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Addressing Workforce Development Challenges in Low-Income Communities

Remarks by

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at

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Thank you for this opportunity to be part of the National Community Reinvestment Coalition's annual conference. It is a pleasure to address a group of organizations committed to improving the lives of low- and moderate-income Americans and strengthening communities. I am especially pleased to be with you in 2017, which marks the 40th anniversary of the Community Reinvestment Act (CRA).

As you know, the CRA requires banks to help meet the credit needs of the communities they are chartered to serve, including low- and moderate-income neighborhoods. Since its enactment, the CRA has helped channel capital into communities and, in the process, supported innovative and effective approaches to community development.

We at the Federal Reserve take our CRA responsibilities seriously. We evaluate the CRA performance of the state-chartered banks we supervise and make the ratings and written evaluations public.[1] We currently are improving our examination procedures and examiner training. We also work with our fellow bank regulators to continually improve our implementation of the law. And, as many of you know, we recently revised our interagency guidance to clarify how various community development activities are considered in assessing CRA performance, among them workforce development, which is my topic today.[2]

Workforce Development Initiatives and Challenges

Workforce development is a bit of a catchall phrase encompassing different types of initiatives that help prepare people for jobs by providing them with training, placement

[1] CRA information is available on the Board's website at https://www.federalreserve.gov/apps/crape/BankRating.aspx.

[2] See the Federal Financial Institutions Examination Council's CRA webpage "Interagency Questions and Answers" available at https://www.ffiec.gov/cra/qnadoc.htm.

assistance, and other support. Organizations dedicated to providing workforce development are interested not just in helping people secure any jobs, but jobs that pay well, provide benefits, offer opportunities for advancement, and are less likely to be eliminated during economic downturns. Significant job market changes in recent years, brought about by global competition and technological advances--and the new and shifting skills that these changes demand--make workforce development more important than ever before.

As community development practitioners, you know that good-paying, stable jobs are not only important to workers and their families, but also are the foundation of strong neighborhoods. As part of our CRA responsibilities, the Federal Reserve, together with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, has made it clear that banks will receive CRA recognition for lending to, investing in, and providing services to workforce development initiatives. In fact, two Federal Reserve Banks recently published a framework describing how workforce development initiatives can fit within a bank's broader CRA strategy.[3]

While the job market for the United States as a whole has improved markedly since the depths of the financial crisis, the persistently higher unemployment rates in lower-income and minority communities show why workforce development is so essential. For instance, unemployment rates averaged 13 percent in low- and moderate-

[3] See Elizabeth Sobel Blum and Steven Shepelwich (2017), *Engaging Workforce Development: A Framework for Meeting CRA Obligations,* Federal Reserve Banks of Dallas and Kansas City (Dallas: FRB Dallas, January), https://www.dallasfed.org/-/media/Documents/cd/pubs/workforce.pdf?la=en.

income communities from 2011 through 2015, compared with 7.3 percent in higher-income communities.[4]

The challenges for workers in minority communities are even greater. The average unemployment rate across all census tracts where minorities made up a majority of the population averaged 14.3 percent from 2011 through 2015. Also, a much smaller share of the prime working-age population in these areas is employed--67.7 percent during this period, which is nearly 9 percentage points lower than in communities with smaller minority populations.[5] These elevated unemployment rates and depressed employment-to-population ratios underscore the strong need for effective workforce development options for these communities.

Education as a Workforce Development Strategy

Probably the most important workforce development strategy is improving the quality of general education. The rapid rise in U.S. education levels in the 20th century, facilitated by the growing availability of high school education in the first part of the century and the rapid expansion of public universities after World War II, contributed enormously to the broad-based economic gains associated with that period.[6] But, unfortunately, for a wide variety of reasons that are beyond the scope of this talk, education levels have historically lagged in low- and moderate-income communities,

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[4] Low- and moderate-income communities are census tracts with a family median income under 80 percent of the area median income. Higher-income communities are census tracts with median incomes of 80 percent of the area median income or greater. Statistics represent the average of census tract unemployment rates rather than the unemployment rate across all individuals in these tracts combined.

[5] Prime-age workers are those who are aged 25 to 54. Statistics are from the American Community Survey (ACS) data releases from 2011 through 2015, available on the U.S. Census Bureau's website at https://www.census.gov/programs-surveys/acs.

[6] See Claudia Goldin (2001), "The Human-Capital Century and American Leadership: Virtues of the Past," *Journal of Economic History*, vol. 61 (June), pp. 263-92, https://www.cambridge.org/core/services/aop-cambridge-core/content/view/S0022050701028017.

particularly communities of color. Between 2011 and 2015, the average proportion of adults in low- and moderate-income communities who had dropped out of high school was 23.5 percent, which is more than double the 10.9 percent rate in higher-income communities during that period.[7]

When students from low- and moderate-income families do complete high school, they are less likely to pursue a college degree. And when they do attend college, those students are less likely to graduate.[8] Among the reasons for the disparity are a lack of money to pay for college and the burden of family responsibilities.[9] As a result, the proportion of adults in low- and moderate-income communities from 2011 through 2015 who had a four-year college degree or graduate degree was about half the share in higher-income communities--17.6 percent versus 34 percent.[10]

This educational disparity matters because, among many reasons, people with less education experience both higher unemployment and lower average earnings. In December 2016, for example, the unemployment rate for people aged 25 and older with a bachelor's or higher degree was only 2.6 percent. However, the rate was nearly double,

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[7] Adults are defined here as individuals aged 25 and older. Statistics are from the ACS data releases from 2011 through 2015; see note 5.

[8] Following a cohort of high school sophomores in 2002, 96 percent of students from a high socioeconomic-status family pursued at least some higher education and 60 percent completed a bachelor's degree. Among students from a low socioeconomic-status family, 72 percent pursued higher education and 14 percent completed a bachelor's degree. Socioeconomic status is based on family income and parents' education. See National Center for Education Statistics (2015), "Postsecondary Attainment: Differences by Socioeconomic Status," in *The Condition of Education 2015* (Washington: NCES), https://nces.ed.gov/programs/coe/pdf/coe_tva.pdf.

[9] Many people who did not enroll for or did not complete a degree also gave as a reason that they wanted to work, which may also reflect budget constraints that made pursuing or completing a higher education difficult. See Board of Governors of the Federal Reserve System (2016), *Report on the Economic Well-Being of U.S. Families in 2015* (Washington: Board of Governors, May), https://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf.

[10] See note 7.

5.1 percent, for workers in this age group with only a high school diploma and about triple, 7.9 percent, for those without a high school degree.[11]

While high school graduates earn somewhat more than people who did not finish high school, the big payoff comes with a four-year college or advanced degree.[12] The advantages of higher education, evidenced by lower unemployment rates and higher earnings, are clear across the spectrum but are greater for non-Hispanic whites than for African Americans and Hispanics.

Improving educational levels in low- and moderate-income communities is a long-term task. At least partially because of a lack of early childhood education and the sometimes lower quality of schools, children in these neighborhoods score substantially lower on standardized tests and drop out of high school at higher rates.[13] Thus, a starting point is to improve access to quality education in early childhood and improve the quality of primary and secondary schooling.

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[11] Moreover, "over 95 percent of jobs created during the recovery have gone to workers with at least some college education, while those with a high school diploma or less are being left behind" (as quoted from the introduction on the webpage for Anthony P. Carnevale, Tamara Jayasundera, and Artem Gulish (2016), *America's Divided Recovery: College Haves and Have-Nots* (Washington: Georgetown University Center for Education and the Workforce), https://cew.georgetown.edu/cew-reports/americas-divided-recovery).
Also see Bureau of Labor Statistics (2017), "The Employment Situation--February 2017," news release, March 10, Table A-4: Employment Status of the Civilian Population 25 Years and over by Educational Attainment, https://www.bls.gov/news.release/empsit.t04.htm; and BLS (2017), "Labor Force Statistics from the Current Population Survey," March 10, Table A-10: Unemployment Rates by Age, Sex, and Marital Status, Seasonally Adjusted, https://www.bls.gov/web/empsit/cpseea10.htm.

[12] The median weekly earnings for men with a high school degree but no college was $779, and for women it was $603. These amounts compare with median weekly earnings of $1,501 for men and $1,117 for women with a bachelor's or higher degree.

[13] See Sean F. Reardon (2016), *School District Socioeconomic Status, Race, and Academic Achievement*, paper, Stanford Center for Education Policy Analysis (Stanford: Stanford CEPA), https://cepa.stanford.edu/content/school-district-socioeconomic-status-race-and-academic-achievement; Motoko Rich, Amanda Cox, and Matthew Bloch (2016), "Money, Race and Success: How Your School District Compares," *New York Times*, April 29, http://www.nytimes.com/interactive/2016/04/29/upshot/money-race-and-success-how-your-school-district-compares.html; and Geoffrey T. Wodtke, David J. Harding, and Felix Elwert (2011), "Neighborhood Effects in Temporal Perspective," *American Sociological Review*, vol.76 (October), pp. 713-36.

We must also recognize and address the barriers faced by low- and moderate-income students trying to attain higher levels of education--barriers not typically faced by their more well-off peers. First, these students often do not have friends or family who have achieved higher educational levels, which matters because students whose parents did not attend college are much less likely to pursue a college degree themselves.[14] Even so, these students can benefit from high school counselors or other mentors who can assist them in choosing schools that provide the financial and counseling support that will help them complete their degrees. And they can benefit from help in picking majors and degrees that lead to higher earnings.[15]

Second, lower-income students often pursue their education while working to support themselves and family members. Educational programs that help students balance these competing responsibilities go a long way to improving completion rates. In recognition of this fact, the U.S. Department of Education is offering competitive grants to postsecondary institutions to support or establish campus-based childcare programs primarily serving the needs of low-income students.[16]

I want to reiterate that addressing the particular barriers standing in the way of lower-income students attending college and earning a degree requires a long-term

[14] For example, 65 percent of young adults (aged 25 to 34) with a parent who received a bachelor's degree completed one themselves, compared with 16 percent of young adults whose parents completed no education beyond high school. See Board of Governors of the Federal Reserve System (2016), *Report on the Economic Well-Being of U.S Households in 2015* (Washington: Board of Governors, May), https://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf.

[15] See Brad Hershbein and Melissa S. Kearney (2014), *Major Decisions: What Graduates Earn over Their Lifetimes*, Hamilton Project (Washington: Brookings Institution), figure 2, http://www.hamiltonproject.org/papers/major_decisions_what_graduates_earn_over_their_lifetimes; and Anthony P. Carnevale, Ban Cheah, and Andrew R Hanson (2015), *The Economic Value of College Majors* (Washington: Georgetown University Center on Education and the Workforce), https://cew.georgetown.edu/wp-content/uploads/The-Economic-Value-of-College-Majors-Full-Report-web-FINAL.pdf.

[16] For more information, see the Department of Education's webpage on its Child Care Access Means Parents in School Program at https://www2.ed.gov/programs/campisp/index.html.

strategy. However, not every student wants a two- or four-year degree or will have the financial wherewithal to pursue and complete a postsecondary degree. To support programs aimed at students not bound for college, in 2015, the Federal Reserve Banks of Philadelphia, Cleveland, and Atlanta identified occupations with above-average wages for workers without a bachelor's degree in the country's 100 largest metropolitan areas.[17] The Reserve Banks made this information available to workforce development providers online and in workshops. Educational programs and training that lead to better paying and more steady work are crucial for people without college degrees, particularly lower-income workers.

Workforce Development Programs in Action

In the rest of my remarks, I would like to highlight some examples of successful initiatives that illustrate key features of effective workforce development.[18] As you know, within our community affairs offices, the Federal Reserve devotes considerable effort to studying and promoting effective workforce development, so I am able to draw

[17] Top occupations noted across all MSAs included the following: registered nurses; first-line supervisors of office and administrative support workers; sales representatives, wholesale and manufacturing; business operations specialists, sales representative services; general and operations managers; computer system analysts; automotive service technicians and mechanics; first-line supervisors of construction trades and extraction work; plumbers, pipefitters, and steamfitters; first-line supervisors of mechanics, installers; and construction laborers. See Keith Wardrip, Kyle Fee, Lisa Nelson, and Stuart Andreason, *Identifying Opportunity Occupations in the Nation's Largest Metropolitan Economies*, Federal Reserve Banks of Philadelphia, Cleveland, and Ohio (Cleveland: FSB of Cleveland), available at https://www.clevelandfed.org/newsroom-and-events/publications/special-reports/sr-20150909-identifying-opportunity-occupations.aspx.

[18] For a broad summary of recent research and policy issues related to workforce development, see the 2015 publication *Transforming U.S. Workforce Development Policies for the 21st Century* (available at https://www.kansascityfed.org/publications/community/transformworkforce) developed by the Federal Reserve Banks of Atlanta and Kansas City in partnership with the John J. Heldrich Center for Workforce Development at Rutgers University. In addition, all Reserve Banks and the Board of Governors are currently engaged in a System workforce development initiative that will gather up-to-date perspectives from employers and organizations engaged in worker training and education. This initiative will include a series of regional Reserve Bank meetings, a publication on effective investments and outcomes, and a capstone conference in October in Austin, Texas.

on the knowledge and experience of our staff. In discussing the examples, I would like to make five points.

First, it is crucial for younger workers to establish a solid connection to employment early in their work lives. The Federal Reserve's 2013 Survey of Young Workers found that 18- to 30-year-olds with early work experience were more likely to emerge from the recent recession with a permanent job.[19] Other studies have found that students who worked 20 hours per week in their senior year of high school earned higher wages later in life than those who did not, and that summer youth employment programs improved participants' attitudes toward their communities, raised their academic aspirations, and boosted their job readiness skills.[20] The findings point to some of the reasons that the Boston Fed decided to lend technical support to a pilot program called Pocket Change, which aims to reduce unemployment among low-income 18- to 24-year-olds in Somerville, Massachusetts, through internships, training in job skills, and reinforcement of important soft skills such as punctuality and effective communication. In its first two years, the initiative trained 53 low-income young people and placed 20 of them in jobs. The results of this modest program indicate the promise of efforts that

[19] The survey found that 82 percent of workers who had worked for pay during high school had a permanent job--4 percentage points higher than for all workers combined. See Board of Governors of the Federal Reserve System (2014), *In the Shadow of the Great Recession: Experiences and Perspectives of Young Workers* (Washington: Board of Governors, November), https://www.federalreserve.gov/econresdata/2013-experiences-and-perspectives-of-young-workers-201411.pdf.

[20] Baum and Ruhm (2016) do observe, however, that these gains from employment during the senior year of high school have diminished substantially relative to earlier cohorts. See Charles L. Baum and Christopher J. Ruhm (2016), "The Changing Benefits of Early Work Experience," *Southern Economic Journal*, vol. 83 (October), pp. 343-63.

focus on first-time work experiences, and Somerville is now seeking to expand the initiative.[21]

My second observation is that career and technical education (CTE) programs, which have seen a revival in recent years, have considerable potential. For some time, vocational education had fallen out of favor or was in decline in the United States, as it was associated with the deleterious practice of "tracking" less advantaged students that denied them the opportunity for the best education. But more recently, CTE has been refined and has made a comeback as an effective way to help non-college-bound workers gain valuable skills and obtain a foothold in a labor market that increasingly requires technical proficiency. These programs teach the skills needed to pursue careers in fields such as construction, manufacturing, health care, information technology, hospitality, and financial services.

This point brings me to my third observation, which is that effective CTE programs and other workforce development initiatives are able to match education and training to good-paying jobs when they actively engage employers in the training process. WorkAdvance, a regional sector-specific program, is a good example. It delivers an array of aligned services to meet local business needs and provide jobs for unemployed and low-income adults in multiple cities.[22] An evaluation of the program last year in Tulsa, New York City, and northeast Ohio found it was especially effective

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[21] For more information on Pocket Change, see the Federal Reserve Bank of Boston's Working Cities Challenge webpage at https://www.bostonfed.org/workingcities/massachusetts/round1/cities/somerville.html.

[22] Aligned services may include intensive screening, occupational skills training, job development and placement services, and retention and advancement services.

because it offered training for in-demand skills and industry-recognized certifications, and it focused on jobs that have clear paths for advancement.[23]

A fourth observation is that apprenticeships, which are more common in other countries, could play a larger role for low- and moderate-income individuals in our country as part of broader career and technical education efforts. For instance, a state-run program in South Carolina, Apprenticeship Carolina, helps employers develop apprenticeships at no cost to them. Businesses receive a $1,000 annual tax credit per apprenticeship, and the program assists them with information and technical needs, paperwork, and the integration of classroom learning at local technical colleges. The program has led to sizable job gains at a modest cost to the state.[24] Similarly, Washington State registered apprenticeship programs contributed to substantial long-term increases in employment rates and hourly wages.[25]

My fifth and final observation is that promoting entrepreneurship could play a greater role in workforce development. Entrepreneurship is a fundamental strength of the American economy, and owning your own business or working for yourself can offer income, a means of building wealth, and, sometimes, greater flexibility for balancing job and family commitments. Yet we see less self-employment in low- and moderate-income

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[23] For more on the WorkAdvance program, see the MDRC website at www.mdrc.org/project/workadvance#overview, and for information on that program in Northeast Ohio, see the Towards Employment website at http://towardsemployment.org/strategic-initiatives/workadvance.

[24] See Harry J. Holzer and Robert I. Lerman (2014), *Work-Based Learning to Expand Jobs and Occupational Qualifications for Youth* (Washington: Center on Budget and Policy Priorities, April), www.cbpp.org/sites/default/files/atoms/files/4-2-14fe-holzer.pdf.

[25] Kevin Hollenbeck and Wei-Jang Huang (2014), "Net Impact and Benefit-Cost Estimates of the Workforce Development System in Washington State," Upjohn Institute Technical Report 13-029 (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research), http://dx.doi.org/10.17848/tr13-029.

communities.[26] Moreover, when businesses are owned by minorities, they are less likely to have paid employees.[27] These findings speak to the opportunities that could be realized by helping people start their own businesses and then helping them grow their businesses. Programs that equip people with the management skills and knowledge they need to start and operate a successful small business can help. Relevant and effective training can reduce the failure rate of businesses by helping owners make better decisions and avoid costly mistakes.[28] These programs are especially critical in low-income and rural communities where other resources to support small business development may be scarce.

As part of their community affairs work, several Federal Reserve Banks have small business development initiatives. The Federal Reserve Bank of New York organized a small business protection and education series last year in partnership with the Brooklyn Chamber of Commerce and a local development corporation. Participants learned about capital resources available to small businesses, online credit alternatives for small businesses, and the risks of handling large volumes of cash. In another example, the Federal Reserve Bank of Kansas City developed a guide to help rural and smaller

[26] From 2011 through 2015, only 8 percent of households in low- and moderate-income communities reported self-employment income, compared with 11 percent of all households (see ACS data releases in note 5).

[27] Only 4 percent of African American-owned firms and 9 percent of Hispanic-owned firms have paid employees, compared with 22 percent of non-minority-owned firms; see U.S. Department of Commerce, Minority Business Development Agency (2016), "U.S. Minority-Owned Firms," fact sheet (Washington: MBDA, January), www.mbda.gov/sites/default/files/2012SBO_MBEFactSheet020216.pdf.

[28] See Glenn Muske and Nancy Stanforth (2000), "The Educational Needs of Small Business Owners: A Look into the Future," *Journal of Extension*, vol. 38 (December), https://www.joe.org/joe/2000december/a4.php.

metropolitan communities promote conditions favorable to growing local businesses rather than relying only on efforts to attract large companies.[29]

Of course, in addition to training, small business owners need financing. But, as many of you know, factors such as lack of a credit history or a poor credit history and limited collateral--for example, home equity--make it difficult for the owners of small enterprises to access traditional business credit. This situation is true for many minority, women, and low-income borrowers.[30] Nontraditional lenders, including more than 1,000 Community Development Financial Institutions around the country, help fill the gap.[31]

Conclusion

To conclude, while the economy overall is recovering and the job market has improved substantially since the recession, pockets of persistently high unemployment, as well as other challenges, remain. Fortunately, programs such as the ones I have highlighted today can help address these challenges in more targeted ways than the Federal Reserve is equipped to do through monetary policy. I want you to know that we applaud your work, and we thank you for doing all that you do to serve the needs of lower-income communities across the country. Whether you work to provide affordable housing, homeownership counseling, small business credit and technical support, or workforce development, I hope you know that you have a partner in the Federal Reserve. In the ways we can, with the different tools we each have, our aim is the same: to make

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[29] *Grow Your Own Guide: Entrepreneurship-Based Economic Development* is available on the Federal Reserve Bank of Kansas City's website at https://www.kansascityfed.org/publicat/community/gyo/gyo-guide.pdf.

[30] See Joyce A. Klein (2017), *Bridging the Divide: How Business Ownership Can Help Close the Racial Wealth Gap* (Washington: Aspen Institute, January), https://www.aspeninstitute.org/publications/bridging-divide-business-ownership-can-help-close-racial-wealth-gap.

[31] To find certified Community Development Financial Institutions (CDFIs) in different geographies, see a list on the CDFI Fund's website available at https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx.

the economy work for the benefit of all Americans. This goal is of utmost importance, and I am glad to work alongside you in striving to achieve it.