed out the importance of “the speed with which worker skills can be re-molded to changed demands.” But, the IMF further noted that “ongoing high mortgage delinquency rates and evidence of record-high rates of negative housing equity suggest that the woes in that sector may constrain labor mobility for a while.”

In assessing labor market efficiency, the World Economic Forum ranks the United States fourth, mainly because “unlike European countries, US companies can hire and fire more freely.” Matthew Slaughter observes that while many competitors have more restrictive laws with respect to hiring and firing employees, the countries with high restrictions also have comparatively higher levels of unemployment. Thomas Tauke of Verizon Communications, observes that the United States “has always had labor flexibility but policy is moving in the other direction and there is more protecting of hiring and firing which will act to undermine competitiveness.”

To maximize employment and our capacity to compete for jobs, public and corporate policies—whether in the form of employment rules, training initiatives, pension and benefit programs, or housing and transportation strategies—must empower the workforce to be mobile, flexible, and adaptable.

**Bottom Line**

Keeping America strong and keep the dream alive for this and future generations, the country must meet its fundamental obligation to correct the abysmal performance of our education system, modernize our job training programs, enact public policies that enhance the mobility and agility of the workforce, and constrain costs, including those imposed by government on employment, that discourage hiring and damage our ability to compete in highly contested overseas markets.

America’s challenge is to cultivate a highly skilled, agile, and competitive workforce capable of leading the world in productivity and innovation. Meeting this challenge will empower us to sell world-class products and services to growing international markets—attracting investment, creating jobs, and keeping
America strong. For that privilege we must out-compete a global labor pool that is growing in size and capability across all skill levels.

If America is to compete well and position our employers and workers to succeed, we must sustain the finest workforce preparedness system in the world. Such a system must be farsighted, able to perceive and agilely respond to the demands of the evolving job market. It must be supported with ample funding, qualified manpower, and vigorous teamwork uniting the public and private sector. It must be energized by an ethic of innovation devoted to advancing the state of the art in job-training methodology and delivery; moreover, positive “outcomes,” not just increased expenditures, must be the primary metric of success.

To build on our strengths and overcome the enormous challenges ahead we must attack our weaknesses with vigor and embark on reforms vital to developing a workforce worthy of the hopes and dreams of this and future generations.

**Grow Our Talent by Fixing the Schools**

We must transform elementary and secondary school performance and deliver curricula that prepare our children with the skills necessary to succeed in the jobs of the future. That means rewarding and reinforcing successful schools and fixing those that are failing. It means developing and applying model curricula in math, science, and technology available for use by the nation’s 14,000 school districts. It means recruiting and rewarding excellent teachers, while helping poorly performing teachers find new lines of work.

**Train and Develop Employable Talent**

We must align job training with the skills that are in demand and with opportunity in the workplace. That means collecting accurate, timely information on industry and labor market trends to ensure that job recruitment and training systems meet the needs of employers. It means better targeting federal, state, and local programs in workforce development to needs in the economy and opportunities in the job market.

**Attract and Keep Talent**

We must expand our domestic labor pool and utilize immigration policy to attract and retain students and workers with high value skills. That means raising the retirement age to keep talent and experience while also addressing entitlement costs; and aligning tax system and workforce rules with the goal of helping people to work longer and more flexibly. It means applying criteria that recognize skills in establishing immigration eligibility and quota numbers, particularly in categories such as H1B that tend to enhance the domestic employment of U.S. citizens. It means establishing a carefully monitored guest or essential worker program to fill the growing gaps in America’s workforce,
recognizing that in some cases, permanent immigrants will be needed to fill these gaps.40

**Free Our Talent**

We must promote flexibility of the workforce. That means increasing the portability of key benefits, including pensions and health care. It means enhancing lifelong learning among employees, using personal and business tax credits among other means.

**Support Our Talent**

We must ensure a reliable safety net and support. That means ensuring that unemployment insurance is sufficient in amount and duration to protect the displaced without creating a disincentive to search for a job and productive work. It means strengthening and expanding retraining opportunities for workers who are “dislocated by economic change and who have not enjoyed economic gains commensurate with productivity growth.”41


3. Ibid 1


8. Ibid.


16. Ibid, pg 20


18. “The increase in cost of higher education in America has substantially surpassed the growth in family income in recent decades. United States current and former students have amassed $633 billion in student loan debt.”


34. Francesca Froy and Sylvain Giguere, “Putting in Place Jobs that Last: A guide to Rebuilding Quality Employment at the Local level,” OECD 2010, 17. “Developing these skills requires strong investment in school age education. At the same time local people need to be able to access local employment and training systems throughout their working lives to adapt to new and emerging skill requirements through flexible systems of “life-long learning”. According to Springboard: “As a result, workforce education and training can no longer be viewed primarily as response to job losses.”


36. Ibid. 6

37. Norman R. Augustine, Chair rising Above the Gathering Storm Committee, Is America Falling off the Flat Earth? The National Academies Press (2007)

38. VIDEO: http://app2.capitalreach.com/esp1204/servlet/tc?cn=aei&c=10162&s=20271&e=12447&&espmt=2

39. In September 2010, President Obama’s Council of Advisors on Science and Technology released Prepare and Inspire: K-12 Science Technology, Engineering and Math (STEM) Education for America’s Future, detailing its strategy for improving K-12 STEM education. One of its key objectives is to cultivate, recruit, and reward STEM teachers that prepare and inspire students President’s Council of Advisors on Science and Technology (PCAST), September 2010. Accessed < http://www.whitehouse.gov/sites/default/files/microsites/ostp/pcast-stem-ed-final.pdf> pp 1

40. ‘Studies of the U.S. labor market have shown that the increased availability of skilled and educated labor enhances the employment prospects of other workers. In economists’ terms, the two types of labor are complements. This means that increasing the number of skilled workers by relaxing the restrictions on H1-B visas will generally help American workers, not harm them.” Strengthening U.S. Competitiveness in the Global Economy. Martin N. Baily and Matthew J. Slaughter • December 2008http://www.pegcc.org/wordpress/wp-content/uploads/pec_wp_strengthening_120908a.pdf


43.
The Eight Factors of American Competitiveness

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