

The Fate of the American Dream: Strengthening Our Education and Skills Pipeline

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Keynote Address Transcript

Opening Address by William H. Donaldson 27th Chairman, U.S. Securities and Exchange Commission

I want to say good morning to all of you on behalf of Jobs for the Future and welcome everyone to what is surely going to be a very stimulating and productive day. The brochure, which you have in front of you, noted that today's forum would be devoted to "the fate of the American dream, strengthening our education and skills pipeline." Now, some might characterize the American dream in somewhat different ways, but most of you today, representing business, government, and academe, deal every day with the condition of our education and skills pipeline and the escalating need for the 21st century U.S. economy. Few would deny that the mismatch of labor force skills and the education needed to teach those skills threatens our nation's leadership position in today's highly competitive global economy. This skills pipeline is leaking badly, and at great and growing cost to individuals in our labor force and, of course, to the business and government institutions of our economy. It is ultimately, in my view, an unacceptable cost for our entire society.

But before I touch on the situation, I want to say how fitting and appropriate it is to examine the subject matter of today's forum on the anniversary of the founding of Jobs for the Future. I want to pay tribute this morning to the foresight and dedication of Arthur White and Hilary Pennington, who in founding JFF identified the growing inadequacy of our education system to provide the educational training needed by an increasingly diverse workforce: a workforce in need of advancing escalating skills required by a 21st century America. JFF, for over 20 years, has been a powerful catalytic force. The JFF staff, past and present, known to so many of you in this room today, continues under the outstanding leadership of Marlene Seltzer. So I want to say, on behalf of all of you, how much we are indebted to this group of entrepreneurs. And I'll have a few words about entrepreneurialism in a minute.

Many of you who work for world class corporations, along with the others who are sponsoring today's conference, are searching for college graduates who are ready for the fast moving, highly competitive 21st century economy. Many of you are educators running schools and colleges that strive to prepare their graduates for this new world, but at the same time you're finding that the high school graduates who come into your doors are sadly unprepared for the rigors of college, let alone careers. And if you work in government you're hearing and responding to a wide variety of calls, from business, education, and the public at large. In this rapidly changing and increasingly complex world, addressing these issues will require, in the final analysis, a cooperative and inter-related effort.

U.S. corporations, and especially those with multinational operations, are keenly aware of the challenges facing American workers from global competition. For you a better educated workforce is both a civic duty and a business imperative. You don't want to see the American dream of career advancement and upward mobility slip away, and you know the companies in India and China and other nations that are now convenient bases for our outsourcing low-end production work will soon be tomorrow's competition in the higher-end markets. The underlying challenge, and, in my view, tragedy, is that too few Americans have the skills to keep, get, and be productive in good jobs, in jobs that pay enough to support a family and careers that can support a person and a family and move them into the middle class—the skills that are needed by

individuals who will keep our companies, and our democracy for that matter, thriving for decades into the future in jobs that are the key to the American dream.

Let me touch on some of the data, which I suspect all of you know better than I, data and statistics that are ominous in the directions they reveal, data that are beyond debate. Let me cite a few of the statistics that I found most troubling. And you should look at your own companies and campuses and at JFF's Action Agenda in your materials for further verification.

American employers pay a premium to get the best employees, and, because ours is a knowledge economy, the number of well-paying jobs is rising rapidly. Over two-thirds of the new jobs require some postsecondary education. And, of course, the fastest-growing, best-paying jobs require the most education. Even at the lower level, it's been shown time and time again that skills required to succeed in high school, and college for sure—skills in reading and writing and math and things like gathering information and working in groups—are the same skills as those needed through and after high school or college to get a job and to enjoy a career that pays well enough to support that family.

Now for some of the bad news. Think about the huge numbers of young people who drop out of the educational pipeline. For every ten students who enter eighth grade in this country only seven graduate from high school. Only three out of those ten will complete a postsecondary degree by their mid-20s. Said another way, what has been termed a third of the nation drops out of our high schools and, for all intents and purposes, out of the American economy. For those of you who are employers, that means one-third of our young people are unprepared to help your company compete.

For those of you who may still imagine we're making progress, it seems that high school and college graduation rates, which had improved significantly through the 1970s, are now basically stagnant. For a young person who drops out, the path back into school to getting a high school diploma, let alone a college degree, is strewn with obstacles, especially for those from low-income families.

And what of our young people who do graduate from high school? Only one high school graduate in two is really ready for college. And that situation, too, does not seem to be improving despite decades of educational reform. What about other countries in the global economy? If this is a race, how are we doing? The disturbing answer is that U.S. students seem to fall further behind the longer they're in school. As an example, U.S. fourth graders do relatively well compared to other fourth graders in math and science, but our twelfth graders rank near the bottom compared to other industrialized nations of the world. Just last week the OECD reported that U.S. is ninth among industrialized nations in the share of adults age 25 to 34 with at least a high school degree and seventh in the share of people with a college degree. By both measures the United States was first in the world as recently as 20 years ago. From first to ninth in two decades. Imagine the outcry if this were about the Olympic rather than the lives of millions of people.

Looking, as I do, at this from the perspective of someone outside your field, it's impossible to miss the implied challenges. In a minute I'd like to reflect on those, but before I do let me observe what we are fond of calling a system of education. This system for preparing a 21st century workforce is in too many ways comprised of a thousand moving parts, many more than a thousand, with far too little underlying connective tissue. For example, think about how many high school students have no idea what to expect in college or on the job. Many college students know little about what is possible, or for that matter expected in the workplace.

Employers have a great need for efficient, effective ways to hire, keep, and develop the skills to advance employees, yet they actually make little use of the services that are available from the government-supported workforce development system. A prime reason many employers say is quality. For example, employers—and, I might add, job seekers—are bewildered by the dearth of information about adult learning opportunities at community colleges or elsewhere, let alone how to access or pay for the education and training.

Government business partnerships are critical, of course, and can accomplish much, yet too many of the partnerships seem to be too weak. From the perspective of business, and from the perspective of those seeking jobs, they pay lip service to obvious priorities, but in practice they do too little in the light of the scale of the challenge that's upon us. Community partnerships among employers, unions, education institutions and government agencies could expand the locale or regional pool of knowledgeable workers, but such collaborations are all too rare and the struggle for stable funding is never ending.

Another way to talk about today's topic is in terms of the investment in human capital. Again, what we see is somewhat discouraging. Even the billions that local, state, and federal spend on learning from pre-school to secondary to college and for adults is woefully inadequate, especially compared to spending on other public priorities. And far too few companies recognize the long-term competitive benefits of investing in all of their employees, especially in ways that enable lower-level employees to upgrade their skills, be more productive, and advance.

When Jobs for the Future asked me to say a few words at today's meeting, I protested that whereas I'd be glad to do so there has been little in the particulars of the organizations that I've been associated with that would be of great relevance to this audience, composed as you are of experts from all the different sectors you represent, business and government, federal, state and local education. You have all wrestled for a long time alongside organizations such as JFF with a mismatch between the legacy methods of preparing a workforce. But as I thought about some of the challenges facing a few of the organization I've helped to lead, it becomes obvious to me that a common denominator in my past experience may have some relevance to what all of you face.

Years ago when I joined two other young entrepreneurs, all of us almost straight out of graduate school, we saw a disconnect between how traditional Wall Street was organized and a major shift then gathering steam: from individual ownership of corporate America to institutional ownership. Individuals, then owning 90 percent plus of U.S. equities, were soon to be overshadowed by a new breed of professional investors managing institutions such as mutual funds and pension funds, where increasing investment foretold their current dominance of stock ownership. We recognized the inadequacy of the research and advice for the new breed of professional investor, which was resulting in these growing institutions investing in the more traditional, same old equities, the "Generals"—General Motors, General Mills, General Foods, and so forth—as opposed to directing their funds into the newer companies, such as then-small unknown companies as Xerox and Dun & Bradstreet and so forth. And as a result of this, the cost of capital for the segment of the economy that needed capital languished until these investors could be given the expertise and knowledge to invest in lesser known areas.

What I'm talking about here is our attempt very early on to provide research that was a lot closer to what a professional would need, a lot closer to what a management consulting firm might put forth than what Wall Street was offering. The point here that I'm trying to make is not whether we were smart or lucky but rather that we went through a process. And the process began with what I will call the conceptualization that led us to recognizing what was going on in terms of business as usual while something new was coming over the horizon. We conceptualized that, and then, most importantly, we applied our indicated solutions with a spirit of entrepreneurship. Entrepreneurship; really that word comes from "taking something on." And I believe that was what we needed to do in terms of taking on the traditional way of doing things.

As a fast forward to my first years as the dean of Yale's new School of Management, I helped with others at Yale to conceptualize what kind of a contribution a great university like Yale could make. Yale having prospered for several hundred years without seeing a differentiating need for a business school, or for that matter a public policy school such as the Harvard Business School and the Harvard Kennedy School. Once again, we recognized and conceptualized a need: for a school of public and private management under one roof. We saw the increasing interrelationships between public and private sectors being inhibited by the artificial separation of the training into separate and unrelated educational entities.

We challenged the separation of public and private management disciplines as counterproductive, and we took on the entrepreneurial challenge of seeing the logic of teaching future public and nonprofit managers the so-called business disciplines of marketing, finance, and control, and future business managers the skills of public policy and policy analysis.

Of course, in my most recent incarnation, as Chairman of the SEC, once again there was the challenge of taking on the accepted way of regulating explosive growth, the kind of explosive growth that in the late '90s and early 2000s gave way, unfortunately, to corporate and financial malfeasance on a scale not seen since the years that led up to the 1929 crash. A period, incidentally, back in 1929 and following, where the president of the New York Stock Exchange was sent to jail, and the CEO of the predecessor corporation of Citicorp was indicted for embezzlement. The public and legislative response was the passage of the Securities Acts of '33 and '34 and the establishment of the Securities and Exchange Commission itself.

The point here is not the remedial actions that we took, that the SEC took, or the penalties and fines and rules and regulations, nor, for that matter, the passage of the Sarbanes-Oxley Act by an angered nation and the congressional representatives that represented them, but rather the attempts that we've been making at the SEC, and are still underway, to conceptualize and then to revise an accepted structure so that it could be more anticipatory. An identification of risk via a system designed to make it possible for the SEC to ferret out by looking over the hills and around the corners in anticipation of uncovering developing problems and figure out where those problems were beginning to appear and the areas of conflict. And then to try and remediate this before it happened. This is a work in process at the SEC, preventing business malfeasance before it happens, instead of arriving at the scene of the accident after it has happened and the damage has been done. Again this is an attempt—and not easy in a federal bureaucracy—to try and change the way things are done.

Why is such an approach pertinent in at least three of these personal situations? How are they pertinent for those of you who are gathered here this morning, i.e., an approach that steps aside to take an overall conceptual look at the situation? What are the real drivers of the gap in our educational structure resulting from dependence on an inadequate legacy system, which because it has been so easily accepted continues to produce inadequate outcomes that are now upon us and gaining ground?

As you proceed in today's meetings, I hope that you will take some time to step back and reflect in a conceptual way on the scope and the scale of the problem facing our country relative to the skills and educational pipeline needed to address the job proficiency of our workforce, increasingly required to address the needs of a rapidly changing industry. What you'll hear about today are some amazingly collaborative efforts ranging from the tremendously important work that Patty Stonesifer and the Bill & Melinda Gates Foundation are putting forth, to equally important and in many cases successful efforts put forth at a forum of multiple project. And I don't mean to cast a negative, overly negative view on all that has been accomplished.

I'm simply trying to say that I think, along with the running of the partnerships and so forth that we have now, that we need to pause and ask ourselves are we doing enough? And if we aren't, how can we bring some connectivity to all of these multiple efforts and bring a recognition of the need to a higher level? This connective tissue seems to me to be missing—to take the successful projects forward on a vastly expanded scale. What I hope you might consider is how all these diverse efforts might be brought into a more cohesive whole to be pushed forward by a coordinated, entrepreneurial effort.

In fact, if such a review results in a conclusion that more needs to be done, and I suspect it will, and that it needs to be more coordinated, then it surely will require a real entrepreneurial thrust to redirect and reorganize some of the institutions represented here today, and it will need to be done by entrepreneurs such as you sitting here in this room. Too often, in my view, in the history of our country our inability to challenge the inadequacy of existing approaches and bureaucracies has resulted in halfway measures constrained by the

old ways, which were not designed for or capable of reaching to new realities. As we all look at the emerging problems and challenges facing our country—whether it be the resolution of Iraq, the threat of containing terrorism, or the burden on our resources of an aging population with accelerating health and subsidized retirement needs—the education skills pipeline problem central to this meeting runs the risk of being delegated to the backburner.

It will only be through organizations such as Jobs for the Future and others like it that the political muscle can be assembled to move this vital area onto the front burner. And the challenge of doing that, given the demands facing the country and other areas, is considerable. The need to connect the fibers of the many efforts underway is uncontroversial, as far as I'm concerned, but a large political commitment driven by entrepreneurial forces will be essential. So there you have it. I hope you have a great day. And thanks very much for asking me to speak. Thank you.