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## Closing the Talent Gap

By Charlie Grantham and Jim Ware

By now you are probably getting tired of hearing us say that there is an emerging talent gap in the US economy. Without getting into the snake pit of economic prediction, let's just say all the evidence we've seen points to a roughly 10 million-person shortfall of "knowledge workers" within five years.

Note: we include in this number skilled workers like machinists, draftsmen, and health care workers. Those are all jobs that in most cases are not really amenable to "off-shoring" (although more and more Americans are discovering that they can get high-quality specialized surgery in India and several other countries for a fraction of the cost here in the United States. Fly to India, get your heart repaired, and take in the Taj Mahal, all for less than a week's stay in a US hospital).

Some of our friends in the legal community recently penned an extremely well-researched and documented white paper entitled "Strategic Initiatives in the Changing Workplace":

<http://www.littler.com/publications/04Strategic%20Initiatives%20White%20Paper.pdf>

We really like the quote in Gary Mathiason's report, citing another HR expert, that this situation will be "corporately life-threatening." Not to brag, but we've have been saying that for the last two years, and finally the message seems to be sinking in.

There are several basic things going on here: an aging workforce and a shortage of new workforce entrants, as well as a lack of infrastructure to meet the employment needs of the future (more on this below in our monthly "rant," [In Our Humble Opinion](#)).

But first things first. We baby boomers are going to leave the workforce in the not-too-distant future. Sure, a few of us will be enticed to hang on for a few more years, but that is just a "finger in the dike" strategy (although very necessary, as we comment below).

In addition, the generation coming along behind us, what *Future of Work* member Spherion as identified as the "emergent workforce," doesn't have the same intense "career at any cost" mentality that many in our generation had (for details see <http://www.spherion.com>, or [send us a note](#) and we can provide you with more information about Spherion's Emergent Workforce research; also, look to a future issue of this newsletter, when we plan to describe the study in some detail).

Thus the labor supply faucet will be turned down at the same time the labor pool develops a severe "leakage" problem, as many of those emergent workers clamor for different working conditions, part-time work, or the option to live wherever they want to without giving up their jobs.

Quoting again from the Littler white paper, "Long-term economic and demographic trends make the (last) recession look like a mere blip on the 21<sup>st</sup>-century labor market's radar screen."

We won't belabor that point any more. It's here, it's real and it must be dealt with **now!** What we really like about Littler's analysis is that it points to many of the employment law challenges this labor shortage will bring about. Most of you have probably never even thought about this implication. For example, post-9/11 public policy has placed a severe limit on immigration as the United States attempts to cope with the "terrorist threat." That policy effectively shuts off a major source of new, young talent for our labor markets.

State and federal government health, safety, and nondiscrimination programs also impact the talent shortages – especially in industry sectors such as health care, technology, and scientific employment. It seems we may have shot ourselves in the foot this time. In the interests of brevity, we simply refer you to the white paper referenced earlier for details. Make sure your CEO reads it!

Basic economics are operating here. Demand increases, supply diminishes, and the development of more resources has practically disappeared. That thud you just heard is the other shoe falling. While all this is going on we (that is, the US economy) have slowed down our "production" of new talent.

There are many indices to look at, but let's focus on just one: the number of college graduates. By 2012 the United States will need about 18 million new graduates but will produce only about 12 million. China and India will significantly outstrip the United States in the number of new graduates during this same time frame. And even more shocking is that in the computer science and engineering professions US graduates *declined* 23% from 2002 to 2003!

### **What to Do?**

The question then is, clearly, where is the talent we need going to come from? And how can we deal with the predicted shortages? We believe there are four primary talent pools that must be tapped to make up for the shortfall (our emphasis here is on the United States, because that's what we are most familiar with, but we believe this analysis applies equally well to other developed economies facing similar challenges).

- **10% of the shortfall, or (one million) workers will come from "hidden talent" pools that already exist but are not understood or recognized**

Many of these folks live in ex-urban and rural areas because of their personal focus on quality-of-life issues (see our [article about micropolises](#) in the October 2004 newsletter for more details on the new growth in these communities).

We believe that an effective way to reach out and bring these workers into the labor force is through a national network of "third places" that bring the amenities and value of "corporate" offices to small businesses on a cost-effective, shared basis. We've written extensively about that idea – see "[Wherever You Go, There You Are](#)" in the July 2004 newsletter, and check out the "[Third Place](#)" page of our *Future of Work* website for an overview and links to other relevant articles and case studies.

There's also a related article by our friend Amy Zuckerman discussing who uses "third places" See <http://www.a-zinternational.com/hiddentech/>.

- **40% (four million) will come from delayed retirements.**

The AARP reports that 69% of people over age 45 expect to work beyond the current “normal” retirement age of 65:

<http://www.microsoft.com/enable/aging/demographics.aspx>.

Adding Social Security incentives like “bonus points,” or benefit increases of up to 8% per year for each year of not applying for social security would be a powerful motivator for delaying retirement.

See <http://www.ssa.gov/retire2/delayret.htm>.

There’s an important added issue here, in that as the baby boomer generation reaches “normal” retirement age, tons and tons of corporate “knowledge” is going to be walking out the door. Even if you could find enough younger workers to replace the arms and legs you are going to lose, there’s no way to replace the gray matter – the accumulated knowledge (and wisdom) about how your business works (especially all the informal components, the workarounds, and that core understanding of how things *really* get done).

Individual organizations really can’t afford to wait for changes in social security in the hope that it will keep older workers from retiring. One of the most important things you **have** to do right now is implement a knowledge retention program in concert with your staff retention efforts.

Read [our review](#), below, of David DeLong’s prescient new book, *Lost Knowledge*, and start worrying today about how you are going to keep those baby boomers on the payroll.

- **20% (two million) will come from outsourcing/offshoring to other countries**

Current best estimates are that between one and two million jobs are being “outsourced” today. Forrester Research predicts that number will increase to three to five million in the next five to ten years. Thus a projected increase of two million is actually a conservative estimate (See Jeffrey Garten, “Offshoring: You Ain’t Seen Nothin’ Yet,” *Business Week*, June 21, 2004, p.28).

Keep in mind that outsourcing and offshoring are not synonymous; we believe that one of the fundamental shifts going on in the economy is the “focusing” of businesses on what they do best, leaving the rest to specialty subcontractors. That movement is increasing both the agility and the productivity of many large organizations. But it isn’t enough; offshoring is also going to grow dramatically because there simply aren’t going to be enough workers in the United States to do what must be done.

- **30% (three million) will come from retraining and upgrading programs**

This is our most volatile action recommendation. Currently Federal and State budgets call for an actual reduction in funding for retraining. We are not optimistic that the public sector will step up to this challenge. Look for the private sector to fill the gap. For example, IBM recently announced a \$25 million re-training program for its business partners (<http://news.com.com/2100-1011-5167506.html?tag=nl>).

Got some better ideas of how to close that talent gap? Let us know ([research@thefutureofwork.net](mailto:research@thefutureofwork.net)) and we’ll publish your suggestions.

### **About the Work Design Collaborative and *Future of Work Agenda***

*Future of Work* is a global network of resources – practitioners, thought leaders, researchers, and senior consultants – who are committed to building and implementing physical, social, and technology-based work environments that are cost-effective, socially and environmentally responsible, and personally satisfying.

We are focused on defining the future of work and helping our members and clients achieve new levels of workforce and workplace productivity. *Future of Work* produces and distributes management tools, surveys, benchmark databases, white papers and technical reports, conferences and workshops, newsletters, books and articles, and public presentations on the changing nature of work. The Work Design Collaborative, LLC, provides leadership and infrastructure services for the *Future of Work* community.

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