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Jobs and US economic recovery: A panel discussion

Experts discuss McKinsey's research on "jobless recoveries" and ways to solve the longer-term US employment crisis.



A key finding of recent research by the McKinsey Global Institute (MGI) is that the US economy has been experiencing increasingly lengthy “jobless recoveries” from recessions in the past two decades.¹ It took roughly 6 months for employment to recover to prerecession levels after each postwar recession through the 1980s, but it took 15 months after the 1990–91 recession and 39 months after the 2001 recession. At the recent pace of job creation, it will take more than 60 months from December 2010 (when GDP reached its prerecession level) for employment to recover.

At a panel discussion sponsored by the Committee for Economic Development (CED) in Washington, DC, experts recently discussed the importance of job creation for the US economic recovery and solutions to the jobs challenge outlined in the MGI report. The panel, moderated by Zanny Minton Beddoes, the *Economist*’s Washington-based economics editor, included Byron Auguste, a director at McKinsey; Martin Baily, senior fellow at the Brookings Institution; Carl Camden, CEO of Kelly Services; Andy Stern, former president of the Service Employees International Union (SEIU); and Laura Tyson, a professor of global management at the University of California, Berkeley, and former chair of the White House Council of Economic Advisers.

The panel was preceded by comments from Austan Goolsbee, chairman of the White House Council of Economic Advisers. During their presentations, several panelists refer to his remarks.

The US jobs challenge

Zanny Minton Beddoes: The thing I love about McKinsey reports is not only the quality of their analysis but actually you have a sort of an unfailing ability to come up with catchy phrases. So, you know, “The US needs high skill, high share, high spark, high speed.” And may I suggest that this discussion has to focus on the latter, high speed, since we have a lot to cover in not very much time.

There’s so much to talk about. Where should we start? I think, Andy, I’m going to start with you. You’ve spent, you know, I wanted to say a lifetime looking at the American labor market and being part of it, but that may be slightly exaggerated. But, you know, from your perspective, how do you react to this report? And does it accurately, do you think, depict the challenge facing American workers in the American labor market?

Andy Stern: What I’d say is this report is an important roadmap and it comes at a pretty important historical moment. I like to say this is not our fathers’ or our grandfathers’ economy. James asked whether this is something fundamental is happening differently. I’d say something revolutionary is happening differently because I happen to believe history will say this is the third economic revolution in world history.

¹The full MGI report, *An economy that works: Job creation and America’s future*, is available free of charge online at mckinsey.com/mgi.

And as opposed to a 3,000-year agricultural transition or a 300-year industrial, we are having a 30-year massive transformation with an enormous amount of creative destruction. And so I think what we now know is the economy works differently, the markets work differently, business cycles work differently—and we're not going to go into the future looking in the rear view mirror. So this is a unique moment of history, and so we need to think about this fundamental point.

Market fundamentalism is no longer (or worshipping markets) a way forward. You know, strict government intervention is not a way forward. In the third economic revolution, countries are teams. Teams have plans. Germany has a plan, China has a plan, Singapore has a plan; USA has no plan. And what the roadmap is, is an attempt to try to make a plan at a unique moment of history. And so all I'd say is team USA, if we love this country like I do, needs leadership and it needs a plan, and this is a good place to start.

Zanny Minton Beddoes: Excellent. Well, that's a rather uplifting start. Laura, I just wanted to push a little bit more because I was struck, as perhaps many of you were, in the distinction, the difference, perhaps, between what Austan was saying earlier on in the discussion and the tone of this report, which is, you know, let's say—I think you, James, said conventional wisdom is that, you know, when the growth comes the jobs will come.

And the tone of this report seems to be that the growth may come but the jobs won't necessarily come. How do you, Laura, see that? Do you think—and let's not have a semantic debate about jobless recovery or not—but has something fundamental changed?

Laura Tyson: Well, I think, actually, there is not the inconsistency that there appears at first sight, because I think if you look at the report, it lays out three scenarios. And the scenarios actually are high growth, low growth, medium growth. Underlying those are assumptions about the growth of the economy. They're about the growth of demand. They're about the growth of household income. They're about the growth of consumption. They're about the growth of investment.

So I don't think it's either/or. Basically, what the report is saying: that if we manage to get a high growth economy, we will see jobs of these numbers in these sectors. The question is, what does that require from the skill base so that those jobs can be filled. So I see it as supply and demand working together. I don't see it as an inconsistency.

I do think that Austan raised a couple of things which I think are also not explicit in this report but actually very connected to it. He talked about the fact that this is a time where we're switching from government support for an economy which was in freefall, we're handing off back to the private sector. So this is the report, and the discussion is about what can the private sector do to stimulate demand, to create new jobs.

And then the second thing that's very important here as we think about policy, and we can get to that later, is that Austan also said that we have to think about, as we hand this off to the private sector, we can see certain ways that the government can be extremely helpful here. Getting out of the ways in terms of permitting regulation would be a regulatory thing. Helping to provide the skills the workforce needs can be a positive thing. Building a supportive infrastructure, another positive thing.

So I think the notion of we're going to have to change from the public to the private, change the composition of demand, not so dependent on consumption, more on investment and exports. And then change what government policy can do to help the private sector, that's really bringing it all together. I think the report and what Austan said complement one another.

The skills gap

Zanny Minton Beddoes: Carl, you know, you're a Fortune 500 CEO. Do you see this skill mismatch in your day-to-day activities? And do you think that is the big problem that McKinsey rightly points out?

Carl Camden: Both as an employer as well as those who provide employees to other companies, skills mismatch is extensive and more widespread than fits the popular literature. We always think of a skills mismatch in terms of engineering as an example, and it's there. We only generally have one candidate for about every three jobs that we have available in the engineering space.

But that story hides the fact that in the skills trades area, (and the technicians of all sorts, everything from electricians to plumbers, x-ray techs, you know, you pick the area) there's a tremendous shortage. We at Kelly usually have tens of thousands of open orders that are available in those zones that you can't find people for.

So I think the skills mismatch is huge. I think we're doing very little, in terms of either national education policy or down to very specific policies at state levels, to guide individuals into the areas where jobs are currently available or are going to be available. And also the amount of time it takes to retrain people, to reskill individuals, is just way too long.

We have got to get much better at faster retooling, reskilling of individuals. If somebody's been unemployed for two years, we can't expect them to go back to college for two years, you know, post- that in order to be able to get a job. That's just bad social policy.

Zanny Minton Beddoes: I'm going to turn now, because I think we'll want spend a lot of time talking about what are the shortcomings in retraining. But just before we do that, the second component of thinking about how you match demand and supply in the future is, where is that demand going to be?

And one of the interesting points that this report made (again, in contrast to Austan Goolsbee) seemed to be somewhat more skeptical, the two of you, that job growth will be there in manufacturing. Austan seemed to think much more optimistically about that. Now Martin, you've done a lot of work on manufacturing and you've thought about manufacturing. What's your take on—you know, and I think there really is a tension here. So what are the prospects for manufacturing job growth?

Martin Bailey: I think the report is right and Austan is wrong, unfortunately. I think there may be a manufacturing renaissance in the sense that output growth in manufacturing will be stronger going forward. It actually never was that bad. Output growth continued in the past 20 years or going back. There are a lot of strong manufacturing companies. There's a lot of innovation going on in the United States. I think that on the output side, yes, there likely will be a manufacturing renaissance.

I think it's also the case that some of the economics, as the report itself says—the slide that was shown was the one for call centers, but I think it's also true for some manufacturing activities too. The companies are finding that having a supply chain spread out all around the world is more difficult to deal with than they thought it was going to be, and maybe the savings they're getting from doing that aren't as great. So I think there are signs, and we heard of companies that were bringing production back to the US.

I think the skills issue is important on that, what we're going to talk more about. The number of jobs that are going to be in manufacturing does depend a little bit on how successful we are in creating people with the skills that are attractive to employers to actually then go and provide more skills to them. Honestly, a lot of companies will do their own training but they want to have workers that they can train.

One of the other reasons I think we can be somewhat optimistic about manufacturing is the value of the dollar. In my own work, that is really the main thing that drives it—whether we have a big trade deficit or whether we have something closer to balance.

I don't want to get into all the macroeconomics of it, and are we going to balance the budget and have more saving domestically. But on the assumption that the economy recovers and we get back towards full employment, are we going to have an unbalanced economy with lots of trade deficit, or are we going to have a more balanced growth path? A lot depends on the policies we follow, whether we have enough domestic saving, whether the value of the dollar is at a point that makes US competitive.

Alright. So why don't we get the jobs? Well, the numbers just don't add up. I thought we were going to, and there's something that I learned from the team, while working with the McKinsey group. If you look at what's likely to be the growth of output—so you look at what's—we haven't stopped buying things. America's still buying lots of things.

We think that exports may do better going forward. So if we get something closer to trade balance ten years from now rather than a huge trade deficit, that will add to output growth. So you put the output growth together and you say, "Okay, how much is productivity going to rise?" So you don't know, obviously. It could be very slow. We could get a surprise there. But if you look at historically what productivity has been in manufacturing, and then you match that with what is likely to be the output growth, you just don't get that there's going to be net job creation over the next ten years. It's very hard to make those numbers come out.

And there's certainly plenty of adverse scenarios. We don't deal with the saving imbalance, we end up with still have having a big trade deficit. Productivity actually turns out to be a little faster than we thought it was going to be, in which you would continue to lose jobs in manufacturing. So, much as I would like to agree with Austan, I think it's hard to get the numbers to come out that way.

Zanny Minton Beddoes: Well, I'm now even more depressed.

Byron Auguste: Well, the only thing I would add, Zanny, is that, you know, this is a ten-year view, and there is a short-term view. Manufacturing has been adding jobs in the past few months and could very well continue to add jobs for the next few months. Let's all hope it does. So I think there is, you know, from Austan's perspective as a policymaker, there's an immediate potential for job creation in manufacturing that actually does seem quite promising. But Martin's talking more about the fundamental ten-year productivity-versus-demand trend. So that's part of the tension.

Being educated

Zanny Minton Beddoes: Can we move now to some solutions, something positive? What can we actually do to change it? I think what we must all conclude is really rather a grim picture. And maybe we'll start with you, Byron, since you were involved in the report. You know, can we actually turn this around?

And I know McKinsey is known for its optimism, and we had some solutions laid out just now. But build on that a little bit more, and particularly build on the skill mismatch area, because that's what I'm going to back to, to the other panelists. I think that's a really fundamental issue. So what actually can be done?

Byron Auguste: I think that we need really revolutionary innovation in skill development and education itself. And I think that is absolutely possible. So there are, at the margins, tremendous advances in learning technologies, adaptive learning. For example, in DARPA², in the Defense Department, they have sort of an adaptive learning program that can train IT support people in a matter of weeks that's normally done in a two-year program. And it does it extremely effectively.

The education sector has the least R&D of any sector of the economy at a time when we need the most innovation in that sector. I mean, that is a tremendously important enabling sector for the economy. So what would you do differently?

One of the things is throughout the education system. We measure program through seat time. We say, how long are you sitting there, quote unquote, "being educated"? We should be measuring it by competencies. We should say, "What have you actually learned? What do you know how to do?"

If we measured it by competencies, then we would create a whole set of incentives for people to learn faster, to learn better, for them to learn in different ways—some learning in the classroom, some learning on the job, some learning through apprenticeships.

And so if you create that right policy structure and then let innovators go after it, there can in fact be a revolution in learning. You know, Carl's point about you can't have somebody out of work for two years and then spend two years in college. There are ways, and even the best education institutions today do it.

One really interesting development just in the last week, I don't know if you saw it. The Manufacturing Institute teamed up with Skills for America's Future. This is sort of a business and government and educational partnership to aim to train 500,000 people in those skills gaps in manufacturing. And one of the most interesting things about it—and they also teamed with a couple of foundations, [Bill & Melinda] Gates and Lumina—what they did is they defined these skill ladders so that sort of all manufacturers could agree on it. So that it creates this mobility. We talked about the lack of mobility of the workforce. You can go through community colleges, you can learn on the job, and you can then actually fill those skills and be mobile. So there actually are a lot of solutions there. And I think actually across Skillshare, SpeedSpark, there are actually a number of very powerful solutions that could get us to the results we want.

Training and retraining

Zanny Minton Beddoes: Let me throw a bit more cold water on that. I just spent some time looking at the history of US training programs, which is a rather grim reading,

²Defense Advanced Research Projects Agency.

actually, overall. They haven't broadly been that successful. And not only does the US spend way less than virtually any other OACD country on training, that which it does spend, by all accounts, is not enormously well-organized or efficient.

So that's my journalistic cursory reading of it. But, Martin, and then, Laura, I mean, one key part of getting to this much better outcome that Byron describes is to improve training, to improve retraining. And to do so in an environment, as Charlie Cope started this depressing talk before lunch, in an environment of fiscal retrenchment. I mean, an environment where there aren't a huge amount of extra resources on the table. So, Martin, how do we go about doing that?

Martin Bailey: Well, that's a tough one. It's not easy. But I think in principle, we can. Let me just expand for a second on what Byron said in what the armed forces do. Now, the armed forces can't outsource their job. We don't use mercenaries. Okay, so this has got to be done. Obviously people are stationed overseas, but this is an American activity, number one.

And they can't pay, you know, huge salaries to people to do the job. So they're forced—they have the necessity—they have to take the recruits that they have and train them to give them the skills that they need to operate what's a pretty high-tech system. And so they found ways to do that. So this necessity has been, to use the cliché, the mother of invention. They have found ways to go about it.

And so somehow we have to change the incentives within the private sector here in the US so that there's more willingness for business and maybe the public sector as well (not necessarily at the federal level, but community colleges, states, and localities) to figure out how to provide the skills that businesses need so that they can take those people and then give them additional skills of what that particular firm or company wants. And this is certainly not going to be easy.

But you can look at the record and find some signs of hope. There are some community colleges that are really good at what they do. And one of the examples was shown earlier from the McKinsey report. Delta Airlines and other companies have actually partnered with the community colleges to create training programs so that their students can come out and work in call centers or work for the company.

So that's the kind of model that we need to do. So how do we do it? Well, here we are at CED. I'm very pleased that we're here with this group, because this is a group that I think we need to create some attack for improving educational technology to get a better handle on what it is that students and reemploying workers, what skills they really need to have. How could this be done cheaply? Not really expensive education and training programs but fairly quick programs.

And then can we work with community colleges? Not letting the bad ones get in the way, but trying to find those common grounds so that, both on the education side and on the private sector side, we can create the short-term skill enhancement programs that make people better able to fit into these jobs.

I don't pretend that's an easy task. But surely if we really are in this economic crisis, and if it's really true, as Carl just said, that we have these skill shortages, shouldn't that give some urgency around doing something like this?

Organizing outcomes

Zanny Minton Beddoes: Carl, what's your take on it from the private-sector perspective? When you face this situation where you just don't have the people to fill the kinds of positions do you need, what would be helpful to you there? Do you think that Martin is on the right track here?

Carl Camden: You know, several things. We have a very schizophrenic set of policies. We don't have an education system that produces the workers we need and we don't have an immigration policy that lets us bring them in. And then we chew on the companies who then outsource the work to other countries where the workers are. Something's got to give, you know, in that triangle.

So, first off, we don't have a lot of effort behind outcomes-based organization of education. We organize against what's convenient. For those of us who are in the professor corps, we organize by methods of education. We don't organize against an outcome.

When we approach community colleges—and I've had some of the bad experiences—where we were working with an automotive manufacturer who had guaranteed jobs, needed to add two classes to a curriculum that existed, and then they would be ready to go to work as soon as they graduated. We were told, "That'll take two years to get state approval for the new curriculum to be put in place. Then we'll have to work on budgets, find the right type of instructors." And by the time they laid out the timeline, we said, "Well, there's no guarantee those jobs will still exist." You know, by the time you finish the timeline.

So speed to action is missing very much in a lot of the taxpayer-supported education system. I also would note we're not talking about high schools. High schools used to be, and can still be, a place to develop a tremendous number of vocationally trained workers. We let ourselves get trapped into a view that that was discriminatory or it was tracking or we were profiling workers.

There's a tremendous amount of skills that could be provided if we returned, you know, vocational education tracks back into the high school system where it's been, you know,

excised. And I think there is much that could be done, but I argue strongly that a role that the business community could play is not only to say where the skills are, but how do we go about restructuring aspects of the educational distribution system to make it more quick and to produce results, you know, with less expense.

Zanny Minton Beddoes: Andy, what's your perspective on this? I mean, how satisfied are you with the current panoply of, you know, training and advancement opportunities that are there? And where would you put the focus for going forward?

Andy Stern: First of all, I think we should appreciate this is the easy place we all like to talk about. You know, we focus on a small number of high skill jobs, you know, where we might be able to solve the problem but we've been unable to do it. So I'll give you six things we need to do, I think, to answer these.

One is American workers need a raise. We have a maldistribution of the income, the growth that has been produced. Work has to pay. That's the nature of the American story. It's not paying. People haven't gotten a raise for 30 years. They've coped with it by putting a second member of their family to work. They've coped with it through home equity. They need a raise. They need to have consumption because they have money in their pocket, and too much of the consumption's going to a certain group of people.

Two is I would argue, and McKinsey can do this study, that the reason there is less innovation and less new job performance is we have monopolies coming back into our economy. This is the most concentrated business, you know, society that we've had since Reagan let loose on a lot of the antitrust stuff. You don't have innovation and new business development in monopolistic economies. We have to solve that problem.

We need a pro-American trade policy. When 90 percent of the Microsoft software in the Chinese government is pirated in the government, you know, China has a pro-China trade policy. Germany—you know, we have a very idealistic trade policy that's not pro-American. And I'm not talking against trade, I'm saying a pro-American trade policy.

We have an employer-based healthcare system that's ridiculous. It costs six percent more of GDP. Give us six percent more of GDP in this country. We can solve our budget and deficit. We don't want to talk about it. Pick Switzerland, pick France, pick Germany, pick Taiwan, there are ways that every company around this room who operates internationally is perfectly satisfied of getting benefits.

And the same thing's true with retirement. And the VAT³ tax, which every other country uses in the world to have preferences for exports and penalizes imports, we don't. So we have a plan that guarantees that we will not succeed, and we don't want to talk about a lot of these things so we talk about education.

³Value-added tax.

More government—or less?

Zanny Minton Beddoes: Laura, you know, former dean of UC Berkeley business school. From that vantage point, is the American education system failing American workers?

Laura Tyson: Well, I want to start with a note of sympathy for what Andy just said in the following sense. I've been involved in the discussion of US competitiveness since about the time the term was first introduced. Back in 1983 it was President Reagan's Council on Competitiveness, headed by John Young. You will note President Reagan; I was a Democrat but it was a bipartisan council.

At the top of every competitiveness list since that time has appeared macroeconomic conditions and the education of the US workforce. And by many, many, many measures, the education of the American workforce has not improved. So I really think it's very important here to say that if we agree that this is a key issue, then we've really got to change the game. And in that sense I'm agreeing in a sense with Byron that the models just have to change.

I actually also agree with something you said: that we spend much less as share of GDP on any training than other countries. And we should recognize that, because one of the things I will say, again, to go back to something Austan said, as we are cutting the size of government and cutting government spending, we better be really careful of those areas where we believe, and the business community believes it because they've said it for 30 years, the government actually enhances competitiveness and job performance. Infrastructure spending, research and development spending, and education spending. And in education spending, training's there.

Those are all parts of the non-security discretionary budget, the focus of the biggest spending cut. Focus because it's politically easy to do. I want to get that out there because we will not solve any of these problems without revolutionary changes, but if we kind of slash everything governments do, and state and local governments are having to slash those numbers about employment and education, if we now look at those and education going forward. Well, I know what's happening in the state of California. People know what's happening in states around the country. Those employment numbers are actually declining now.

Now having said that, because I think it's just important; we've got to be serious here. So it's been mentioned that I'm a member of the President's Council on Jobs and Competitiveness. And here I really want to throw back now some optimism because—and there are probably business leaders in the room like this—the CEOs and business leaders in that group are absolutely trying to think about things that they can do on their own, in partnership with other companies, in partnerships with community colleges, (and I'm

very sorry to hear about the bad experience here) in partnerships with state and local governments, to really grab the skill issue. To sort of say, “No, we cannot wait any longer. We have to do this.”

So I think you set up a plan. And the council is very plans-oriented. It’s sort of like, “Okay, what can we do in the first one to two years to help catalyze job creation?” Very focused on training and retraining and working with community college. Very focused on figuring out ways to increase the retention rate of students who start out in engineering degrees and then drop out. You could do something in a few years, in one to two years, to sort of take this pool of potential engineers and keep them there. That would be fantastic as a one to two year. So you’ve got to sort of get a plan. You’ve got to get the timeframe.

So on the revolutionary side of change here, you know, I do think that institutions of higher education are going to have to think about this one. When I was involved in this report I was thinking about business schools. And if you noticed the majors, the majors are first business, second social science. Then you have a pretty substantial fall off to STEM.⁴

Well, you know, business schools can do more, particularly in undergraduate training, with requiring students to do more math and science, more quantitative methods. Sort of get more dual minor/major degree programs, which give people the kind of skills they need more effectively. So that’s an idea that came to mind.

I also though do think—because the other chart that I thought was really sobering here—is the excess supply of high school and high school dropouts. You know, the charts are showing that between now and 2020, the US has basically stopped dead in terms of improving educational attainment levels in terms of share of the population with a given degree.

We were building up the share of the population with college education year after year after year. If you look take those numbers, right now, nothing. If you look at what happens with high school and high school dropouts, we have this huge excess supply.

Part of the problem has is that’s where there is no wage growth, where there’s actually wage decline. So we actually I think have to do much more with bridging high schools and technical training. I really think. And that can be done faster than changing the way college majors are organized in traditional universities. So we should focus on that.

Byron Auguste: Can I just say, just as a source of optimism here, it’s important to understand that if we haven’t made much progress in education since the 1980s, there’s 20 countries in the world that have passed us in that time. So you can think about that as negative for the United States.

⁴Science, technology, engineering, and mathematics.

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But what it tells us is it can be done. Right? I mean it’s not some law of physics that we can’t improve our education system. There are many countries that have done it. By the way, there are many countries that treat vocational education with a rigor and a social status that is very different than our country, and where they’re much more successful.

And there are countries that have changed their system. I would point to Germany, which had its own big unemployment crisis in the late 1980s, early 1990s, and systematically changed what was essentially a system to manage unemployment into an employment system.

They moved from an unemployment system to an employment system. They integrated the unemployment insurance system with the workforce training system, with the job placement system, so that from the moment you lost your job in Germany you had the system working to diagnose and to help you figure out how to get back into long-term employment.

And that is a doable thing. We’ve seen how that can be done. There’s got to be an American version of that working between the federal and state governments. And you’ve seen other countries—Australia has changed its system quite dramatically where it’s very—the training system where it’s very outcomes-based. Instead of now paying to train people, no, you pay for job placement and training is integrated into that.

And the providers can be state governments, it can be nonprofits, it can be for-profits. And there’s an outcomes-based, and actually, a lot of countries in Europe that we think of being more, sort of public sector-oriented have gone to very mixed systems.

But the common element is that they’re both willing to spend on this employment system, and they’re willing to do whatever it takes, and it’s outcomes-based. We haven’t made that move in the United States yet, and if we do I think we can make huge progress. [○](#)