

OUR *Changing* LABOR FORCE

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Our Changing Labor Force

Challenges and Opportunities

Our workforce development system faces stiff challenges as the state transitions from a resource-based to a knowledge-based economy. Demographic trends will make it even more difficult to meet these challenges. Population growth has declined, and our labor force growth rate will continue to slow. The population is aging, and an increasing percentage of labor market entrants will come from groups that traditionally have received less education.

These trends however, with the right changes in policies and programs, will open up new opportunities for historically underserved groups. Washington's businesses need increasing numbers of skilled workers. People with disabilities, people of color, and women need more extensive and effective workforce education and training so they can take advantage of emerging opportunities.

Fewer and fewer young people will be entering the labor force, and we need to better prepare each of them. Too many of our youth do not

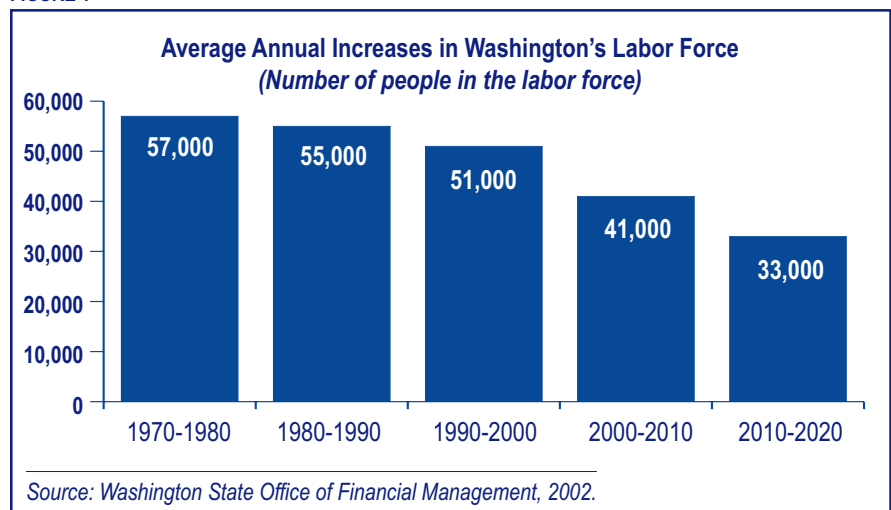
complete high school; too many of them drift between low-wage jobs before entering postsecondary workforce education programs.

The baby boom generation will begin to retire in large numbers toward the end of this decade, and the pressures on our public and private pension systems will increase. Older workers, over age fifty, will account for an increasing share of our workforce. We must encourage these workers to remain in the labor force longer and to keep their skills current.

Workforce Growth Slows

Rapid labor force growth during the 1960s, 1970s, and 1980s provided our employers with a ready supply of skilled workers to staff expanded operations. Washington's population growth is now slowing. Labor force growth declined from an average annual rate of 3 percent during the 1970s and 1980s to 1.8 percent during the 1990s. Forecasts suggest that growth during this decade will slow to 1.3 percent a year; from 2010 to 2020, the growth rate is expected to be only 0.9 percent.¹ Fewer and fewer new workers will enter the labor force each year.

FIGURE 1



Low birth rates and retirements among the baby boom generation will slow labor force growth. Changes in labor force participation (the proportion of the population aged 16 and older in the labor market) will not offset the impact of declining population growth. Participation rates in Washington increased between 1970 and 2000 as more and more women entered the labor market, and this contributed to the increase in labor supply. No further gains are expected, and as greater proportions of our population reach retirement ages, participation rates will decline.

Although migration from other countries and other states will moderate the decline in labor force growth, it will not reverse the trend. The forecasts discussed above take into account expected migration levels. Employers, faced with severe labor shortages, have recruited skilled workers from overseas. However, international migration is a contentious issue, and it is limited by federal policy. Although migration from other states has made a substantial contribution to labor force growth in Washington, the net migration rate has declined from its peak during 1989 and 1990.²

The scarcity of skilled workers, particularly in occupations that require technical training beyond the high school level, could increasingly constrain Washington's economic growth.³ It will be more difficult to increase the skill mix of the workforce when fewer new workers enter the labor market each year. With a slowdown in labor force growth and an increase in the skill levels demanded by the jobs now being created, Washington's economy is going to need every available worker in the state to be adequately prepared. Part of the

solution may come from preparing workers in population segments that have been underrepresented in technical education programs and the workforce at large. These segments include people with disabilities, people of color, and women.

Racial and Ethnic Diversity is Growing

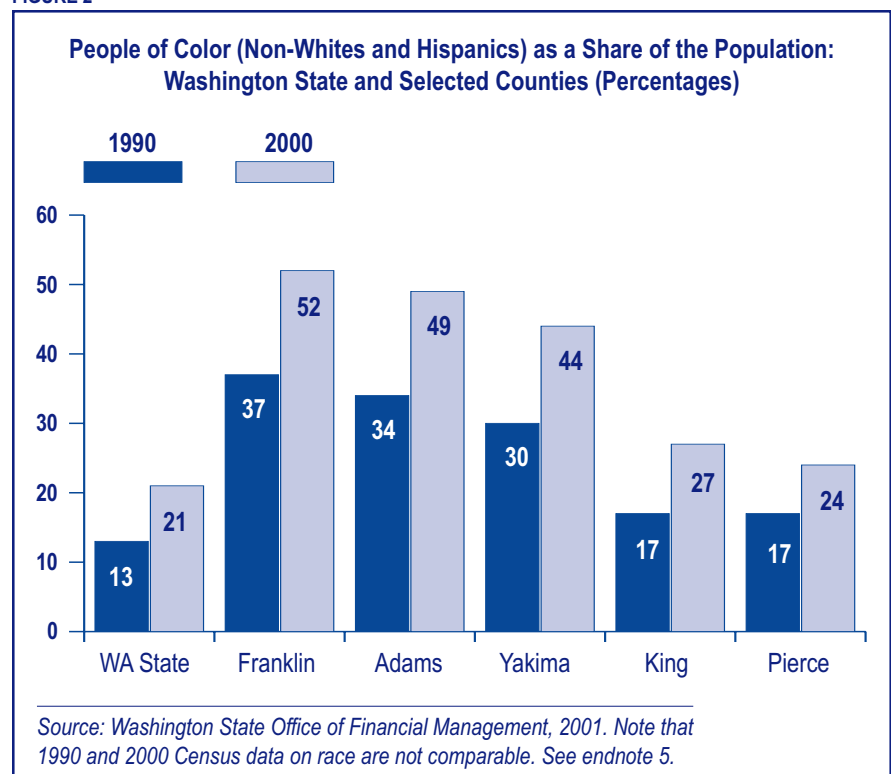
Washington State is becoming a more diverse place to live. Growth in the number of people of color exceeds that of the white population, especially among the Hispanic and Asian/Pacific Islander populations. The number of Hispanics in the state more than doubled during the last decade, reaching over 513,000 in 2002 (8.5 percent of the state population).⁴ In 1990, people of color (non-whites and Hispanics) accounted for 13 percent of our population. In 2000, they were roughly 21 percent.⁵

Racial and ethnic diversity varies by county. People of color account for large shares of the populations in rural counties that have substantial migrant and resident agricultural populations. Diversity has also been increasing dramatically in urban counties of Western Washington.

About one in every ten persons in the state is an immigrant. According to the 2000 Census, more than 614,000 Washington residents, 10.4 percent of the population, were foreign born. Among these immigrants, 39 percent came from Asia, 28 percent from Latin America, and 21 percent from Europe.

These trends are evident in our schools. Twenty-seven percent of the state's K-12 students are students of color, up from 12 percent in 1980 and 18 percent in 1990.⁶ Cultural diversity is also growing, and the

FIGURE 2



state's transitional bilingual instruction programs are serving an increasing number of students for whom English is a second language. A total of 159 primary languages were represented in the 1999-2000 school year.⁷

TABLE 1

Washington's K-12 Students by Race and Ethnicity

RACE/ETHNICITY	1990 (#)	2001 (#)	CHANGE (%)
Asian	47,065	75,919	61.3
African American	35,174	54,591	55.2
Hispanic	47,354	110,474	133.3
Native American	20,742	27,647	33.3
White	689,374	741,793	7.6

Source: School Enrollment Summary, School Year 2001-2002, Office of Superintendent of Public Instruction, April 2002.

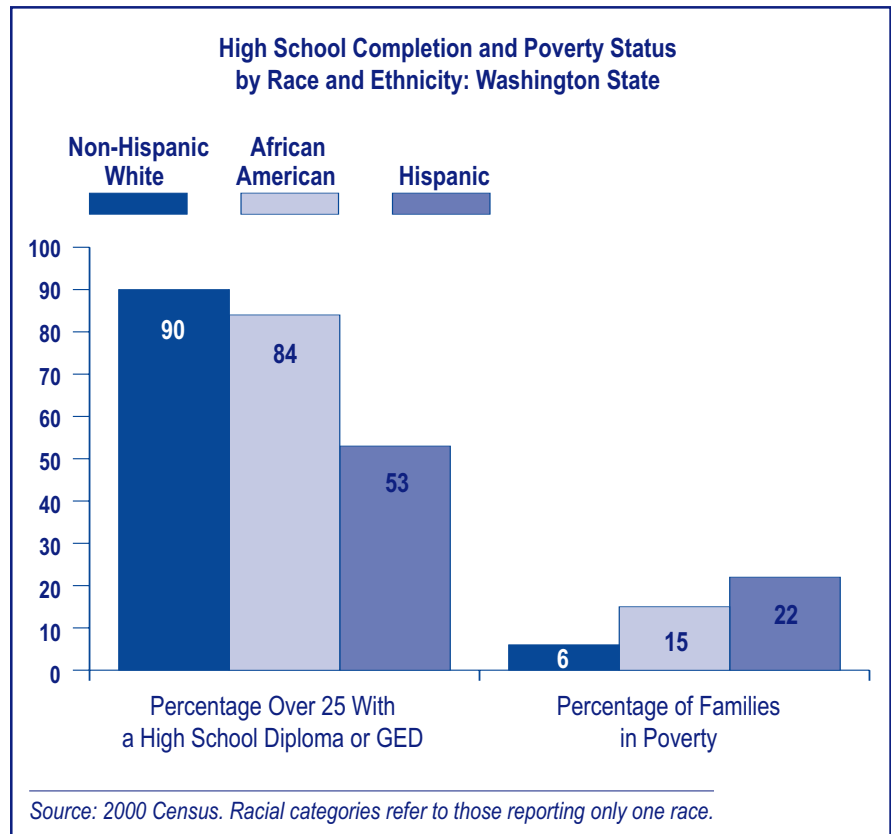
As the population changes, so does the composition of the workforce. Non-whites (African Americans, Asians, and other racial minorities) are expected to account for a quarter of the net labor force growth in the state between 2001 and 2026. In terms of ethnicity, workers of Hispanic origin are projected to account for over 40 percent of the growth during this period.⁸

In the past, for a variety of reasons, including discrimination, people of color have obtained less education on average than whites and have experienced higher levels of unemployment and poverty. As a result, this growing population has a large, unmet need for education and training. This economic need has consequences. The median household income for African Americans in Washington State is 76 percent that for non-Hispanic whites; for Native Americans and Hispanics it is 69 percent.

FIGURE 3



FIGURE 4



The economic literature on racial inequality focuses primarily on the experiences of African Americans. The black-white wage gap has narrowed over the last half century, but blacks still are paid less than whites. Moreover, some segments of the black population have not advanced. “In cities across the county, and in rural areas of the Old South, the situation of the black underclass and, increasingly, of the black lower-working classes, is bad and getting worse.”⁹ Many economists believe that market discrimination against blacks, though it still exists, is not as important a source of racial inequality as in the past. Much of the gap in earnings is due to differences in skills. Therefore, policies that promote skill formation among blacks, such as improving schools and neighborhoods, are critical. There is substantial evidence that abilities and motivations are formed at an early age. “Early interventions are far more effective than late ones, because early skills and motivation beget later skills and motivation.”¹⁰

A Graying Population

The leading edge of the baby boom is in its mid-fifties. Before long, this largest generation in American history will swell the ranks of the retired. Already, people over age 65 constitute the fastest growing segment of the population. Following the national trend, Washington had 662,000 people age 65 and older in 2000, accounting for roughly 11 percent of the population. Recent forecasts suggest this number will reach 1.22 million, or 16 percent of the population, by 2020.¹¹

In contrast, the relatively small number of persons born during the period following the baby boom will

soon enter their prime years of labor force participation. Nationally, the ratio of active to retired workers may drop from 3.4 workers for every retiree in 1998, to 2.4 workers in 2020. By 2030, the ratio could drop to two workers for every retiree.¹²

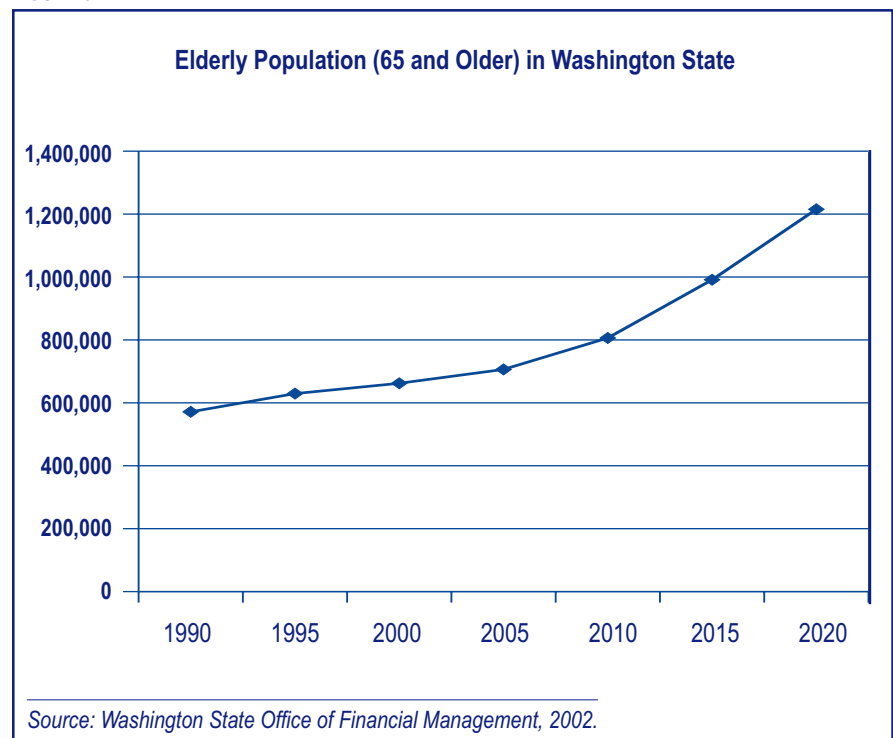
These trends will place considerable financial pressure on the public and employer-sponsored programs that provide income support and health care to older Americans. The burden on caring for elderly parents will also increase, placing additional demands on the time and finances of the working-age population.

With fewer younger workers entering the labor force, employers will increasingly turn to hiring older workers, and market forces are already pushing firms in this direction. The average age at retirement declined over the past 30 years, but evidence suggests the trend is reversing. A study by the American Association of Retired Persons found that 8 in

10 baby boomers plan to work during their “retirement years,” though not necessarily full time.¹³ Several factors will allow more workers to postpone full retirement in the future. Life expectancy has increased from age 71 to age 77 over the past 30 years. Health or physical abilities are not generally a barrier to activity until people reach their mid-70s, and the share of workers in physically demanding jobs has declined dramatically.¹⁴

Policy changes, such as the increase in the Social Security retirement age, should induce older workers to remain in the labor force longer. The age of eligibility for collecting full Social Security benefits will increase gradually to 67 over the next 20 years. In addition, the earnings test for those aged 65 or older has been eliminated, removing a disincentive to remain in the labor force. The earnings test limited how much Social Security recipients could earn before having to forfeit part of the benefits.¹⁵

FIGURE 5



Changes in pension schemes are also reducing disincentives to working at older ages. The trend is toward more defined contribution pension (e.g., 401(k)) plans instead of defined benefit plans. Defined benefit plans provide the most benefits when taken at the earliest age of eligibility.¹⁶ They penalize workers who work beyond a certain age.

Some firms are designing new work arrangements to encourage retired workers to return to the workforce as part-time employees. Efforts have been constrained, however, by tax laws and other legal barriers. According to a survey conducted by a benefits consulting firm in 2000, 16 percent of firms offered some form of phased retirement. The most common approach was for firms to rehire retired employees on a part-time or temporary basis. One problem is that this approach requires workers to first leave the firm.¹⁷

In addition to there being more retirees, the age composition of those remaining in the workforce will shift. The number of older workers in the state will rise dramatically—1 out of every 5 workers will be 55 or older by 2025, as opposed to roughly 1 in 10 in 2000.¹⁸

Public and private education programs will need to serve an increasing number of older workers seeking retraining.¹⁹ Firms are also changing their practices toward developing older workers since the returns on investments in training them can be high. They often have better education levels than today's high school graduates, and are less likely to switch jobs.²⁰ Massive investments in new technologies and changes in work organizations have increased the demand for highly skilled workers in all sectors of the

economy. Skill requirements are increasing across industries. Older workers who regard learning as a lifelong pursuit, instead of something that ends with the completion of their formal education, will profit most.

Opportunities for Youth

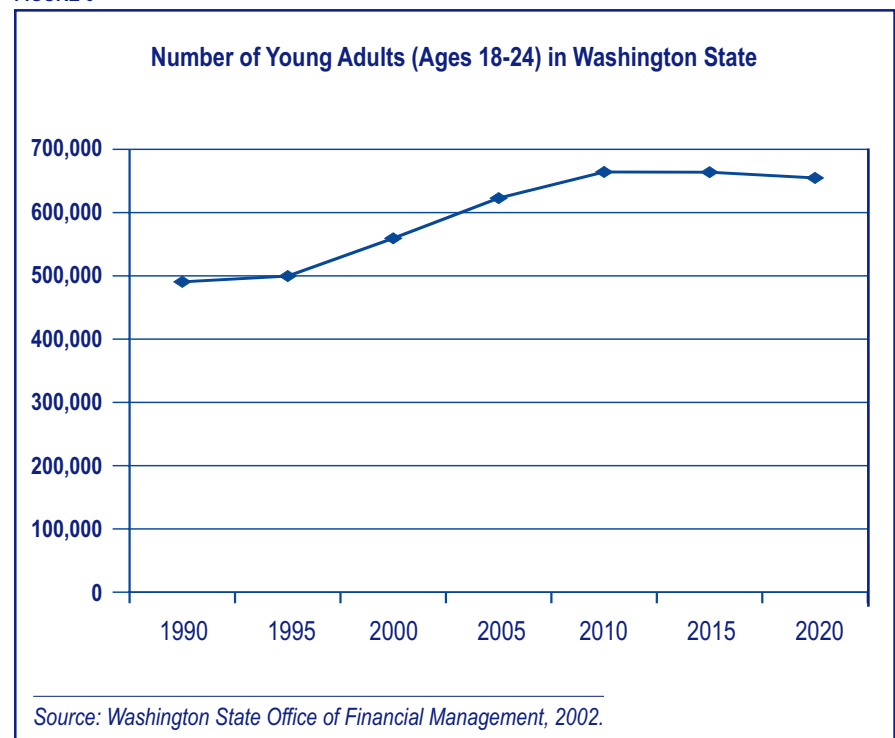
Another potential source for new workers will be the rapidly increasing population of young people that constitute the baby boom "echo." If the economy is to adjust successfully to an aging population, we must prepare the coming generation of young workers for full and productive participation in the world of work. Projections show that the state's population of 18 to 24 year-olds will continue to increase rapidly over the next few years and then level off after 2010.

The graying of the labor force offers unprecedented higher wage opportunities for well-prepared

young people. Too many young people, however never complete high school. Data on school dropouts are incomplete, but as many as a third of Washington ninth graders apparently do not graduate "on-time" with their class.²¹ Some complete school later and some obtain GEDs, but many do neither. According to data from the 2002 Washington State Population Survey, 14 percent of Washington residents aged 20 to 29 did not have a high school diploma. This estimate is consistent with data from the 2000 Census. According to the census data for Washington, 13 percent of those aged 25 to 34 had not completed high school or obtained a GED.

Too many emerge from high school ready for neither further education nor work. Even in schools that received funding to implement school-to-work activities, the majority of students generally did not participate in activities designed

FIGURE 6



to link students with their post-school lives. In schools receiving school-to-work funding, only 31 percent of students took part in both classroom and workplace activities designed to prepare them for life after high school such as tech-prep, internships, and co-op education. Students who did participate in intensive school-to-work activities rated their school higher in preparing them in basic academic skills, seeing the link between school and the “real world,” and in setting goals for the future.²²

Too few young people participate in secondary career and technical education. More than a third of high school graduates in Washington go straight to full-time employment after graduation. Fewer than one in three of these students completed a vocational program.²³

A recent study conducted by the W.E. Upjohn Institute for Employment Research found that secondary career and technical education in Washington State has strong positive impacts on post-high school employment and earnings. Moreover, a comparison of the program benefits and costs indicates that it is a cost effective means of improving the labor market outcomes for youth.²⁴

Obviously, jobs that require only a high school education do not pay as well as higher skilled positions. It is generally in the economic interest of an individual to obtain as many years of education as possible. Too often, students who do not immediately move on to postsecondary education after high school spend years drifting from dead-end job to dead-end job before seeking more education and training at a community or technical colleges, apprenticeships or private

career schools. The median age of job preparatory students in our community and technical colleges is 31.

Moreover, survey data suggest that many youth are neither employed nor enrolled in higher education after high school (Table 2).²⁵ About one in every five Washington youth in their early twenties are neither working nor in school. The incidence is only somewhat higher for young women, perhaps due to child rearing. Among those aged 21 to 23, 20 percent of young women and 17 percent of young men are neither working nor in school.

The next ten years provide a demographic window of opportunity to deepen our human capital investments in youth. During the 1990s, Washington’s K-12 population grew rapidly, increasing by 25 percent. This growth made it more difficult to increase educational expenditures per child and reduce student-teacher ratios. Little growth in the overall

TABLE 2

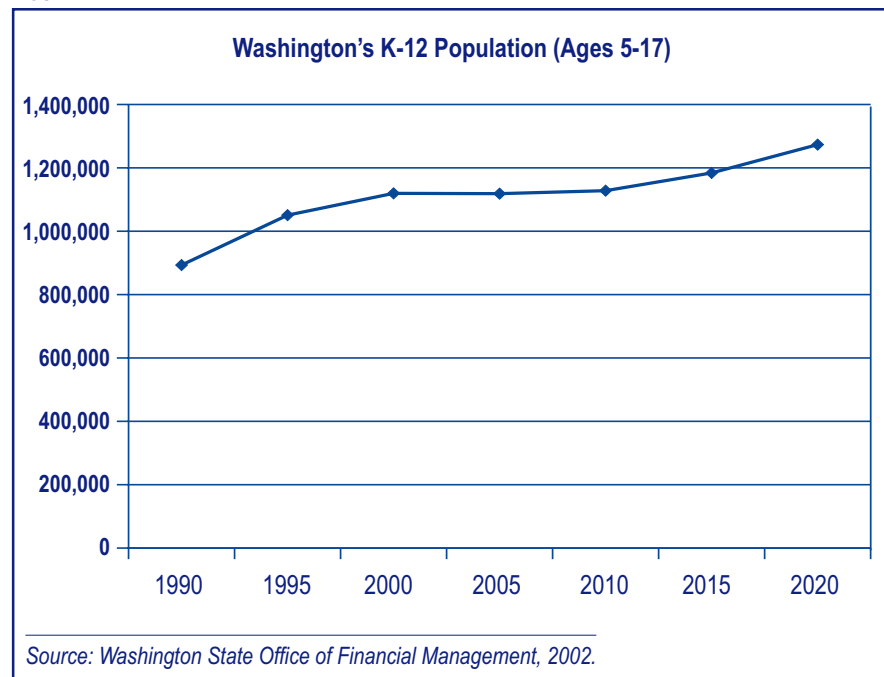
**Youth Activities 2002
(Percentages)**

STATUS	AGE 18	AGE 19	AGE 20	AGE 21	AGE 22	AGE 23
Working	45	55	63	66	59	74
Enrolled in School	77	55	53	39	43	24
Working & Enrolled	32	22	29	23	21	16
Not Working or Enrolled	10	12	13	18	19	18

Source: Estimates are based on the 2002 Washington State Population Survey.

number of K-12 students is expected during this decade, but the respite is short. Growth in the student population resumes after 2010 as the baby boom echo cohort reaches childbearing age.

FIGURE 7



People With Disabilities

According to the 2000 Census, 981,000 Washington residents age five and older have a disability. These include conditions such as blindness or deafness, conditions that substantially limit physical activities, difficulty learning or remembering, difficulty getting around inside the house, difficulty going outside, and difficulty working at a job.

The incidence of disability increases with age, but it is high even among youth. Among youth 5 to 15 years of age, 6 percent have a disability (primarily learning disabilities). Among the working-age population (ages 21-64), 17.8 percent have some disability and 11 percent have difficulty working at a job because of a physical, mental or emotional condition.

As the state faces the future, people with disabilities constitute an important underutilized human resource. Among working-age (21 to 64) Washington residents who have a disability, only 58 percent were working in 2000 (versus 78 percent of those with no disability).²⁶ Moreover, many who have jobs are not employed to their full potential. According to a 1996 survey of 2,500 Washington citizens with disabilities, a third of those employed said their jobs do not use their skills well. The incidence of involuntary part-time employment is high. According to the 2002 Washington State Population Survey, 42 percent of part-time workers with disabilities reported that they wanted to work full-time.

People with disabilities tend to have lower educational attainments than the general population. Among young adults ages 18 to 34 in

FIGURE 8

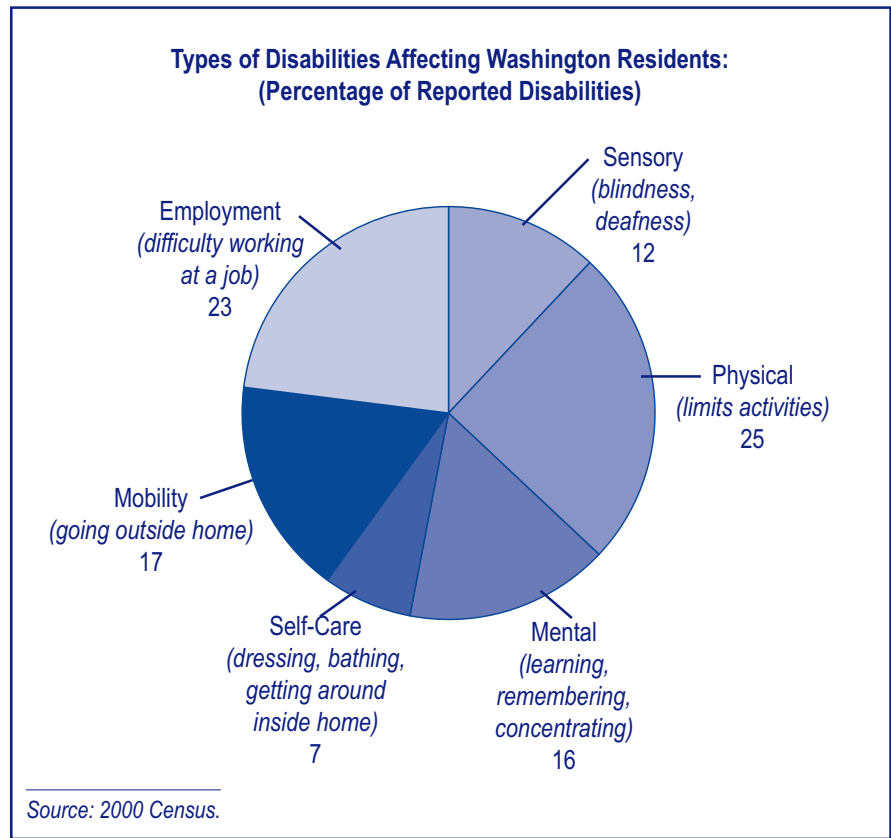
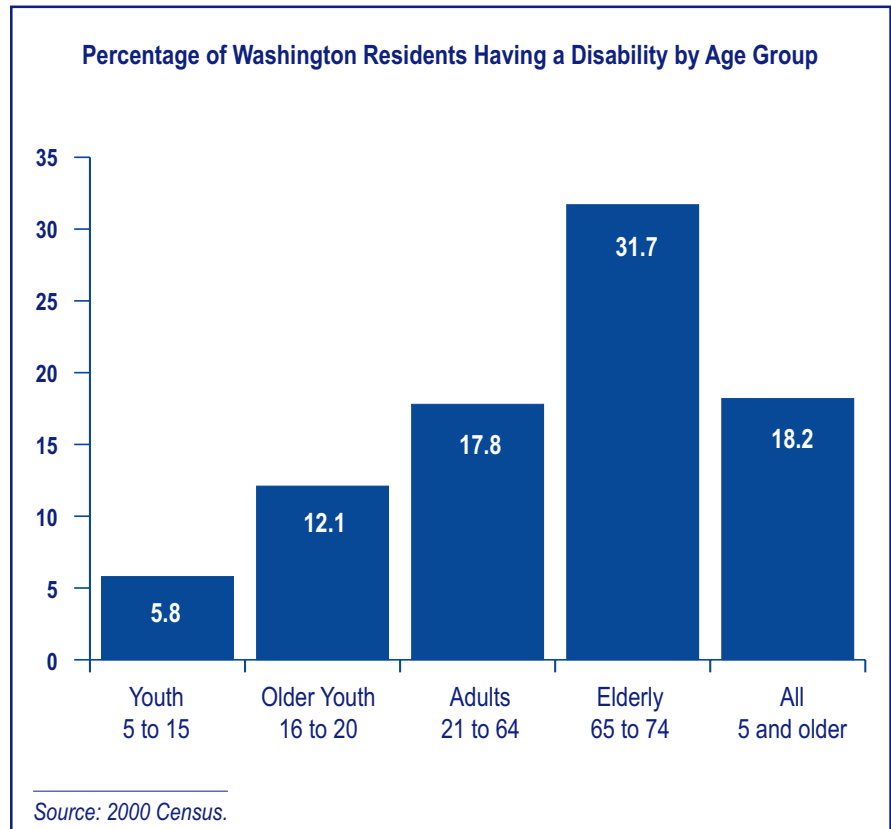


FIGURE 9



Washington, those with a disability are about twice as likely to have not completed high school (28 percent versus 15 percent). They also are only half as likely to have an associate, baccalaureate or graduate degree (16 percent versus 32 percent).²⁷

Women in the Labor Market

Women have entered the labor market in increasing numbers over the last 25 years. In 1975, 47 percent of working-age women in Washington were in the labor market. By 2000, 62.5 percent were working. The largest increases have already occurred, however, and the female participation rate is not expected to change much in the future. Still, women will account for nearly half of the net additions to the labor force over the next two decades.²⁸

Although more women are working, their economic progress has been uneven. The gender gap in earnings narrowed during the 1980s and 90s, but women still earn less than men do. They continue to be more heavily concentrated in jobs with limited career ladders or jobs in fields that are modestly paid. Even when women and men are in the same occupation, however, men tend to have higher pay.

Disparities in earnings between women and men are due to differences in education and occupation as well as discrimination. It is extremely difficult to isolate the effects of discrimination, since it can affect women's educational and occupational choices. However, studies typically find that about a third of the earnings gap is due to gender differences in education and experience, and another third is due

to differences in occupation and industry or employment. This leaves a third of the gap unexplained, and potentially due to discrimination.²⁹

Although the extent of occupational segregation has been declining since 1970, as women began moving into predominantly male jobs, it remains an issue.³⁰ Consider the students leaving Washington's community and technical college job preparatory programs during the 1999-2000 school year. Many female students did enroll in high-wage programs; women accounted for 9 out of every 10 students in associate degree nursing, practical nursing, and dental hygienist programs. Many more women, however, enrolled in programs that pay relatively low wages. Among the students exiting from the twelve traditionally lowest-paid programs³¹ in the colleges, 82 percent were women.³²

Women who are single parents, and their children, often face economic hardships. According to the 2000 Census, 110,663 Washington families (or 7.3 percent) were living in poverty. About half of these (52,290) were families headed by women with no husband present. To the extent that women remain concentrated in occupations and industries that do not provide them with compensation sufficient to support them and their children or offer opportunities for advancement, these families will remain poor. Economic disadvantages will continue to constrain their children's educational achievements.

Women typically still have primary responsibility for housework and child care, and this has limited their progress in the labor market. Policies that facilitate the integration of

work and family responsibilities, such as on-site child care and flexible work schedules, have become more prevalent. "Employers are likely to continue to expand such policies as they respond to the shifting composition of the workforce and a desire to retain employees in whom they have made substantial investments."³³

Implications

We are confronted with an increasing scarcity of skilled workers, and demographic trends will exacerbate the problem. Large segments of our population are poor, have little or no training, and have only limited prospects for wage progression.

Poorly prepared citizens will find themselves unable to compete for jobs in the most profitable and competitive companies. Can we afford to have any of our workers unemployed or underemployed for lack of skills? Not if we want to preserve the quality of life we treasure. We cannot afford to waste a single individual.

We must ensure that all our citizens—people of color and whites, women and men, people with disabilities, and young and old—are prepared and positioned for success.

Endnotes

¹Washington State Office of Financial Management and Washington State Employment Security Department, *2002 Long-Term Economic and Labor Force Forecast for Washington*, April 2002.

²The Office of Financial Management takes into account expected levels of net migration in their population and labor force forecasts. Net migration is forecast based on an econometric model relating Washington's net migration to traded sector employment changes. Historical migration rates are also used to develop long-range migration forecasts. Net migration between 2001 and 2026 is forecast to average about 44,400 per year, slightly below the 49,600 annual averages over the past 30 years.

³Note that slower labor force growth does not necessarily imply that general labor shortages will occur. Changes in labor demand and productivity could offset slower growth in the number of workers.

⁴Provisional Estimates of the State Population, Washington State Office of Financial Management, June 2002.

⁵ These estimates are based on U.S. Census data. It is difficult to precisely estimate trends by race using recent census data. Because individuals could report only one race in the 1990 Census and could report one or more races in the 2000 Census, data on race are not comparable. In the 2000 Census, 3.6 percent reported two or more races. Analysis of Washington State Population Survey data, conducted by the Office of Financial Management, suggests about 3 percent of whites would switch from a single race to multiracial response due to the change in questions. Therefore, some of the increase in minority population shares presented in Figure 2 is probably due to reporting changes.

⁶Office of Superintendent of Public Instruction, School Enrollment Summary: Washington State School Districts, School Year 2001-2002, April 2002.

⁷Office of Superintendent of Public Instruction, Educating Limited-English-Proficient Students in Washington State, December 2000.

⁸Washington State Office of Financial Management and Washington State Employment Security Department, *2002 Long-Term Economic and Labor Force Forecast for Washington*, April 2002.

⁹Glenn Loury, "Discrimination in the Post-Civil Rights Era: Beyond Market Interactions," *Journal of Economic Perspectives*, 12 (2), Spring 1998.

¹⁰James Heckman, "Detecting Discrimination," *Journal of Economic Perspectives*, 12 (2), Spring 1998.

¹¹Washington State Office of Financial Management, Forecasting Division, Forecast of the State Population by Age and Sex: 1990-2030, November 2002 Forecast.

¹²The 1998 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance Trust Fund, 1998.

¹³Arlene Dohm, "Gauging the Labor Force Effects of Retiring Baby Boomers," *Monthly Labor Review*, July 2000.

¹⁴"Aging Workers," *The Economist*, September 4, 1999, 65-68.

¹⁵Patrick Purcell, "Older Workers: Employment and Retirement Trends," *Monthly Labor Review*, October 2000.

¹⁶Arlene Dohm, "Gauging the Labor Force Effects of Retiring Baby Boomers," *Monthly Labor Review*, July 2000.

¹⁷Patrick Purcell, "Older Workers: Employment and Retirement Trends," *Monthly Labor Review*, October 2000.

¹⁸Washington State Office of Financial Management and Washington State Employment Security Department, *2001 Long-Term Economic and Labor Force Forecast for Washington*, April 2001.

¹⁹Frederica D. Kramer and Demetra Smith Nightingale, "Aging Baby Boomers in a New Workforce Development System," The Urban Institute, report prepared for the U.S. Department of Labor, Employment and Training Administration, January 2001.

²⁰"Aging Workers," *The Economist*, September 4, 1999, 65-68.

²¹An analysis of dropout rates from previous years, conducted by OSPI, suggests an on-time graduation rate for the Class of 2002 of 65.7 percent. In "Graduation and Dropout Statistics for Washington's Counties, Districts, and Schools, School Year 2001-2002", Office of Superintendent of Public Instruction (OSPI) reports an on-time graduation rate for students in the Class of 2002 of 79 percent. Of those not graduating on time, OSPI reported that 10.4 percent were dropouts. However, it was also noted that most districts failed to report the enrollment status of students in the Class of 2002 who had dropped out in previous years. As a result, the "actual" dropout rate is higher and the on-time graduation rate lower than the reported rates.

²²Ronald J. D'Amico and Andrew Wiegand, "Impact Findings for an Outcomes Evaluation of School-to-Work Transition Initiative in Washington State," Social Policy Research Associates, report prepared for the Washington State Workforce Training and Education Coordinating Board, June 2001.

²³Among high school graduates, however, only about 18 percent complete a program in career and technical education. Half of these vocational completers go on to postsecondary education or training during the year after graduation; leaving only 9 percent that go immediately to work. See *Demand, Supply and Results for Secondary Career and Technical Education*, Workforce Training and Education Coordinating Board, January 2003.

Endnotes (cont.)

²⁴Workforce Training and Education Coordinating Board, *Workforce Training Results 2002*, March 2003.

²⁵Just over 2 percent of youth ages 18 to 24 reported having a disability that prevents them from working. These youth are excluded in the statistics presented in Table 2.

²⁶U.S. Census 2000.

²⁷Ibid.

²⁸Washington State Office of Financial Management and Washington State Employment Security Department, “*2002 Long-Term Economic and Labor Force Forecast for Washington*,” April 2002.

²⁹Francine Blau and Lawrence Kahn, “Gender Differences in Pay,” *Journal of Economic Perspectives*, Fall 2000,

14(4), 75-99. Many economists are reluctant to attribute the unexplained portion of the earnings gap to discrimination. This portion could be due to differences in unobserved characteristics that affect productivity and earnings.

³⁰Ibid.

³¹These 12 include: administrative support, cosmetology, early childhood education, teaching assistant, nursing assistant, veterinarian assistant, marketing and sales, agriculture/forestry, culinary arts, social services, other health services, and other services.

³²Workforce Training and Education Coordinating Board, *Workforce Training Results 2002, 2003*.

³³Francine Blau and Lawrence Kahn, “Gender Differences in Pay,” *Journal of Economic Perspectives*, Fall 2000, 14(4), p.97.

Workforce Training and Education Coordinating Board

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