

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

Memorandum

To: Members, Committee on Small Business
From: Committee Staff
Date: February 22, 2018
Re: Hearing: “Workforce Development: Closing the Skills Gap”

On Monday, February 26, 2018 at 11:30 A.M., the Committee on Small Business will meet at Boilermakers Local Lodge No. 13 at 2300 New Falls Road, Newportville, Pennsylvania for the purpose of examining ways in which federal programs help or hinder workforce development initiatives aimed at supporting small businesses. The hearing will also explore methods by which programs can close the skills gap while also connecting a new generation of workers with rewarding jobs in industries that lack qualified applicants.

I. What is the Skills Gap?

In January 2018, the United States unemployment rate was 4.1 percent, nonfarm payroll was increasing by 200,000 jobs, and job growth was seen in numerous industries, including construction and manufacturing.¹ Small businesses are optimistic about the current economic climate. Coming off 2017’s record high National Federation of Independent Business (NFIB) Small Business Optimism Index of 104.8, January saw an additional two point jump in small business optimism to 106.9.² One major contributor to this increase was the record setting increase in businesses who reported that “Now Is a Good Time to Expand” within the index. Given such a positive economic climate, why are small businesses within the index reporting no plans to increase employment?³

Despite high optimism, small businesses are struggling to find qualified workers. In January 2018, 55 percent of small businesses reported hiring or trying to hire; however, 89 percent of that group reported finding few to no qualified applicants.⁴ Thirty-four percent of all owners reported job openings they were unable to fill due to a lack of qualified applicants.⁵ This led 22 percent of surveyed small businesses to report finding qualified labor as their single most

¹ BUREAU OF LABOR STATISTICS, U.S. DEP’T OF LABOR, THE EMPLOYMENT SITUATION - JANUARY. 2018 (JAN. 2018), available at <https://www.bls.gov/news.release/pdf/empisit.pdf>.

² WILLIAM C. DUNKELBERG & HOLLY WADE, NFIB SMALL BUSINESS ECONOMIC TRENDS, NAT’L FED’N OF INDEP. BUS. (Jan. 2018), available at <https://www.nfib.com/assets/SBET-January-2018.pdf>.

³ *Id.*

⁴ *Id.* at 1.

⁵ *Id.*

important business problem within the NFIB Small Business Economic Trends report.⁶ Since 2013, the percentage of small businesses reporting a lack of qualified applicants has increased from 38 percent to 54 percent.⁷

The lack of qualified applicants is referred to as the skills gap, and it disproportionately affects small businesses and skilled trade industries. During times of economic prosperity, small businesses find it more difficult to compete with large corporations in attracting qualified candidates. Similarly, as baby boomers age and retire, certain industries are finding fewer and fewer workers entering the industry to maintain a steady labor force and leading to unfilled job openings. Manufacturing is arguably the industry most affected by the skills gap.⁸

Over the next decade, it is estimated that nearly 3.5 million manufacturing jobs will be needed due to the retirement of roughly 2.7 million baby boomers and the creation of 700,000 new jobs.⁹ Of those available jobs, it is expected that 2 million will likely go unfilled due to a lack of qualified applicants.¹⁰ The skills gap has led roughly 80 percent of companies to consider paying above market rates as a means of attracting talent.¹¹ Not only does this negatively impact the company's bottom line, but also prevents these companies from expanding, becoming more productive, and meeting customer demand. Considering that every dollar invested in manufacturing increases the value created in other business sectors by roughly \$1.37, the negative impacts of the skills gap on the manufacturing industry could lead to detrimental economic spillovers throughout the United States.¹²

III. Federal and State Workforce Development Programs

In an effort to address the skills gap, various state and federal programs have been developed to attempt to provide both students and adults with career and technical education (CTE). One of the most prevalent sources of federal workforce development funding is the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins Act).¹³ This program authorizes grants to states for the purpose of developing and improving their career and technical education programs at both the secondary and postsecondary levels. This allows states the flexibility they require to address the skills gap in ways that would be most beneficial to their local economies and businesses. States are then required to ensure programs are non-duplicative and create a path for participants to receive an "industry recognized credential, certificate, or an associate degree."¹⁴

Funds from the Perkins Act, supporting both secondary and postsecondary education, typically go to public and private high schools, CTE specific schools, community or technical

⁶ *Id.* at 18.

⁷ *Id.* at 9.

⁸ *Watch the Skills Gap*, ADECCO (Jan. 26, 2018), <https://www.adeccousa.com/employers/resources/skills-gap-in-the-american-workforce/>.

⁹ Craig Giffi, *The Skills Gap in US Manufacturing*, DELOITTE (2015), available at <https://www2.deloitte.com/us/en/pages/manufacturing/articles/boiling-point-the-skills-gap-in-us-manufacturing.html>.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ Pub. L. No. 109-270, 120 Stat. 686 (2006) (codified at 20 U.S.C. §2302).

¹⁴ *Id.*

colleges, private or public four year universities, vocational schools, and adult workforce education centers.¹⁵ Additionally, Perkins Act funds go to support various supplementary programs such as Tech Prep, a program aimed at encouraging collaboration between secondary and postsecondary institutions by providing additional grant funds. This allows the two institutions to create a CTE curriculum lasting the last two years of secondary school and the first two years of postsecondary education.¹⁶

Given that each state uses the Perkins Act and other workforce development funds differently, it is difficult to gain a clear understanding of the CTE programs nationwide. Looking specifically at Pennsylvania for fiscal year 2017, the state received \$40,722,778 in Perkins Act funds, which allowed for 67,294 high school students, 72,504 postsecondary students, and 13,634 adult students to receive CTE in the 2016-2017 school year.¹⁷ These CTE opportunities were mainly provided by Pennsylvania high schools, regional technology centers, and community colleges.¹⁸

By and large, the Pennsylvania CTE program showed impressive outcomes, with 99 percent of students who completed at least half to their CTE curriculum graduating, 84 percent receiving technical skill attainment ratings of competent or advanced, and 99 percent earning a credential, certificate, or degree.¹⁹ This success was achieved through Pennsylvania specific CTE policies. While there are number of policies created within the states CTE program, examples of CTE policies from 2017 included expanding pre-apprenticeship and apprenticeship opportunities, expanding high school CTE programs, and requiring keystone exams in CTE curriculum.²⁰

IV. Areas for Workforce Development Improvement

While CTE has certainly contributed to increasing workforce development, there are a number of ways for state and federal programs to further address the skills gap. Examples of areas for resource development and expansion include increased use of apprenticeships and an increased emphasis on CTE education as an alternative to traditional post-secondary education.

Apprenticeships are one key example of an existing program that, if emphasized, could better prepare workers for future careers. A number of states currently employ apprenticeship programs; however, the number and scope of these programs have drastically declined over the past few decades. When properly utilized, apprenticeships are able to “expand access to new talent, improve collaboration resulting in knowledge transfer and retention ... [and] increase return on training and educational program.”²¹ As baby boomers retire, apprenticeships offer the

¹⁵ CARL D. PERKINS CAREER AND TECHNICAL EDUCATION ACT OF 2006: REPORT TO CONGRESS ON STATE PERFORMANCE, PROGRAM YEAR 2009-10, U.S. DEP’T OF EDUC. (May 2013) *available at* https://s3.amazonaws.com/PCRN/docs/Rpt_to_Congress/Perkins_RTC_2009-10.pdf.

¹⁶ Pub. L. No. 109-270, 120 Stat. 686 (2006) (codified at 20 U.S.C. §2302).

¹⁷ *State Profiles*, ASS’N FOR CAREER & TECHNICAL EDUC., <https://www.acteonline.org/stateprofiles/> (last visited Feb. 15, 2018).

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.*

²¹ Kim Nichols, *The Top 5 Benefits of a Modernized Apprenticeship Program*, MFG. BUS. TECH. (Nov. 30, 2017, 10:34 AM), <https://www.mbtmag.com/article/2017/11/top-5-benefits-modernized-apprenticeship-program>.

opportunity for years of knowledge and skill to be passed along to CTE students or younger employees. This not only benefits the apprentice who is gaining important knowledge and becoming a more attractive hire, but also benefits industries, such as manufacturing, who expect to see a large portion of their workers retire in the coming years.

In addition to apprenticeships, one method of increasing the effectiveness of CTE opportunities would be to promote alternative educational opportunities beyond the traditional post-secondary path to university. Within the current secondary education structure, the curriculum often focuses on preparing students for college as opposed to preparing students for careers. For many who chose to pursue a university education this method is helpful; however, it often minimizes opportunities available to students who wish to pursue CTE. While there are numerous strategies for potentially increasing CTE integration within the secondary school curriculum, a few key ideas include “developing a common understanding of college and career readiness, fostering CTE and academic teacher collaboration, [and] enhancing literacy and math strategies within CTE instruction.”²² By promoting CTE integration within the secondary school curriculum, more students may be able to graduate from high school with the appropriate skills necessary to pursue a career if that path is of greater benefit to them. Not only would this benefit students, but the influx of trained and skilled labor could minimize the effects of the skills gap for a number of industries.²³

V. Conclusion

Despite a healthy economy, small businesses in the United States are struggling to expand due to the lack of qualified or skilled workers. The skills gap, if left unaddressed, will continue to hinder economic growth and prevent small businesses from being able to compete with larger corporations for qualified employees. Outside of the small business sector, the skills gap has the potential to minimize productivity and leave industries, such as the manufacturing industry, with millions of unfilled jobs. This hearing will offer Members an opportunity to consider various state and federal resources currently working to address the skills gap, while examining ways in which these resources could be expanded or improved in the future.

²² *Common Core State Standards & Career and Tech. Educ.*, ACHIEVE (May 2012), available at <https://www.achieve.org/files/CCSS-CTE-BridgingtheDivide.pdf>.

²³ *Id.*