

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, Subcommittee on Economic Growth, Tax, and Capital Access
From: Committee Staff
Date: June 11, 2018
Re: Hearing: “Shrinking the Skills Gap: Solutions to the Small Business Workforce Shortage”

On Thursday, June 14, 2018 at 10:00 A.M., the Subcommittee on Economic Growth, Tax, and Capital Access of the Committee on Small Business will meet in Room 2360 of the Rayburn House Office Building for the purpose of examining innovative solutions small businesses can utilize to maintain a competitive workforce. This hearing will examine the current small business employment landscape, and provide an opportunity for small business owners and experts to discuss innovative solutions for the small business employee shortage.

I. Recent Workforce Trends

In May 2018, there were 6.1 million unemployed Americans, and the national unemployment rate was at an 18-year low of 3.8 percent.¹ This rate is down significantly from the most recent high of 10 percent in October 2009.² Long term unemployment, which also peaked in 2010, has fallen by 83 percent over the past eight years to 1.2 million in May 2018.³ In the past year, the number of discouraged workers decreased by 10 percent and the number of Americans defined as marginally attached to the labor force decreased by almost 20 percent.⁴

¹ U.S. DEP’T OF LABOR, BUREAU OF LABOR STATISTICS, THE EMPLOYMENT SITUATION SUMMARY – MAY (2018), available at <https://www.bls.gov/news.release/empsit.nr0.htm>.

² *Id.*

³ Long term unemployment is defined by the BLS as when someone has been out of the workforce for over 27 weeks U.S. DEP’T OF LABOR, BUREAU OF LABOR STATISTICS, DURATION OF UNEMPLOYMENT (2018), available at <https://www.bls.gov/charts/employment-situation/duration-of-unemployment.htm>.

⁴ The BLS defines a person as marginally attached to the workforce if the individual is not in the labor force and wants to and is available for work, and who has looked for a job sometime in the prior 12 months, but was not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey. Discouraged workers are a subset of the marginally attached. A discouraged worker is defined by the BLS as an individual who did not actively look for work in the prior 4 weeks. U.S. DEP’T OF LABOR, BUREAU OF LABOR STATISTICS, LABOR FORCE STATISTICS FROM THE CURRENT POPULATION SURVEY (2018), available at <https://www.bls.gov/cps/lfcharacteristics.htm#discouraged>.

Job creation has been strong in the first few months of 2018. From January to May, over 1 million jobs were created.⁵ The economy has created 16 percent more jobs in the first five months of 2018 than the first five months of 2017.⁶ The industries with the largest increases in job creation included leisure and hospitality, education and health services, and professional and business services.⁷

While many of these statistics point to a healthy workforce, one concerning indicator is the labor force participation rate (LFPR). The LFPR is defined by the Bureau of Labor Statistics as the number of people working or actively looking for work divided by the total population over the age of 16.⁸ The LFPR peaked at 67.3 percent in early 2000, but declined to 62.7 percent in May 2018.⁹ Reasons for the decline in the labor force participation rate are varied, and include more Americans voluntarily leaving the labor force to go back to school, a long term decline in the male LFPR, and even the daily use of prescription pain killers.¹⁰

With the increase in job creation, the number of job openings and unfilled positions is currently at its highest point this century.¹¹ In just the past two years, the number of job openings increased from 5.9 million in March 2016 to almost 6.6 million in March 2018.¹² Broken down by industry, the education and health sectors had a combined 1.3 million openings, and the construction industry had almost 248,000 openings.¹³ The manufacturing industry has seen the number of job vacancies triple since the Great Recession.¹⁴ Also, for the first time since the Department of Labor began tracking job vacancies, the number of vacant jobs (6.6 million) surpassed the number of unemployed Americans (6.1 million).¹⁵ So, while employees who are looking for work are finding it easier to locate jobs in several industries and can even command

⁵ U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, EMPLOYMENT, HOURS, AND EARNINGS FROM THE CURRENT EMPLOYMENT STATISTICS SURVEY (2018), available at https://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth.

⁶ *Id.*

⁷ *Id.*

⁸ U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, LABOR FORCE PARTICIPATION (2018), available at <https://data.bls.gov/timeseries/LNS11300000>.

⁹ *Id.*

¹⁰ Eleanor Krause and Isabel Sawhill, *What We Know - And What We Don't Know - About The Declining Labor Force Participation Rate*, BROOKINGS (2017), available at <https://www.brookings.edu/blog/social-mobility-memos/2017/02/03/what-we-know-and-dont-know-about-the-declining-labor-force-participation-rate/>.

¹¹ There were 6.5 million job openings in March 2018. The high just before the Great Recession was 4.8 million openings. FEDERAL RESERVE BANK OF ST. LOUIS, JOB OPENINGS (2018) [hereinafter St. Louis JOLTS], available at <https://fred.stlouisfed.org/series/JTSJOL>.

¹² U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, JOB OPENINGS, HIRES, AND SEPARATIONS LEVELS, SEASONALLY ADJUSTED (2018), available at <https://www.bls.gov/charts/job-openings-and-labor-turnover/opening-hire-seps-level.htm>.

¹³ St. Louis JOLTS, *supra* note 11.

¹⁴ According to the Federal Reserve, the Great Recession started in December 2007 and ended in June 2009. https://www.federalreservehistory.org/essays/great_recession_of_200709.

Patrick Gillespie, *U.S. Manufacturing Job Openings at 2007 Levels*, CNN (Dec. 21, 2016), available at <http://money.cnn.com/2016/12/21/news/economy/job-openings-manufacturing-trump/index.html>.

¹⁵ Eric Morath, *American Job Openings Outnumber the Jobless*, WALL STREET JOURNAL (June 5, 2018), available at <https://www.wsj.com/articles/american-jobs-outnumber-the-jobless-1528212776>.

higher wages and better benefits, the increase in unfilled jobs inhibits business growth, and therefore, economic growth.¹⁶

The tight labor market recently has caused wages to rise as well. According to the Federal Reserve Bank of Atlanta, while wage growth's recent low was about 1.6 percent in January 2010, it recovered to 3.3 percent in April 2018.¹⁷ Although the average wage growth over the last 12 months of 3.2 percent is well above wage growth statistics from the beginning of this decade, wage growth still lags behind the recent high of about 5 percent in 2000.¹⁸ However, experts suggest that wages should continue to grow if the unemployment rate continues to stay at record lows.¹⁹

II. The Small Business Workforce

With nearly 30 million small businesses that employ almost half of all private sector employees and create roughly two of every three new jobs, small businesses are a significant component of the workforce.²⁰ Although small businesses are the primary creator of new jobs, they typically lack the resources to compete with larger companies during periods of low unemployment.²¹

Job vacancies are becoming one of the top concerns of many small business owners. According to the National Federation of Independent Business April 2018 Economic Trends Report, 57 percent of small business owners either hired workers or were trying to hire workers in the last month, and 88 percent of those hiring or trying to hire reported few or no qualified applicants for vacant positions.²² The survey also found that while only 15 percent of business owners in June 2012 had positions they could not fill, 35 percent of surveyed business owners in March 2018 reported positions they were unable to fill.²³

When there is low unemployment, small businesses often struggle to compete with larger businesses that have more resources to attract talent. For example, small businesses typically lack human resources departments to find qualified and motivated employees.²⁴ During periods

¹⁶ NATIONAL FEDERATION OF INDEPENDENT BUSINESS, APRIL 2018 SMALL BUSINESS OPTIMISM INDEX (2018) [hereinafter NFIB April 2018], available at <https://www.nfib.com/surveys/small-business-economic-trends/>.

¹⁷ FEDERAL RESERVE BANK OF ATLANTA, CENTER FOR HUMAN CAPITAL STUDIES, WAGE GROWTH TRACKER (2018), available at <https://www.frbatlanta.org/chcs/wage-growth-tracker?panel=1>.

¹⁸ *Id.*

¹⁹ Natasha Turak and Joumanna Bercetche, *Goldman Sachs says US Wages Will Really Start to Rise This Year*, CNBC (January 9, 2018), available at <https://www.cnbc.com/2018/01/09/goldman-sachs-says-us-wages-will-really-start-to-rise-this-year.html>.

²⁰ SMALL BUSINESS ADMINISTRATION, OFFICE OF THE CHIEF COUNSEL FOR ADVOCACY, FREQUENTLY ASKED QUESTIONS 1 (2016), available at https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pdf.

²¹ NATIONAL FEDERATION OF INDEPENDENT BUSINESS, SMALL BUSINESS OWNERS STRUGGLING TO FIND QUALIFIED WORKERS (2016), available at <http://www.nfib.com/content/news/labor/small-business-owners-struggling-to-find-qualified-workers-74468/>.

²² NFIB April 2018, *supra* note 16.

²³ *Id.*

²⁴ <https://www.monster.com/career-advice/article/small-business-attract-talent-1-brand-0709>.

of low unemployment when workers can demand higher wages and benefits, larger companies can typically afford higher salaries and larger, more complete benefit packages.²⁵

III. Solutions to Improve the Small Business Workforce

Although there is no single answer to help small business job vacancies, there are several potential solutions. For example, addressing the decline in interstate mobility may help match workers with a specific skill set with job openings in other states. Since 1990, the percentage of United States residents who move to another state has declined by almost 50 percent, from 3.8 percent in 1990 to less than 2 percent in 2016.²⁶ While there are several factors leading to a decline in interstate migration, one way to improve interstate mobility is by allowing reciprocity for individuals with specific occupational licenses. A 2017 National Bureau of Economic Research study examined how reciprocity agreements for lawyers between some states increased interstate mobility in that profession.²⁷

Innovative training programs have also started to help prospective employees obtain the skills they need for in demand jobs. For example, small businesses partner with community colleges to not only match recent graduates with employers in the area, but also ensures that their curriculum continues to evolve as industries change.²⁸ Small businesses have also invested their resources to ensure employees have the most up-to-date skills in their industry. One example of this is the St. Marys Foundry in St. Marys, Ohio, which started its own technical institute. The program gives employees training in their primary job function, and teaches employees about other facets of the foundry industry as well.²⁹

Small businesses are also starting to incorporate new technological advances in order to better train workers. For example, in an effort to reduce costs and increase safety during the training process, small businesses have begun to incorporate virtual reality simulators that give trainees a realistic feel of work situations before applying it to actual machinery. Occupations that have incorporated virtual reality training simulators include oil rig operators,³⁰ general contractors,³¹ forklift drivers,³² and medical surgeons.³³

²⁵ Wendy Webb, *6 Ways Small Businesses Can Outcompete Large Firms on Talent*, TALENT ECONOMY (2017), available at <http://www.talenteconomy.io/2017/02/16/small-businesses-top-talent/>.

²⁶ THE HAMILTON PROJECT, WORKERS HAVE BECOME LESS LIKELY TO MOVE TO A NEW STATE OR JOB, BROOKINGS (2017), available at <http://www.hamiltonproject.org/charts/workers-have-become-less-likely-to-move-to-a-new-state-or-job>.

²⁷ Janna Johnson, Morris Kleiner, *Is Occupational Licensing a Barrier to Interstate Migration?* NATIONAL BUREAU OF ECONOMIC RESEARCH 15 (2017), available at <http://www.nber.org/papers/w24107.pdf>.

²⁸ Elizabeth Mann, *Connecting community colleges with employers: A toolkit for building successful partnerships*, BROOKINGS, BROWN CENTER ON EDUCATION 12 (2017), available at https://www.brookings.edu/wp-content/uploads/2017/07/gs_20170731_community_colleges_toolkit_final.pdf.

²⁹ ST. MARYS FOUNDRY, INNOVATIVE CASTING SOLUTIONS, available at <http://www.stmfoundry.com/>.

³⁰ Peter Ward, *Virtual Reality in Oil and Gas*, ENIDAY (2018), available at https://www.eniday.com/en/technology_en/virtual-reality-oil-gas-sector/.

³¹ Nick Kostora, *Virtual Reality's Growing Role in the HVAC Industry*, ACHR NEWS (April 10, 2017), available at <https://www.achrnews.com/articles/134822-virtual-realitys-growing-role-in-the-hvac-industry>.

³² <https://www.certifyme.net/virtual-reality-training/>

³³ VIRTUAL REALITY SYSTEM HELPS SURGEONS, REASSURES PATIENTS, STANFORD MEDICINE (2017), available at <https://med.stanford.edu/news/all-news/2017/07/virtual-reality-system-helps-surgeons-reassures-patients.html>.

IV. Conclusion

Currently, the United States is experiencing low unemployment, strong job growth, and increasing wages. While this is advantageous for American workers, it hurts the ability of businesses to expand and grow. The employee shortage is one of the preeminent concerns regarding future economic growth prospects, particularly in the critical small business sector of the economy. There is no simple solution to solve the small business employee shortage. However, innovative programs and technologies could help mitigate the problem. This hearing will examine how small businesses can shrink the skills gap.