



# Peter Cappelli of the Wharton School at the University of Pennsylvania

No labor shortage now for U.S. or Minnesota; the real problem is not enough jobs

A Civic Caucus Focus on Human Capital Interview

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## Present

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## Summary

It's completely false that there's a labor shortage facing the U.S. or Minnesota, says Peter Cappelli, professor of management at the Wharton School at the University of Pennsylvania. The U.S. population and the labor force are not shrinking, but continuing to grow. In fact, he says, the U.S. has never faced a worker shortage, except during WWII. And people are living longer and healthier and most people facing retirement would like to keep working in some way, he points out.

The real problem, Cappelli believes, is that there simply are not enough jobs to go around. And he says public policy or workforce planning, which is nearly impossible to do even five or 10 years into the future, will not solve the problem. He notes that the U.S. is not willing to do things other countries have done to attack the problem, such as subsidizing employment.

A barricade for many job seekers, he says, is that employers are increasingly demanding previous job experience before they will hire people. They no longer are willing to hire people with potential and train them on the job, as employers often did in the past. But Cappelli notes that coops and apprenticeships are in steep decline. And unpaid internships for college students are an expensive way to get job experience, since colleges charge tuition for the credits students are earning while working for free.

Where jobs are going unfilled, he asserts, it's often because employers aren't willing to pay enough to get the people they want. They want people who meet their increasingly difficult and specific requirements for the jobs they're trying to fill.

He believes we must get employers and schools closer together on the local level, so teachers can talk to work supervisors. What's actually taught in the classes and what's actually used on the job are what count, Cappelli says. He suggests that perhaps there could be public financial support for work-based learning programs at the local level.

## Biography

Peter Cappelli is the George W. Taylor Professor of Management at the Wharton School, University of Pennsylvania, and director of Wharton's Center for Human Resources. He is also a research associate at the National Bureau of Economic Research in Cambridge, Mass., and, since 2007, has served as a distinguished scholar of the Ministry of Manpower for Singapore. From 2003 to 2005, he served as senior advisor to the Kingdom of Bahrain for Employment Policy.

He has degrees in industrial relations from Cornell University and in labor economics from Oxford, where he was a Fulbright Scholar. He has been a guest scholar at the Brookings Institution, a German Marshall Fund Fellow, and a faculty member at MIT, the University of Illinois and the University of California-Berkeley.

Cappelli was recently named by *HR Magazine* as one of the top five most influential thinkers in management and was elected a fellow of the National Academy of Human Resources.

His recent research examines changes in employment relations in the U.S. and their implications. He has written a number of publications and books. His 2010 book *Managing the Older Worker* (with Bill Novelli) dispels myths about older workers and describes how employers can best engage them. *Why Good People Can't Get Jobs* (2012) identifies shortfalls with current hiring and training practices and has been excerpted in *Time Magazine* (online) and reviewed in the *Wall Street Journal*, *The New Yorker*, and most major business publications. Related work on managing retention, electronic recruiting and changing career paths appears in the *Harvard Business Review*. His most recent book is *Will College Pay Off? A Guide to the Most Important Financial Decision You'll Ever Make* (2015).

## Background

The Civic Caucus has released two recent statements on human capital: [one in September 2014](#) laying out the human-capital challenges facing the state today and in coming years and [a follow-up paper in January](#) offering recommendations for maintaining a high-quality workforce in Minnesota. The Civic Caucus interviewed Peter Cappelli to learn more about problems in matching employers' workforce needs with job seekers.

## Discussion

**Matching employers to job seekers is a supply-chain problem.** According to the Wharton School's Peter Cappelli, there are three major players in the supply chain:

1. Employers, whose demands are job requirements that change quite frequently;
2. People looking for jobs; and
3. Schools that are training or educating people, generally or specifically, for jobs that might come down the pike.

**In the old days, employers used to train people themselves, managed all their human capital internally and managed the supply chain themselves, because they were the source of supply.**

That even included education, Cappelli said. He noted that in the 1980s, every single executive at U. S. Steel had been hired without a college degree and sent to college by the company.

**A number of things have changed, causing new problems:**

1. Businesses now change their job requirements more than in the past. The complicating factor is that for the most part, employers are not really interested in hiring people right out of college, Cappelli said. They'd much prefer to hire people who've already worked for someone else.

If you go to an online job site like Monster, pick a job, such as a machinist, and look at the requirements, nobody is looking to train someone, he said. The job requirements are very specialized. Businesses want a machinist who can operate a certain brand of machine tools. "Is it possible for this to work?" he asked. "Employers want to hire people who already know what they're doing. Everybody wants someone with five years of experience. If no one is willing to give people the opportunity to get that experience, how is this going to work?"

"I think the demands of employers are unrealistic," Cappelli continued. "How much can we actually do to meet those demands?"

2. Businesses are changing their management practices. There are a lot more mergers, acquisitions and changes in strategy that disrupt companies, Cappelli pointed out. The big change appears to be a substantial decline in the extent to which employers are training their own people. "Training people for a lifetime at a company is over," he said. "Employers think they can't train people because they'll just lose them to somebody else."

Employers are filling their jobs much more from the outside than before, he said. Before 1981, the big corporations filled 10 percent of their vacancies from outside and 90 percent from within. They promoted people and they moved them around. Any hiring they did was almost all at the college or high school graduate level. The figure now is 65 percent outside hires. "That's a stunning change," he said.

Now employers have a different demand, Cappelli asserted. They want to hire people who will be able to contribute today, rather than hire people they can develop into employees who will eventually contribute. They have dramatically shortened the kind of supply chain they're operating. Rather than hire people in with the kind of basic abilities that could be turned into skills useful on the job, they want to hire people who already have those skills.

**This creates a dilemma for public policy.** In terms of workforce planning, Cappelli asked, what do we do for kids who are going to leave college or high school? "Employers and schools need to get

closer together," he said. "We must find ways for employers to provide students with experience." But coops and apprenticeships are in steep decline. Apprenticeships fell by half in the 2000s. "That's an astonishing decline in a period that was all before the Great Recession," he said. He pointed out that many employers won't take kids for unpaid internships unless they've already done one for someone else. "They do this because they can," he said. "They have a huge queue of people trying to get jobs."

Cappelli said this is a big concern facing public policy. "Unfortunately, the problem is that people believe public policy can address the problem of there simply not being enough jobs," he said. "We can't. There are not enough jobs to go around. Public policy or workforce planning is not going to solve the problem."

There are things other countries have done that the U.S. is not willing to do to address the problem, such as subsidizing employment.

**We're not good at forecasting where the jobs are going to be.** For example, Cappelli said, the nursing shortage we hear so much about has been over for a while. The nursing schools in the Philadelphia area are only placing half their graduates in jobs. Hospital Corporation of America, the biggest hospital group in the U.S., is no longer hiring nurses out of college, he said. They must have experience already.

The problem for a lot of these kids, he said, is that they were told there is a lot of demand in health care. Then everybody goes into those fields, oversupplying the market, and pretty soon there are no jobs left.

"That's one of the problems for public policy," he said. "We can't solve everything and in some cases, we might even make things worse."

**The shift in business practices has made it harder to climb job ladders and to learn new jobs by doing them.** "For the most part that's gone," Cappelli said. "We've moved toward arrangements that are more productive once they get going. People are all doing similar, relatively high-skilled types of things. We've combined a lot of simple jobs."

He gave the example that there are no longer jobs as typists, because people do the typing themselves in their jobs. That makes it hard for people to enter clerical jobs and learn on the job.

**Schools have responded by having students work in teams.** People learn a lot by working in teams, Cappelli said. Elementary schools started doing that and are way ahead of high schools and colleges in terms of getting people into teams, he asserted. It is, now, growing in both colleges and high schools.

**Colleges are twisting themselves into knots trying to meet the demands of employers and it's not clear it's a good idea.** Cappelli said his new book, *Will College Pay Off? A Guide to the Most Important Financial Decision You'll Ever Make*, asks whether college is the best place to teach job skills.

"It's hard to argue that it is," he said. "For parents, an unpaid internship in college is a very expensive way for their students to get work experience. You're paying for college credit for the privilege of working someplace else for nothing. If you do one internship a year, one-quarter of your credits are

basically unpaid work somewhere." He said employers don't have to pay for the internships if students are getting college credit for the experience.

"For employers, it makes perfect sense to get someone to work for free," he said. "But is it good public policy? There are real limits as to what students should expect from internships." He said students looking at colleges have no way of knowing whether graduates of those colleges are getting jobs, because colleges aren't required to report that information.

**Harvard Business School used to teach a stakeholder model in its corporate governance course, but it dropped that course around 1985.** Cappelli said the corporate governance course taught that corporations had to balance their responsibilities to shareholders, customers, employees and the community. After Harvard dropped that course, the school instead created a course in finance that held the only responsibility companies have is to shareholder value. And, he said, no other required course said otherwise.

**This is a real problem for a public that doesn't necessarily agree with the shareholder-only view .** "If you get outside the U.S., I don't think there's any country where people believe that model," Cappelli said. "The employers and the business community in the U.S. are disingenuous about this. They say, 'We only have a responsibility to our shareholders. If you don't want us to do bad things otherwise, you better regulate us.' That might be a perfectly reasonable approach: to assume companies are only going to act in their financial self-interest and that they have to be regulated to do things in the public interest."

Cappelli said the business community says different things to different groups. To the investors, they say it's all about the shareholders. To the community, they talk about their good works, corporate responsibility and social responsibility. "Understandably, they're trying to have it both ways," he said.

**Northeastern University in Boston and Drexel University in Philadelphia are still the only colleges running coop programs where students get paid work experience without paying for college credit.** Responding to an interviewer's comments about Northeastern's coop program, Cappelli said, "Everybody says it's a great model. But why will no one else do it?"

These schools are integrating the students' work experiences with their classroom experiences, he said. They're teaching students things they can use on the job and giving them work experience. To do this well it takes a fair amount of effort from the schools and the employers.

"The programs at Drexel and Northeastern are terrific, but it's hard to bring them to scale," he said. "How much of that is a lack of interest on the part of the colleges? We don't know. But we do know it's hard to get employers engaged and keep them engaged."

**It would be ideal if we could get employers and schools closer together and could get work experience for people.** According to Cappelli, employers say they want people coming out of college and out of high school who can communicate, get along with others, plan and make decisions. The problem is the employers also want work experience.

The answer, he said, is for employers and schools to get closer together, but not at the level of national associations. "The only thing that seems to work," he said, "is when local employers get

together with local schools and teachers talk to supervisors. It's what's actually taught in the classes and what's actually used on the job that count. When you get those folks closer together, you can really make progress. And the evidence is kids learn academic material better when they see how it relates to real problems."

**Philadelphia started a model for businesses and educational institutions working together started during the 1960s.** Cappelli said during the 1960s riots, Philadelphia civic leaders told the business community that they had to help young black men in particular, and young people in general, get jobs or the city would "blow up."

The community created a series of high schools targeted toward particular industries, he said. There is a health care high school, for example, where kids learn the same content as in other schools, but in the context of health-care problems. Employers provide some coop experiences or other work-based opportunities for students by the time they are seniors. Cappelli said this became a model for the rest of the country.

**The dual role human resources (HR) departments used to play in representing both management and employees is completely gone.** "That's history," Cappelli said. "There's no place where you could get an HR person to say part of their role is advocating for employees."

**K-12 education in the U.S. is not doing nearly as badly as most people think.** The evidence is that the K-12 system is doing slightly better these days, Cappelli said. The system hit bottom during the 1970s. "The system has been doing more or less better, maybe not well enough, on objective measures of performance since then," he said. "We're in the middle of the pack internationally, where we've been for some time. Whether that's good enough is a little bit hard to say. But we're not falling relative to our competitors."

**People around the world want to attend higher education in the U.S., whether that makes sense or not.** Cappelli said it would be helpful to have information on how colleges are doing, what college students are learning, and, in particular, whether people are getting jobs and where those jobs are.

**Singapore is doing well in terms of public policy and workforce issues.** Cappelli said Singapore just released a model to encourage people to get skills in lots of ways other than going to college. The country is putting in more apprenticeship programs, more polytechnic programs in colleges, and more ways to get people retraining. "I'd say they're doing the best," he said.

**It's completely false that there's a labor shortage coming in the U.S.** "It's just ridiculous," Cappelli responded when an interviewer asked about the issue. He said the U.S. population is not shrinking, but is continuing to grow. He noted that the largest high school class ever was graduated five years ago. "The echo of the baby boom is as big as the baby boom," he said. "It's simply not true that the population and the labor force are shrinking." He asserted that Minnesota is not facing a skilled worker shortage, either.

**The U.S. has never faced a worker shortage, except during WWII .** Productivity growth means doing more with less, Cappelli said. Today's U.S. workforce, he noted, is only twice as big as during WWII, even though the economy is four times larger. "It's absolutely not true that Minnesota or

anybody else is running out of workers," he reiterated. "I would not listen to the pundits and the associations on this."

**Also, people are living longer and healthier and they want to keep working.** Cappelli pointed out that the average American now is living seven years longer than our parents did. Older workers, he said, have systematically wanted to keep working. About 77 percent of those approaching retirement say they want to keep working in some way. But, he said, only about a quarter of those are actually able to do it, because of discrimination against older workers.

In fact, he said, the evidence is uniform that older workers are better than their younger colleagues on every single dimension of job performance, except doing things like taking IQ and SAT tests. "The discrimination against older workers is simply unbelievable," he said. "It's bad for the economy, it's bad for older workers. It's about people thinking older workers can't do this or can't do that, without ever looking at the data."

**It doesn't work for government to do traditional workforce planning.** Cappelli explained that workforce planning means trying to see what jobs will need to be filled in five years and then trying to create the workers to fill those jobs. The reason it doesn't work, he said, is that employers have no idea what they'll be doing in five years. "Most corporations have business plans that go out only a year or two and they update those plans every quarter," he said. "That means their actual plans are only three months out."

"From there, we're going to do workforce plans five years out?" he asked. "We're kidding ourselves. You just can't do it. It would be a terrible mistake for public policy to spend a lot of time and money trying to direct people into fields, based on a guess of workforce needs five years or 10 years out. It's just a waste of time."

**What public policy can do is try to bring employers and schools closer together.** In addition, Cappelli said, perhaps there could be public support for work-based learning programs at the local level.

**A large proportion of jobs that employers say they can't fill are vacant because they're not paying enough to get the people they want.** Another reason is that employers don't want to train people, Cappelli asserted. "It may be a problem, but it's not a public-policy problem," he said.

He noted that the wages companies are paying machinists have dropped by 40 percent in real terms over the last generation or so. "Maybe the reason people aren't applying for machinist jobs is because the pay has dropped, while companies are now requiring both machinist skills and computer skills," he said.