

Paying young Americans to learn

Nearly one in six American workers is unemployed or underemployed, yet more than 6m jobs remain unfilled. Business has become the driving force behind a rethink of how training is organised. By **Rana Foroohar**

When Levi Hall first saw the advertisement for a 12-week technology training programme that offered a stipend to students with only a high-school qualification and helped place them with a decently paid full-time job at the end of course, he thought it was a scam.

“They are going to teach you, pay you, give you a credential and then help you get a job? I thought for sure this is too good to be true,” says the 25-year-old, who was working in a minimum wage clerical job in Florida when he applied for the course. “When I filled out the application, just to be safe, I didn’t put in my real social security number.”

‘You have a company like Harley, which might need a seasonal workforce, but they have a bunch of suppliers that need skilled people too’

Several of the other young participants and graduates of the programme, run by consulting firm McKinsey at a training centre on the campus of Florida State College in Jacksonville, laugh knowingly. Like Mr Hall, they all graduated from high school.

But thanks to challenges such as an

inability to pay for or complete a four-year college degree, secondary education that did not yield any marketable skills or personal problems such as single parenthood or a run-in with the law, they belonged to the growing group of unemployed or underemployed US workers. Nearly one in six American workers fits that description.

Yet as participants in McKinsey’s “Generation” scheme, which brings together employers and educators to train workers for jobs in high-growth areas like technology, healthcare and customer service, they all have full-time jobs, many of them at top national and regional companies. Nearly 1,000 others have gone through the US programme, adding to the 12,000 graduates globally.

“I wish I would have gone to a high school that taught me actual skills that would get me a job,” says Mr Hall, who earned a stackable computer programming certificate that qualified him for a better paid job in the IT department of a large regional healthcare practice. “But they don’t really exist any more. I felt like this was my last shot to make myself more employable.”

Rebooting labour

McKinsey’s initiative, which started about two years ago, has become the largest cross-border youth employment programme, which says a lot about the dysfunctional state of labour markets.

For years, a gap has been widening

Speed read

Acute shortage Harvard academics attributed as many as one-third of the jobs lost since the crisis to the skills gap

Campaign pledges Donald Trump and Bernie Sanders cited concerns over high youth and long-term joblessness

Merger plan President Trump aims to put federal training schemes into one labour department programme

between the skills that companies need and those that workers have and educators teach. This is true globally—40 per cent of McKinsey’s clients say the skills gap is a key reason for job vacancies — but is particularly so in the US, where the lack of European-style vocational training programmes, social safety nets or extended family support has made it particularly difficult for many workers to learn the right skills that better jobs require.

Harvard academics have attributed as many as one-third of the US jobs lost during the great recession not to declining demand but to the skills gap. Business leaders have complained about the lack of middle-market technical skills in particular, as too many students graduate with heavy debts and useless degrees—at least in terms of employability.

The US is suffering a youth unemployment crisis, with rates in double figures nearly 10 years on from the financial crisis — not to mention record levels of long-term unemployment, particularly among displaced older men in the rust belt. This was one driver of the populist politics that led to the

election of Donald Trump and the popularity of Bernie Sanders among Democratic voters.

Yet more than 6m jobs remain unfilled. To get them, most workers will need a qualification between a high school degree and a costly four-year college education. There will be 55m job openings in the economy in the decade ending 2020, with 65 per cent of all jobs requiring some post-secondary education, projections by the Center on Education and the Workforce at Georgetown University show.

Nearly two-thirds of those jobs will require some post-secondary education. But the majority of the fastest growing categories will be those in the “sub-BA” market which do not necessarily require a degree.

This is where programmes like Generation, as well as other public and private partnerships that push vocational training as a stepping stone to greater social mobility and earning power, come to the fore. “Aside from countries like Germany and Switzerland, workforce training has been viewed in much of the world, and certainly in America, as a poor stepchild to a four-year college degree,” says Mona Mourshed, head of McKinsey’s education practice and

president of Generation.

In the US, this bias has a long history: since the 1960s, vocational education has been seen as a dumping ground for less fortunate students. Some worried that it could result in class- or race-based tracking.

Yet given the dismal state of secondary and tertiary education in the US today—nearly one in three high school students take a degree, a tenth graduate from a two-year associates programme and a \$1.4tn student debt bubble restrains consumption and economic growth—a fresh approach to vocational training is clearly needed.

On Thursday, President Trump signed an executive order to expand apprenticeships and improve training programmes. He has been pushed on the issue by his daughter Ivanka and a number of Fortune 500 chief executives including IBM’s Ginni Rometty and Dow’s Andrew Liveris. Mr Trump has talked up workforce training as an alternative to a degree, and visited a training programme in Wisconsin.

Ms Trump and Alexander Acosta, labour secretary, have spent time in Germany studying its vocational training model, which has helped bolster wages and employment relative to other rich economies, and would like

to bring aspects of the model to the US.

There are 500,000 official apprenticeships in the US. The White House wants to make it easier to expand the labour department’s model, which has been successfully deployed in the construction and building trade industries for years. Many manufacturing, technology and healthcare companies would like to run similar schemes geared towards their industries.

It is noteworthy that, while unions pushed the previous wave of interest in vocational training decades ago, this time it is employers. Half of the Fortune 20 companies run some type of programme, including major technology companies such as Amazon, Microsoft, Salesforce and Aon.

Such employers have realised that not only is such training necessary to create a 21st century workforce but it can also significantly reduce turnover and recruitment costs, which can run into the thousands of dollars per worker even for entry level positions.

Aside from encouraging private sector efforts, the Trump administration wants to merge the 43 federal workforce training programmes that sit in 13 agencies and represent nearly \$17bn in spending into a single programme

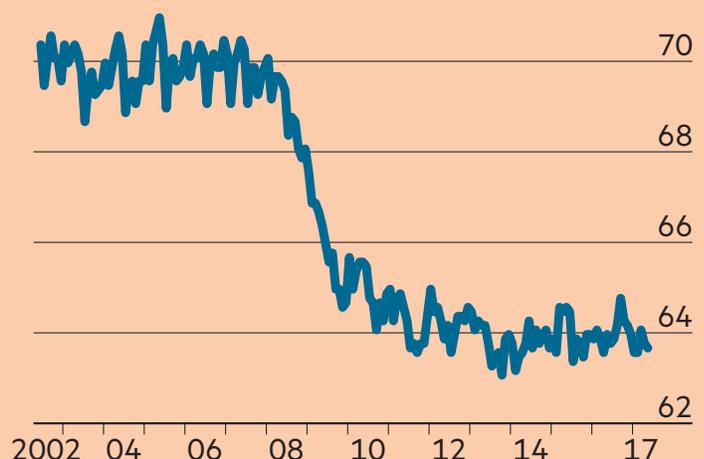
US jobs openings are rising faster than hires

Rolling 12-month average (million)



A smaller proportion of US graduates are in employment

US employment/population ratio with bachelor’s degree (aged 25 and over)



within the labour department. This highlights the fragmented and varied nature of vocational skills training. Public spending in the sub-BA market is spread across 50 states that have a multitude of systems, measures for success and means of collecting and sharing data.

Numerous private sector efforts make up the bulk of the \$300bn-a-year market. There are small, high-end programmes, such as Siemens' gas turbine apprenticeship in North Carolina that lures students from local schools into factory work by investing \$175,000 in training them over three years. Public private partnerships such as IBM's Pathways in Technology schools aim to reinvent secondary and tertiary education.

Transferable skills

It is a complex arena but lessons can be taken from some of the most successful and long running programmes in areas such as building trades and manufacturing: pay people while they learn, make sure that broadly accepted credentials and jobs are waiting for them at the end, and keep the skillset applicable to real work and different employers.

"Sector-based training works best when you have an employer who partners a community college to create a training programme," says Harry Holtzer, a labour economist and professor of public policy at Georgetown.

States such as Wisconsin, with concentrated manufacturing sectors, have done well on that score. The much-copied Wisconsin Regional Training Partnership, which has been running for more than 20 years, brings together large employers such as Harley-Davidson with smaller local components firms, community colleges and unions.

Together they create advanced manufacturing programmes that allow workers to move in and out of different companies through the course of seasonal business cycles. Workers earn while they learn, gaining experience from full-time yearly employment in a regional industry, rather than a single company.

This offsets risk for workers and companies, and keeps skill levels high in ways that mimic the German model.

"You have a company like Harley, which might need a seasonal workforce for six to nine months, but they have

30%

Proportion of high school students who do a four-year degree

55

US job openings created in the decade up to 2018

\$17

Federal spending on workplace training, across 43 separate programmes

IBM and New York A template for high school and beyond

Most employers believe that skills in science, technology, engineering and mathematics, or stem subjects, will be crucial for the workforce. But many companies think it is crucial that workers have a strong basic liberal arts education to go alongside the high-tech workplace skills that will be required for the "new collar" jobs of the future.

That's the idea behind P-tech, or the "Pathways in Technology" high schools that were set up in 2011 as a partnership between IBM and New York City Public Schools. The model, which has since spread into 57 cities

in six states serving 12,000 students, as well as being launched overseas in Australia and Morocco, aims to reinvent secondary education by giving graduates not only four years of high school but a two-year associates' degree, plus work experience along the way.

"Six is the new four," says Stan Litow, P-tech's founder, noting that you need at least a two-year college degree to guarantee something more than a \$15-an-hour future. P-tech graduates are first in line for positions at IBM and dozens of other blue-chip partners like SAP, Cisco and Global Foundries where many have already done their internships. It is a model that had broad support from Barack

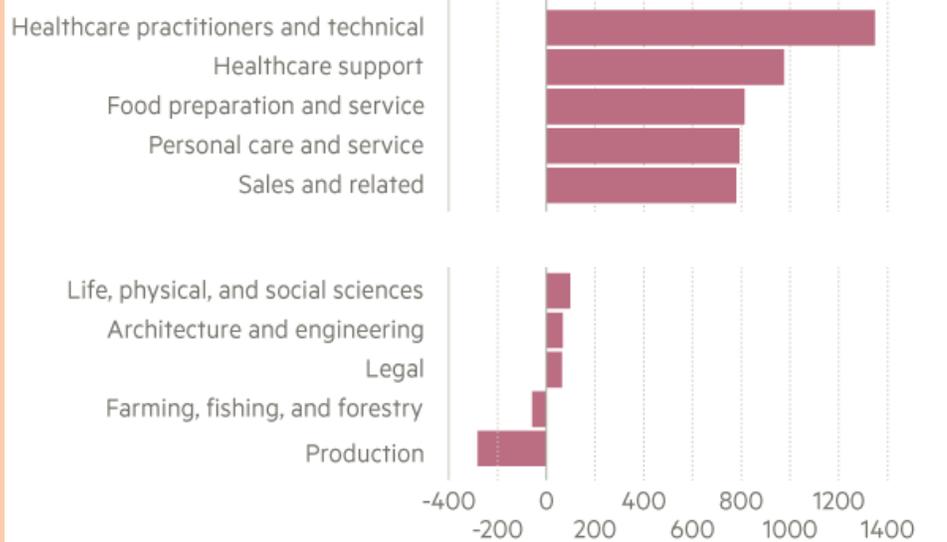
Obama, former president, as well as President Donald Trump, both of whom view it as a template for reinventing secondary education.

Gabriel Rosa, a 19-year-old who graduated from P-tech in Brooklyn a year ago after he completed his six-year programme in four years, is a good advertisement. He is now employed in a well paid job as an interface designer for IBM in New York City, while taking night classes to complete a four-year degree in computer science. "I feel like I've gotten where I wanted to be so much faster than I would have otherwise," he says.



Change in US employment by occupation

'000 (2014)

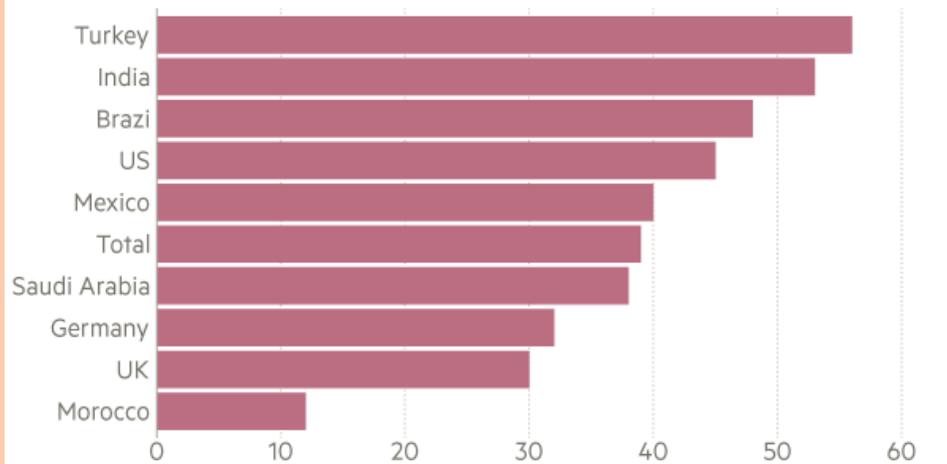


Source: Bureau of Labor Statistics

FT

Employers says a skills shortage is the leading reason for entry-level vacancies

% of employer respondents



Source: McKinsey survey, Aug-Sept 2012

FT

a bunch of suppliers that need skilled people too,” says Mark Kessenrich, president of WRTP.

“We work with the local educators to create training programmes and recruiting programmes that serve them both.

“It works really well within an increasingly just-in-time manufacturing industry,” he adds.

Encouraging the broader adoption of manufacturing-based apprenticeships like these will be a big focus for the administration as it tries to cater to the needs of the workers in a region such as the rust belt that helped vote the president into office.

Yet there may be even more growth for skills training in services, and among the most vulnerable in society, like those being served by Generation. Not only is that where the greatest need is, it is also where the fastest growing job categories are.

Generation trainees like the ones in Jacksonville may start low on the ladder, but the investment of even 12 weeks of training pays dividends for both companies, which see significant increases in retention and thus lower recruiting costs.

The workers see an average fourfold increase in their weekly wages on completing the programme. They are statistically more likely to go on and finish further training and education.

Mr Hall is looking to attend night classes at a community college. “I’d like to get a degree eventually,” he says. “But not if I have to go into a lot of debt. Right now, I’ve got someone who’s paying me to learn.”