

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 Innovation, Entrepreneurship, and Workforce Development
FROM: Jason Crow, Chairman
DATE: March 31, 2022
RE: Subcommittee Hybrid Hearing: “Skill, Upskill, and Reskill: Analyzing New Investments in Workforce Development.”

The Committee on Small Business Subcommittee on Innovation, Entrepreneurship, and Workforce Development will meet for a hybrid hearing titled “Skill, Upskill, and Reskill: Analyzing New Investments in Workforce Development.” The hearing is scheduled to begin at **10:00 A.M. on Thursday, March 31, 2022, in person in 2360 Rayburn House Office Building and via the Zoom platform.**

Despite the labor market recovering most of the jobs lost during the COVID-19 pandemic, there has been an ongoing labor shortage since mid-2021. This has particularly impacted small firms, that had already been struggling with recruiting and retaining a skilled workforce. This hearing will examine the factors contributing to the workforce shortage and discuss potential solutions, including changes to the workforce development system, the bipartisan Infrastructure Investment and Jobs Act, and other proposals.

Panel

- Mr. Gerald Lee Arnold, Business Manager and Financial Secretary Treasurer, Denver Pipefitters Local #208, Denver, CO.
- Dr. Mordecai Brownlee, Ed.D., President, Community College of Aurora, Aurora, CO.
- Mr. Joseph W. Kane, Fellow, Brookings Institution, Washington, D.C.
- Ms. Diane Benck, General Operations Manager and Owner, West Side Tractor Sales Co., Lisle, IL.

Background

The onset of the COVID-19 pandemic produced one of the most dramatic shocks to the labor market in American history. Between February and April 2020, the U.S. economy shifted from a long-term workforce shortage and an unemployment rate of 3.5 percent to an unemployment rate

of 14.8 percent¹ and a loss of roughly 22 million jobs.² Because the initial shock was felt so deeply, Congress introduced an array of relief and stimulus measures through programs like the CARES Act and the American Rescue Plan leading the way to one of the quickest economic recoveries in the world.³ Jobs immediately began returning after the lowest point of the recession in April, and Gross Domestic Product (GDP) took only a year and a half to fully recover.⁴ Throughout 2021, the U.S. economy added 6.6 million jobs⁵ and unemployment dropped to 4 percent, something that took nearly a decade after the financial crisis.⁶

By June of 2021, there were already more jobs available in the economy than unemployed individuals seeking them. While unemployment was still at 5.4 percent, job openings totaled over 10 million – a record high. Since then, this labor shortage has been widening, particularly affecting small firms, who often lack the resources to adequately recruit and retain skilled workers. In response, a number of proposals have emerged to invest in training and education to broaden the pool of workers with the skills to succeed in these jobs.

Small Business Labor Shortage

While small firms are concerned about other economic issues occurring due to the pandemic, like inflation and supply chain issues, their top concern is mainly the difficulty of attracting and retaining qualified employees. According to a survey of Goldman Sachs' 10,000 Small Businesses participants, 50 percent of respondents report the labor shortage as their top issue, compared to supply chain issues and inflation, which garner 19 and 18 percent respectively.⁷ According to the same survey 67 percent of small businesses are currently hiring, 87 percent of those hiring are finding it difficult to recruit, and 97 percent say the difficulty hiring is impacting their bottom line.⁸ Moreover, two-thirds of small business owners think the Federal government has not done enough to address hiring challenges.⁹

Shortage Contributors

Prior to the pandemic, the U.S. had seen its longest ever expansion after the 2008 financial crisis. The unemployment rate was hovering around 3.5 percent, and there were more job openings in the economy than unemployed people seeking them.¹⁰ Two years after the onset of the pandemic, there

¹ U.S. BUREAU OF LAB. STATISTICS, *Seasonally Adjusted Unemployment Rate* (last visited Feb. 23, 2022) <https://data.bls.gov/timeseries/LNS14000000>

² Heather Long, *U.S. Now Has 22 Million Unemployed, Wiping Out a Decade of Job Growth*, WASHINGTON POST, April 16, 2020. <https://www.washingtonpost.com/business/2020/04/16/unemployment-claims-coronavirus/>

³ Yaros et. al., *Global Fiscal Policy in the Pandemic*, MOODY'S ANALYTICS, Feb. 24, 2022.

<https://www.moodyanalytics.com/-/media/article/2022/global-fiscal-policy-in-the-pandemic.pdf>

⁴ Patricia Buckley and Monali Sammadar, *The Curious Case of the Labor Market Recovery*, DELOITTE ECONOMICS SPOTLIGHT, August 2021. <https://www2.deloitte.com/us/en/insights/economy/spotlight/labor-market-recovery-recession.html>

⁵ Chris Isidore, *Biden Sets First-Year Record with 6.6 Million Jobs Added*, CNN, Feb. 4, 2022.

<https://www.cnn.com/2022/02/04/business/joe-biden-jobs-record/index.html>

⁶ *Supra* note 1.

⁷ GOLDMAN SACHS, *Small Business Owners Overwhelmingly Support Congress Passing Additional Aid*, Jan. 4, 2022. <https://www.goldmansachs.com/citizenship/10000-small-businesses/US/news-and-program-information/pages/24-jan-2022-survey-release.html>

⁸ *Id.*

⁹ *Id.*

¹⁰ *Supra* note 1.

is an even greater shortfall in the number of jobseekers compared to the number of jobs available. On the last day of December 2021, 10.9 million job openings existed in the economy.¹¹ At the same time, there were 6.3 million unemployed individuals.¹² With a ratio of 0.6 unemployed individuals per job opening, this shortage is much wider than the 0.8 ratio experienced throughout 2018 and 2019. There are several factors that may be contributing to this shortfall, including COVID-related immigration policies, early retirements, and lack of childcare available to parents.

Immigration

One possible contributor to this shortage is the lack of legal immigration during the COVID-19 pandemic. During the prior Administration, legal immigration had been slowed, partially contributing to the pre-COVID shortage. However, COVID-era immigration rules continued to slow legal immigration to the U.S., contributing to a shortfall of roughly 2 million working-age immigrants had pre-2020 immigration trends continued.¹³ Moreover, visa processing at U.S. embassies and consulates around the world was severely disrupted due to COVID-related issues, contributing to a backlog of over 460,000 unprocessed visas as of the end of 2021.¹⁴

Early Retirements

Another potential contributor to the workforce shortage that exists today is the wave of early retirements that emerged as a result of the pandemic. Goldman Sachs found that 5 million people had left the labor force during the pandemic for a variety of reasons. Approximately 3.4 million (nearly 70 percent) of those who left are over the age of 55 and 2.5 million, or roughly half, do not plan on returning.¹⁵ According to the Federal Reserve Bank of Dallas, the share of the population in retirement from February 2020 to April 2021 was roughly 1.5 million people greater than it would have been if the 2019 trend had continued.¹⁶

Worker Safety and Dependent Care

While early retirements and lack of immigration might be contributing to the stalled labor market, many workers were laid off or left their jobs in the early days of the pandemic due to safety concerns and their obligations to dependent family members like child and elder care. As of March 2021, 1.4 million fewer mothers with school-aged children were working in jobs outside the household.¹⁷ In fact, childcare has been increasingly inaccessible since the start of the pandemic. An estimated 111,000 childcare jobs have been lost since February 2020 and the number of

¹¹ U.S. BUREAU OF LAB. STATISTICS, *Job Openings and Labor Turnover Summary*, Feb. 1, 2022.

<https://www.bls.gov/news.release/jolts.nr0.htm>

¹² *Id.*

¹³ Giovanni Peri and Reem Zaiour, *Opinion: U.S. Labor Shortages Tied to Low Immigration in Past Two Years*, MARKET WATCH, Jan 13, 2022. <https://www.marketwatch.com/story/u-s-labor-shortages-tied-to-low-immigration-in-past-two-years-11642022353>

¹⁴ Nicole Narea, *Immigrants Could Help the U.S. Labor Shortage – If the Government Would Let Them*, VOX, Feb. 16, 2022. <https://www.vox.com/policy-and-politics/22933223/work-permit-uscis-backlog-immigration-labor-shortage>

¹⁵ Juliana Kaplan and Madison Hoff, *Goldman Just Figured Out Why The Labor Shortage Will Last a Long Time: 60% of the Missing Workers Retired, Many for Good*, BUSINESS INSIDER, Nov. 21, 2021.

<https://www.businessinsider.com/labor-shortage-millions-retired-early-pandemic-not-going-back-2021-11>

¹⁶ Kaplan et al, *The Labor Market May Be Tighter than the Level of Employment Suggests*, Fed. Reserve Bank of Dallas, May 27, 2021. <https://www.dallasfed.org/research/economics/2021/0527>.

¹⁷ Heggeness et al., *Tracking Job Losses for Mothers of School-Age Children During a Health Crisis*, U.S. CENSUS BUREAU, March 3, 2021. <https://www.census.gov/library/stories/2021/03/moms-work-and-the-pandemic.html>

providers has been dwindling.¹⁸ This makes it more difficult for parents of young children to return to the workforce as well.

Workforce Development as a Potential Solution

While a shortage of the total number of people in the workforce is an issue, there are still 6.5 million unemployed individuals looking for work, as of February 2022. Often, small firms are not struggling with a lack of applicants for their open positions, but rather a lack of applicants with the skills to do the job. Ensuring unemployed individuals have the skills and credentials to do a job could be the first step to smoothing out a rough hiring market. It could also benefit workers as well, by investing in their skills, long-term career potential could be created, and wages could be pushed up as a result.

The U.S. Government has a number of established programs and systems to train and develop the skills of American workers. These programs provide a combination of education and training programs to prepare individuals for work and improve their prospects in the labor market.

Workforce Boards and One Stop Shops

The Workforce Innovation and Opportunity Act (WIOA) was enacted in 2014 as the nation's primary workforce development law.¹⁹ It establishes local workforce boards and One-Stop shops through formula grants given to states.²⁰ The local workforce boards coordinate between businesses, nonprofits, and educational institutions to determine the workforce needs of the communities and prepare potential workers for jobs in these areas. Workforce development services are provided through its system of about 3,000 One-Stop centers nationwide.²¹ The worker training provided is targeted to be responsive to the labor demands of the local economy.

Apprenticeships and Pre-Apprenticeships

Apprenticeships are a workforce development strategy that aim to provide workers with both on-the-job training and related classroom instruction.²² While apprenticeships have long been popular in places like Europe, particularly in skilled trades like construction, plumbing, and electrical work, they have been sparsely used in America. While recent interest has grown in creating more apprenticeships, such as through the recently passed National Apprenticeship Act reauthorization, or the Trump Administration's attempt to create an Industry Recognized Apprenticeship Program (IRAPs), only about 6 percent of the American workforce utilizes Apprenticeships.²³

However, with the rising cost of college tuition and the lack of guarantee that a college degree will lead to a middle-class lifestyle, apprenticeships are continuing to gain popularity. Unfortunately, there are some shortcomings with apprenticeship programs and their utilization. First, many

¹⁸ Sofia Gratas, *How Staffing Shortages in Child Care Could Affect You*, THE ATLANTA JOURNAL-CONSTITUTION, Feb. 10, 2022. <https://www.ajc.com/education/how-staffing-shortages-in-child-care-could-affect-you/X7W4TS3DDJBFBOOV5DXWHDTQN4/>

¹⁹ David H. Bradley, CONG. RESEARCH SERV., R44252, *The Workforce Innovation and Opportunity Act and the One-Stop Delivery System* (2021) <https://crsreports.congress.gov/product/pdf/R/R44252>

²⁰ *Id.*

²¹ *Id.*

²² Benjamin Collins, CONG. RESEARCH SERV., R45171, *Registered Apprenticeship: Federal Role and Recent Federal Efforts* (2021) <https://crsreports.congress.gov/product/pdf/R/R45171>

²³ <https://www.jamesgmartin.center/2018/01/arent-apprentices-america/>

apprenticeships are inaccessible to women and people of color. Women only make up 6 percent of apprentices in the U.S.²⁴ To help close this gap, community-based organizations (CBOs) and other workforce intermediaries are providing pre-apprenticeship programs that provide remedial training and prepare individuals for Registered Apprenticeships.²⁵ These can be particularly useful in providing a pipeline for those transitioning from low-wage work in service or retail into the infrastructure jobs created by the Infrastructure Investment and Jobs Act.

Second, small firms tend to forgo apprenticeships, despite their demonstrated benefit, due to the long-term investment it requires. Apprenticeships are earn-as-you-learn programs that traditionally last multiple years. Such a long-term investment can be seen by many small businesses as a risky investment. Some unions utilize multiemployer trusts to train many workers for multiple businesses. That way, entire industries are contributing to the success of their workforce. Contributors are not just large firms, but small ones as well. Overall, these programs tend to take the financial responsibility out of the hands of the worker or trainee, allowing a more diverse group of applicants to access these programs.

Community Colleges and Career & Technical Education

The more traditional classroom setting workforce development strategies are those of Community College or Career & Technical Education (CTE). Community colleges are often thought of as a stepping-stone to a four-year degree, however they provide more than just the coursework requirements for an associate degree. Often, they also offer professional credentials as well as the classroom portion of local apprenticeship programs. Moreover, community colleges are dispersed throughout the country and more easily accessible than a four-year program. They work with businesses and workforce boards to determine workforce needs and can even partner with businesses in curriculum development.

CTE is funded by the Carl D. Perkins Career and Technical Education Act and is often targeted to high schoolers looking for a more practical, career centered education, rather than the college preparation material taught at most high schools.²⁶ This often means more focus on STEM curriculum, as well as hands-on learning to prepare students for a career and increase their engagement with schoolwork. It can also help younger students obtain industry recognized credentials without the need for post-secondary education. Some students are even given a pathway toward earn-as-you-learn programs before graduation. This can help prepare students with the skills necessary to be employed in the industries utilized by the Infrastructure Investment and Jobs Act and help fill the gaps in an aging workforce.

Past Issues and New Proposals

While the federal workforce development system is well positioned to meet the needs of workers and the small business community, it has been hampered by severe underinvestment for decades. Over the past decade alone, the workforce system has seen a nearly 20 percent decline in federal

²⁴ U.S. DOL, *Pre-Apprenticeship: Pathways for Women Into High-Wage Careers*, 2021.

https://www.dol.gov/sites/dolgov/files/ETA/apprenticeship/pdfs/pre_apprenticeship_guideforwomen.pdf

²⁵ *Id.*

²⁶ Boris Granovskiy, CONG. RESEARCH SERV., R45446, *Reauthorization of the Perkins Act in the 115th Congress: The Strengthening Career and Technical Education for the 21st Century Act*, Dec. 2018.

<https://crsreports.congress.gov/product/pdf/R/R45446>

funding when adjusted for inflation. While the U.S. labor force has grown by roughly half over the past four decades, federal spending on workforce development has fallen by two-thirds.²⁷ The U.S. only spends about 0.1 percent of gross domestic product (GDP) on policies that promote labor-force participation and help match workers to employment opportunities, compared to an average of 0.6 percent in other developed nations.²⁸

Workforce development is a key part of the President's agenda based on the recognition that it is not enough to simply create jobs, there must be a talent pipeline capable of filling these jobs. To that end, workforce development expansion, improvement, and funding is provided throughout the bipartisan Infrastructure Investment and Jobs Act and the Build Back Better Plan. For instance, the Infrastructure Investment and Jobs Act (IIJA) allows states to obligate funds from The National Highway Performance Program, the Surface Transportation Block Grant Program, the Highway Safety Improvement Program and the Congestion Mitigation and Air Quality Improvement Program toward workforce development activities.²⁹ IIJA provides grants to centers that train and certify workers on the installation of energy efficient technologies, in partnership with employers and labor unions. IIJA includes the Digital Equity Act of 2021, which creates two new grant programs to develop digital equity plans and help give people the skills to participate in the 21st century economy.³⁰ Additionally, many programs outlined in the IIJA include set asides for workforce development and the creation of interagency working groups that will strategize how to best train workers to implement the law. Moreover, the overwhelming majority of funds in IIJA are subject to Davis-Bacon requirements to ensure workers are paid a fair wage.

The Build Back Better Act would invest \$20 billion in the federal workforce development system, including Community College and Industry Partnership Grants, Industry or Sector Partnership Grants, Registered Apprenticeships, Youth Apprenticeships, and Pre-Apprenticeships. The Build Back Better Act would also increase labor law enforcement and address the underlying causes of low workforce participation through child care assistance, universal preschool, and support for the long-term care workforce.³¹

Conclusion

Small firms are continuing to struggle with the tumultuous labor market induced by the COVID-19 pandemic. This issue is the top concern of many businesses nationwide. While it may not bring more working age people into the U.S., workforce development will help expand the pool of qualified candidates that many businesses are seeking, thereby lowering costs to recruit and retain workers and allow small businesses to get back to work as part of the economic recovery.

²⁷ Harry J Holzer, *The CEA Training Report: Very Wide of the Mark*, NATIONAL SKILLS COALITION BLOG, Aug. 13, 2019. <https://www.nationalskillscoalition.org/news/blog/the-cea-training-report-very-wide-of-the-mark>.

²⁸ Developed nations are considered those in the Organisation for Economic Cooperation and Development (OECD). "The Long-Term Decline in Prime-Age Male Labor Force Participation," Executive Office of the President of the United States, 2016.

²⁹ NAT'L. GOVERNOR'S ASSN., *What the Infrastructure Package Means for Workforce Development: Opportunities for Governors*, Nov. 15, 2021. <https://www.nga.org/center/publications/what-the-infrastructure-package-means-for-workforce-development-opportunities-for-governors/>

³⁰ *Id.*

³¹ HOUSE EDUC. AND LAB. COMM., *Build Back Better Act: Education and Labor Committee Provisions*, Nov. 18, 2021. <https://edlabor.house.gov/imo/media/doc/2021-11-18%20Ed%20&%20Labor%20BBB%20Fact%20Sheet.pdf>