Creating an effective workforce system for the new economy

Governments have an important role to play in building a deeper pool of qualified workers and fueling economic growth.

Wan-Lae Cheng, Tom Dohrmann, Mike Kerlin, Jonathan Law, and Sree Ramaswamy
Over the past three decades, globalization and technology-induced changes such as automation and digitization have irrevocably altered US industry and jobs. According to a 2015 McKinsey Global Institute report on the impact of digitization on the US economy, the speed of technology-induced skill displacement is projected to double over the next decade. Fifty percent of workforce activities could be automated with existing technologies, but only 15 percent have been automated to date. As a result, more than 30 percent of US workers will need to change jobs or upgrade their skills significantly by 2030, and 65 percent of today’s primary-school students will hold jobs that don’t exist today.

The patchwork of workforce-development efforts in the United States has historically struggled to respond to these issues and failed to adapt to the needs of employers and individual workers. According to a Georgetown University Center on Education and the Workforce report, approximately $1 trillion is spent on workforce development and training annually. However, the pervasive view among stakeholders is that the returns on such investments have fallen well short.

A wholesale reexamination of existing strategies and program administration is needed to enable individuals to pursue new opportunities and fuel the country’s economic growth. Federal and state governments are well positioned to serve as a catalyst for this effort by convening the right parties, aligning goals and incentives, and helping to scale promising efforts through the strategic distribution of funds. However, governments face several barriers to achieving these objectives:

- Current workforce-development and reskilling initiatives lack the scale to meet the demands of the labor market.
- The proliferation of programs causes resources to be spread too thin.
- Workforce-planning decisions by individuals, educators, and policy makers are hindered by limited data and insights.
- Employers say educators are not meeting industry needs, while educators say employers are insufficiently involved.
- An overemphasis on credentials, including licensures, unnecessarily restricts workers and employers.
- Workforce strategies are often high level, fragmented across silos, and without clear targets and accountability.

To address these barriers, elected officials and other stakeholders must make workforce development a top priority, dedicating leadership and resources to the effort at a strategic level. Cross-sector collaboration is also critical to implementing more-effective workforce development programs; government can serve as convener, catalyst, and broker for these conversations.

Seven initiatives to transform workforce development

Governments can break free from traditional approaches to workforce development, and our experience and research have identified seven types of initiatives that hold significant promise. Each has the potential to support and accelerate workforce development—but the greatest value can be achieved when governments pursue all seven in a strategic, coordinated way.

1. Develop new educational models that can meet the rapidly evolving needs of a new economy.

The national debate around the value of higher education has highlighted the need to reimagine the education system. Just as the transition from an agrarian economy to an industrialized one resulted in universal high school, today’s increasingly tech-driven economy calls for new skills, a new educational approach, and a new learning lifespan. The bachelor’s degree can no longer be the baseline credential for a good career. Instead, governments can support the growth of other forms of high-quality educational programs to meet employer needs.
As lifelong learning becomes an increasing necessity, educational structures and financial aid models will need to adapt to enable engagement at different points across an individual’s lifetime. To achieve this shift, educators could translate market signals and employer feedback into curricula and learning experiences—and do so at an accelerated pace. Governments can support educators by bringing the right employers to the table to cocreate curricula and develop meaningful applied-learning opportunities. By directing funding toward programs that are aligned with industry needs and have achieved proven results, governments can also provide incentives for educators and hold them accountable for graduate outcomes (such as employment rates and wages). A host of training providers are striving to accomplish these goals, and states can help to catalyze, scale, and replicate successful programs.

For example, the California Community College system recently announced the creation of its 115th institution, which will be fully online and free of
charge, with a focus on in-demand and growing career paths starting with allied-health professions. In addition, federal programs are working to shift educational credentialing toward a model based on industry needs. For example, the American Council on Education has partnered with Credly, a company that manages digital credentials, to build a digital working transcript that tracks in-demand skills and assigns college credit for skills attainment.

2. Shift more employers from “just-in-time” hiring to actively building the pipeline.
Corporate-training efforts have historically focused on higher-level, better-educated employees, but many companies are starting to invest in entry- and midlevel talent. Amazon, AT&T, Chipotle, McDonald’s, and Walmart have launched programs that provide or help finance different types of education for employees, recognizing the benefits to their bottom lines as well as to society.4
Governments are in the best position not only to stimulate the collective action that can support change within sectors but also to offer programs and incentives that position all employers to invest in the talent pipeline. For example, the Federal Task Force on Apprenticeship Expansion, which released its final report in May 2018, encourages a simplification of rules for companies to receive funding for apprenticeship programs with associated job guarantees.5

A number of states have launched efforts to support workforce development that is aligned with private sector needs. CareerWise Colorado, for instance, is a nonprofit started through a state initiative with the goal of creating 20,000 youth apprenticeships by 2027. It is working with employers and local high schools and has incorporated elements of the Swiss apprenticeship model. To date, the program has focused on building a pipeline of talent for a wide range of industries—from financial services and health care to information technology, business operations, and advanced manufacturing.

3. Take a granular, fact-based view of workforce planning and establish quantifiable goals.
All workforce strategies must begin with a clear-eyed view of a state’s workforce strengths and weaknesses, accounting for both near- and long-term economic scenarios. States must evaluate both sides of the workforce equation. On the demand side, leaders should identify and prioritize growth sectors, the skills needed now and in the next three to five years, and the expected impact of broader industry changes on the equation.

Analyses of the supply side must take into account the current and projected talent pipeline—existing types of skills and where they are, the quality and capacity of existing workforce and training programs and support services, and the sources and uses of federal and state funds. Together, these efforts will highlight a given state’s priorities and mismatches in supply and demand as well as the goals it needs to achieve and a timeline for reaching them.

Some states are already pursuing efforts to enhance workforce planning and goal setting. One state has used federal grant funding to create one of the country’s most comprehensive supply-and-demand models for employment. It provides both real-time information on the state’s current employment gaps and long-term projections. The model helps policy makers, educators, employers, and job seekers make better decisions—whether about program design, goals, or career choices.

4. Create an integrated, systemwide view of agencies involved in workforce development and establish concrete goals.
Economic development, education (primary, secondary, and postsecondary education), human services, and workforce-development agencies within governments increasingly share responsibility for workforce development and employment. In many states, however, these agencies’ strategies and goals are not always complementary or mutually beneficial. One way to ensure that these critical agencies and teams can reinforce one another’s impact is to create a set of cross-cutting goals, supporting initiatives, and funding. This approach begins to break down silos while concentrating funding on a smaller set of priorities.

Some states have gone so far as to make structural changes to their agencies, combining their workforce and economic-development agencies with commerce.6 In addition, as states take an integrated view of economic development, workforce education, labor rights, and consumer protection, they could generate new jobs by improving the existing regulatory model around licensures.

5. Deploy insights and technology to support better decision making by states, employers, and educators.
Access to data and technology that can translate information into insights is critical to supporting the previous initiatives. Together, these tools
enable stakeholders to create job platforms and
assessment tools that can better support individuals
in discovering new pathways and connect them with
employers and trainers. These insights could also
support policy makers in assessing and prioritizing
effective workforce and education programs. Taking
it a step further, governments could consider using
artificial intelligence and predictive analytics
to target individuals with the right programs,
interventions, and delivery methods. For example,
insights on different workforce segments can help
state agencies to better identify which individuals
need intensive, one-on-one support and which can be
supported effectively through remote or self-serve
models. These insights can also help states scale
successful programs.

Most states have created or licensed platforms to help
individuals find jobs, training, and other resources.
To eliminate the inefficiencies of 50 separate
tools, the federal government could convene a set
of states, technology and data players, nonprofits
and philanthropies, and other key stakeholders to
collaborate on the development, maintenance, and
ongoing enhancement of a common platform. This
tool could be tailored for individual states and would
be better, more user friendly, and more comprehensive
than what states could build on their own. In another
example, the US Chamber of Commerce Foundation
created Launch My Career, an interactive online tool
that informs students about the return on investment
of various degrees. To date, the tool has been
customized for a few states.

6. Help individuals navigate career options.
While technology is and will continue to be crucial,
individuals exploring new career paths still need
personal coaching and ancillary support. Career
coaches and mentors can encourage persistence and
support career shifts, while funding for ancillary
support such as child care, transportation, and tuition
can help people to pursue new skill sets.

Several examples demonstrate the potential impact
of such support. The start-up Guild Education
helps adult learners access financial aid (employer
tuition benefits, federal funding, and tax credits)
and provides education coaching through program
completion. Year Up, a well-known nonprofit jobs-
training program, relies heavily on mentorship
to ensure that students receive the support they
need to transition from classroom to employment.
Governor Hickenlooper of Colorado, in partnership
with Skillful (an initiative of the Markle Foundation),
launched a statewide Governor’s Coaching Corps to
place qualified career coaches in workforce centers,
schools, and nonprofits.

7. Replicate and expand programs that have
worked well elsewhere.
Many programs across the country have achieved
measurable results or are showing promise. Federal
agencies could help state and local governments to
identify, replicate, and scale such programs in states
that have similar needs. For example, the government
could help to create an at-scale, shared asset or
partnership that provides benefits across several
states, particularly in cases where scale can improve
the quality or economics of programs.

Similarly, the federal government could use incentives
and partnerships with industry to galvanize stake-
holders on workforce-development efforts. This
consortium could launch a workforce-development
initiative focused on a set of specific demographics,
sectors, inputs, and outcomes. This effort could create
sustainable workforce-development opportunities
within and across states.

How to get started
Effective workforce-development programs will
be a crucial part of US efforts to fuel economic
growth, lead on innovation, and compete on the
global stage. Yet too many states are still taking an
incremental, piecemeal approach. Elected officials
have the opportunity to develop and implement a comprehensive, ambitious effort to create a deep pool of qualified workers and lead the nation forward.

An important first step for governments is to conduct a clear-eyed, comprehensive assessment of their labor markets and workforce systems. This effort would identify the biggest obstacles and opportunities for unlocking employer growth and individual opportunity. With that fact base, governments could determine, customize, and catalyze the deployment of the right combination of the initiatives discussed above, depending on where economic value and individual opportunity lie.

The impact will be manifold: accelerated economic growth, a more resilient and adaptable workforce, stronger communities, and citizens who are active participants in the new economy. Many of the solutions have already been field-tested in states, so progress should accelerate. For such efforts to be successful, federal and state officials must demonstrate leadership and courage. Rejecting business as usual, they should sponsor and support new approaches to robust program implementation and coordination among stakeholders at scale.

Now is the time to act in earnest.

Wan-Lae Cheng is an associate partner in McKinsey’s Boston office; Tom Dohrmann is a senior partner in the Washington, DC, office; Mike Kerlin is a partner in the Philadelphia office; Jonathan Law is a partner in the New York office; and Sree Ramaswamy is a partner at the McKinsey Global Institute.

Copyright © 2018 McKinsey & Company. All rights reserved.