Testimony
Todd Hitt, U.S. House Committee on Small Business
June 14, 2018

Introduction.

Chairman Chabot, Ranking Member Velazquez, Congressman Brat, and other members of the committee: thank you for the opportunity to be here this morning.

My name is Todd Hitt and I'm the founder and CEO of Kiddar Capital, a private equity firm based in the Washington, DC area. I formed Kiddar Capital 10 years ago, at the beginning of the financial crisis. It was, perhaps, not the most opportune time to start a company, but we have been successful. Today Kiddar manages a variety of investments across established and emerging asset classes, including private equity, real estate, construction, venture, credit, energy, and hospitality. We're one of the fastest growing private equity firms in the region and we've almost doubled our workforce in the last year.

Kiddar uses my private capital, along with capital from like-minded co-investors, to initiate and accelerate innovative business ideas. The entrepreneurs we invest in are building our future economy. In the process, they are transforming core industries like construction and are revitalizing entire communities and creating jobs.

My family has a long, entrepreneurial history in northern Virginia. My grandparents, Warren and Myrtle, founded Hitt Contracting in the 1930s out of their home in Arlington. They soon had six employees and grew throughout World War II even while facing labor shortages.[1] By the 1950s my grandparents had 60 employees.

By 2000, the company my grandparents founded employed more than 500 people, moving it beyond the standard definition of a "small business." My grandfather passed away in 1978, but my grandmother lived to see this achievement. Today, the company is in 11 U.S. cities and employs more than 1,000 individuals.

Through my work across multiple business sectors and across the country, it's become clear to me over the last few years that the United States is facing a critical labor shortage that will severely constrain our nation's economy if the private and public sectors do not work together to address it. There

[1] Hitt Contracting website, "Timeline of Tradition." Accessible at: http://hitt.com/timeline-tradition

are pockets in the United States that have few jobs and too many workers. But there are far more places with many jobs and too few workers.

I've witnessed the devastating effects a labor shortage can have on a business. Quite simply, it means a company cannot grow. Turning down work is the last thing an entrepreneur wants to do, but when you don't have the labor you need, it's one of the only options. In the construction industry, at least, a business can try to delay work or lengthen project timelines, but if you're in agriculture and you're facing a labor shortage, crops die. If you're in retail or hospitality, long lines and strapped customer service specialists means customers will leave your store or hotel and go somewhere else. Or they'll shop online. Businesses of all sizes suffer when labor is scarce, but our Main Streets are impacted the most severely.

My goal today is to offer practical solutions about how we can move workers to where jobs exist today.

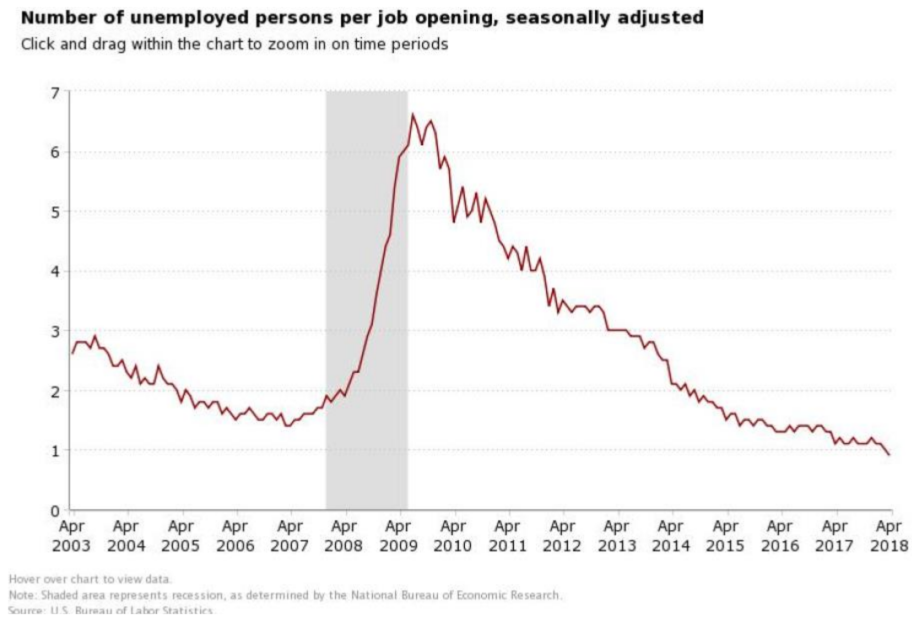
Discussion Of The U.S. Labor Shortage.

There's little question the nation as a whole faces a labor shortage. In April, there were 6.7 million jobs open in the United States. It was the first time since 2000 that the number of jobs open exceeded the number of unemployed workers. There were nearly a quarter of a million jobs unfilled in the construction industry and more than 450,000 in the manufacturing sector. The numbers are even more staggering in the leisure and hospitality industry—with 940,000 available jobs—and for education and health services, where there are nearly 1.27 million jobs left unfilled. [2]

American employers cannot find workers. Below is a graphic that shows the ratio of unemployed individuals over time.[3] Two years after the Great Recession was over there were four unemployed workers for every U.S. job open. Today it's less than a one-to-one ratio. You'd better hope that one person has the skill set you need.

[2] U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Summary, June 5, 2018. Accessible at https://www.bls.gov/news.release/jolts.t01.htm

[3] U.S Bureau of Labor Statistics, Number of Unemployed Persons Per Job Opening, Seasonally Adjusted, April 2018. Accessible at https://www.bls.gov/charts/job-openings-and-labor-turnover/unemp-per-job-opening.htm#



Local and national newspapers are filled with stories about employers, particularly small employers, searching for workers. I know there are members of this committee from Pennsylvania. Todd Taylor, vice president of postsecondary education at Central Pennsylvania Institute of Science and Technology, recently told the *Centre Daily Times*, "[T]here has never been a more significant shortage of skilled workforce, skilled technicians."[4]

NatureFresh, a Canadian company that was planning to expand its existing workforce in Ohio last year, put those plans on hold because the company couldn't find enough workers. That's a multinational company that wants to expand in the United States, but can't because we don't have the labor. Those jobs will go elsewhere. The company's president, Peter Quiring, said when he goes to trade shows—and he goes to a lot of them—the labor shortage is "pretty much the only topic of conversation today." Quiring also noted, "It's not a NatureFresh problem, it's not an Ohio problem … [It's] a coast-to-coast, border-to-border problem."[5]

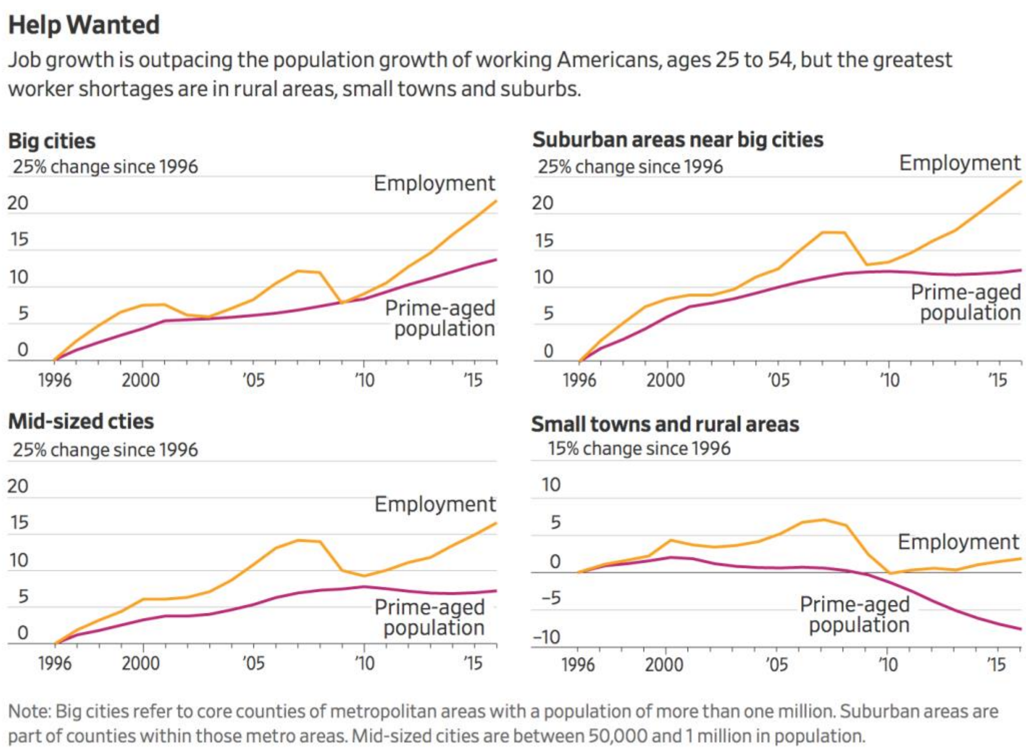
I could not agree more. The construction, manufacturing, retail, and energy firms that Kiddar Capital has worked with certainly have experienced this problem, and it definitely is an issue that the CEOs and investors I know talk about.

The worker shortage affects all regions of the country, and all types of cities. Below are graphics from *The Wall Street Journal* showing the divergence between the prime age population and the number

[4] Sarah Rafacz, "Why Local Businesses Can't Fill High-Paying Job Openings, and How It Impacts the Community," *Centre Daily Times*, May 23, 2018. Accessible at http://www.centredaily.com/news/local/article211674914.html
[5] "Labor Shortage Prompts Naturefresh to Table Future Ohio Expansion," *The Packer*, August 23, 2017. Accessible at https://www.thepacker.com/article/labor-shortage-prompts-naturefresh-table-future-ohio-expansion

of workers in large cities, in mid-sized cities, in suburbs, and in rural America.[6] From rural areas and small towns to urban centers, there is a gap between jobs and the prime age working population.

As noted above, these shortages hit small businesses the hardest. As experienced candidates for office, you're familiar with the issue of name ID. Well-known candidates have an instant advantage in elections. The same principle applies to hiring workers. When you're smaller, a potential employee is less likely to know your name or be familiar with your reputation. Many people perceive working for a small business, especially a startup, as riskier. Main Street employers also have a much harder time absorbing the burdens of the wage inflation that goes along with the type of severe labor shortage we face today.



There are economists who will argue today's shortage could be solved if employers simply offered higher wages, but higher wages can't attract workers who simply aren't there.

According to the National Federation of Independent Business, in April of this year 22 percent of small businesses said finding qualified workers was their "single most important business problem." That

[6] David Harrison and Shayndi Raice, "How Bad Is the Labor Shortage? Cities Will Pay You to Move There," *The Wall Street Journal*, April 30, 2018. Accessible at https://www.wsj.com/articles/how-bad-is-the-labor-shortage-cities-will-pay-you-to-move-there-1525102030

was more than the percentage who said they were concerned about taxes (18 percent) or regulations (13 percent).[7]

About 35 percent of small employers reported that there were positions they weren't able to fill, even though a net 33 percent of small employers—the highest percentage since November 2000—said they had raised compensation.[8] In a separate report, the NFIB said 35 percent of small business owners reported raising compensation in May, the highest in monthly records going back to 1986.[9]

Additionally, according to a recent survey by the jobs platform Snag, this summer more seasonal worker employers are willing to stretch to the max to get the labor they need. Last year, only 12 percent of employers said they were willing to offer the highest wage they could possibly afford. That number nearly quadrupled this year and is now at 46 percent. Three quarters of seasonal worker employers say they will pay at least $11 an hour, compared to last year when only half said they were willing to pay that amount.[10]

Anecdotally, with news stories about the labor shortage, there's recently been a proliferation of articles about industries offering major hiring bonuses and incentives to attract workers in all industries.

The Wall Street Journal recently examined the perks (besides higher pay) that firms are using to try to attract plumbers. The package of benefits rivals Facebook's: a firm in Minnesota has built an arcade. A company in Manassas, VA is giving biweekly massages. A Kansas company has offered $5,000 signing bonuses and one in Colorado has installed a craft beer tap.

The Journal noted the annual median pay for plumbers, pipefitters, and steamfitters was nearly $53,000 a year in 2017, but also said it "isn't uncommon to see jobs advertised for far higher wages, from $70,000 up to six figures."[11]

There's a huge difference between raising wages and benefits and wage inflation. Higher wages are good—and we're finally starting to see evidence of that—but if we do not address our labor

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[7] National Federation of Independent Business, April 2018 Small Business Optimism Index. Accessible at https://www.nfib.com/surveys/small-business-economic-trends/

[8] Sho Chandra, "As U.S. Jobs Go Begging, Forget Those Monthly Gains of 200,000," *Bloomberg*, May 31, 2018. Accessible at https://www.bloomberg.com/news/articles/2018-05-31/as-u-s-jobs-go-begging-forget-those-monthly-gains-of-200-000

[9] Vince Golle, "Share of U.S. Small Businesses Boosting Compensation Hits Record," *Bloomberg*, May 31, 2018. Accessible at https://news.bloomberglaw.com/daily-labor-report/share-of-us-small-businesses-boosting-compensation-hits-record

[10] Snag, Press Release, "New Report Finds Summer Hiring Strongest in a Decade," May 23, 2018. Accessible at https://www.prnewswire.com/news-releases/new-report-finds-summer-hiring-strongest-in-a-decade-employers-turning-to-benefits-and-wages-to-compete-for-workers-300653472.html

[11] Jennifer Levitz, "Perks for Plumbers: Hawaiian Vacations, Craft Beer and 'a Lot of Zen,'" *The Wall Street Journal*, May 23, 2018. Accessible at https://www.wsj.com/articles/perks-for-plumbers-hawaiian-vacations-craft-beer-and-a-lot-of-zen-1527087328

shortage now, things will soon get out of control and wage inflation will continue to drive up costs for everything from housing to food.

Our labor shortage has also already begun to constrain job growth. Moody's Analytics' Mark Zandi recently said job growth would have been even higher in May if not for the labor shortage. Zandi noted, "Job growth is constrained for the first time in a decade."[12]

There are several factors that contribute to the nation's labor shortage: the vast Baby Boomer generation exiting the workforce, declining U.S. birth rates, the opioid epidemic that is gripping our country, and the gap between skills and employer needs, which I know the committee addressed at a hearing in February.

Today, I will address the problem of labor mobility.

An Overview Of U.S. Labor Mobility.

If you remember one statistic from my remarks today, I want it to be this: in 2017, fewer Americans moved than any year in the last 50 years.[13] The willingness to strike out for greener pastures—or golden ones, if you're talking about the move westward to California—used to be in Americans' DNA. Now, as CityLab's Richard Florida has pointed out, Canadians are more likely than Americans to move. Europeans aren't far behind. If you're from Denmark or Finland, you're almost as likely as an American to move.[14]

The U.S. mover rate is now 11 percent,[15] down from 18.6 percent in 1987 and from even higher rates in the 1950s, 60s, and 70s.[16] Our rate today is at an historic low.

Homeowners always have been less likely to move, but the rate of homeowner movers has declined since the late 1980s and is now around just five percent. The percentage of renters willing to

[12] Steve LeVine, Acute Job Shortage Is Hitting National Hiring Numbers," *Axios*, May 31, 2018. Accessible at https://www.axios.com/the-jobs-shortage-is-muting-skills-shortage-gains-national-scale-6b3bc543-1e12-4b38-ad37-94faedb5956f.html

[13] Alec MacGillis, "Why Do Americans Stay When Their Town Has No Future?" *Bloomberg*, May 23, 2018. Accessible at https://www.bloomberg.com/news/features/2018-05-23/why-do-americans-stay-when-their-town-has-no-future

[14] Richard Florida, "America the Stuck," CityLab, Feb. 2, 2017. Accessible at https://www.citylab.com/equity/2017/02/american-mobility-has-declined/514310/

[15] U.S. Census Bureau, Press Release, "Declining Mover Rate Driven by Renters, Census Bureau Reports," Nov. 15, 2017. Accessible at Https://www.Census.Gov/Newsroom/Press-Releases/2017/Mover-Rates.Html

[16] U.S. Census Bureau, Current Population Survey, Historical Migration/Geographic Mobility Tables, Table A-1. Annual Geographical Mobility Rates, by Type of Movement: 1948-2017. Accessible at https://www.census.gov/data/tables/time-series/demo/geographic-mobility/historic.html

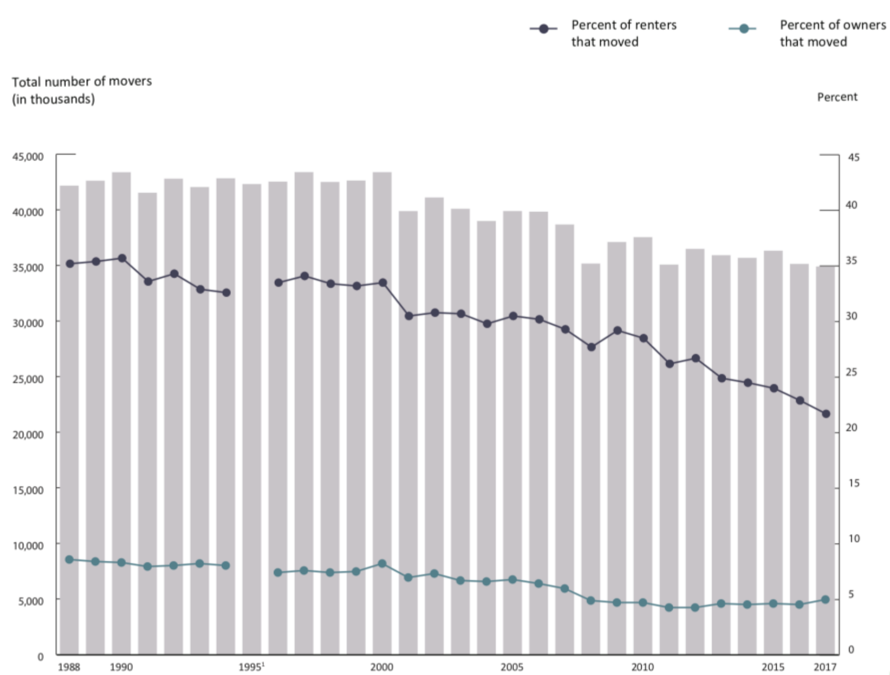
move has declined even more sharply, from about 35 percent 30 years ago to just 21 percent today. That rate also is now at an historic low.[17]

Even when they're young, without mortgages and kids already in a school system, Americans are moving less:

- For 18- to 24-year-olds, 45.2 percent moved in 2015, down from 48 percent in 2010.
- Among 25- to 29-year-olds, 61.2 percent moved in 2015, down from 65.5 percent in 2010.
- For 30- to 34-year-olds, 52.5 percent moved in 2015, while 57.0 percent moved in 2010.[18]

Across the board, Americans are less likely to move from state to state. In the early 1990s, 2.7 percent of the population moved to a new state. Today that figure is 1.5 percent.[19]

Percent Of Renters, Homeowners Who Move



[17] U.S. Census Bureau, infographic, "Mover Rate For Renters At Historic Low," 2017. Accessible at https://www.census.gov/content/dam/Census/library/visualizations/2017/comm/mover-rate-2017.pdf

[18] U.S. Census Bureau, Press Release, "Declining Mover Rate Driven by Renters, Census Bureau Reports," Nov. 15, 2017. Accessible at Https://www.Census.Gov/Newsroom/Press-Releases/2017/Mover-Rates.Html

[19] Alana Semuels, "The Barriers Stopping Poor People from Moving to Better Jobs," *The Atlantic*, Oct. 12, 2017. Accessible at https://www.theatlantic.com/business/archive/2017/10/geographic-mobility-and-housing/542439/

Instead of moving in search of a new job, today's out of work Americans are more likely to drop out of the workforce. Nick Bunker from the Washington Center for Equitable Growth identified this trend about three years ago. Bunker noted mobility used to be the "key way people responded to losing a job." But today, according to research by Andrew Foote of the U.S. Census Bureau and Michel Grosz and Ann Huff Stevens of the University of California-Davis, workers today are twice as likely to exit the labor force as they were before the Great Recession. Bunker concluded, "Moving is still the largest response to being laid off, but it has become increasingly less important."[20]

Our declining mobility rate has a profound effect on the U.S. economy. As Yale Law School's David Schleicher explains:

> "Economic growth does not automatically occur when there are new innovations, nor is it necessarily shared by large parts of the population. Instead, innovation creates the possibility of new economic activity and employment. But we need to change where and how we live in order to capture these gains."

Schleicher says the result of declining labor mobility "is a misallocation of labor and capital, and lower output levels." He argues this problem also affects the federal government's ability to help those in need. Schleicher explains:

> "Major parts of federal policy work less well… Monetary policy is harder to execute well without mobility, as unemployment and inflation rates differ substantially across the country. And federal safety-net spending is less efficacious, as people in worse job markets require more of it. These, too, have effects on output levels, and may even worsen productivity growth indirectly."[21]

Schleicher notes that University of California at Berkeley economist Enrico Moretti and Chang-Tai Hsieh from the University of Chicago have estimated the lost output from workers not moving is equal to roughly 13.5 percent of GDP.[22]

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[20] Nick Bunker, "The Consequences and Causes Of Declining Geographic Mobility in the United States," Washington Center for Equitable Growth, Nov. 18, 2015. Accessible at http://equitablegrowth.org/equitablog/the-consequences-and-causes-of-declining-geographic-mobility-in-the-united-states/

[21] David Schleicher, "Getting People Where the Jobs Are," *Democracy*, Fall 2016. Accessible at https://democracyjournal.org/magazine/42/getting-people-where-the-jobs-are/

[22] *ibid.*

Moretti also has connected the decline in labor mobility to increased income inequality. By age 30, high school graduates are about half as likely to move from the state of their birth as college graduates.[23]

Writing in *National Affairs* in 2014, Eli Lehrer and Lori Sanders of the R Street Institute also tied geographic mobility with income inequality. Lehrer and Sanders said, "This decline in Americans' geographic mobility has correlated with a well-documented 40-year trend of falling income mobility. While this correlation does not, by itself, prove a causal link, the evidence that geographic mobility can mitigate poverty is robust."[24]

Income and education, of course, are not the only reasons for declining labor mobility.

Unaffordable housing costs in some of the nation's largest cities make it difficult for many Americans to ever conceive of moving to San Francisco, Seattle, and Washington, DC. Other families are in homes where their mortgages remain underwater even though we are almost a decade past the housing crisis. New data released in May 2018 indicate nine percent of homeowners are still underwater on their mortgage.[25]

Emotional ties are another reason. A decade ago, Pew Research Center asked Americans who had stayed in their hometowns and states why they stayed put. Family was the most significant reason. Americans who have never left their hometowns have a greater number of extended family members who live within an hour's drive of them than do Americans who no longer live in their hometowns—a median of nearly eight family members versus about three, Pew found. When given a list of reasons why they have not left their hometown, 74 percent of respondents cited the "tug of family ties." Only 40 percent cited a job or business opportunity as the reason they stayed.

Family bonds are strong, that is certain. It's hard to leave a place where you have an immediate support system, especially if it's childcare during the workweek or even on the weekends.

However, the Pew survey also asked Americans who had moved why they did so. The most frequently cited reason was a job or business opportunity.[26] That indicates that, when the opportunity is

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[23] Enrico Moretti, Op-Ed, "What Workers Lose by Staying Put," *The Wall Street Journal*, May 26, 2012. Accessible at https://www.wsj.com/articles/SB10001424052702303610504577420701942867414
[24] Eli Lehrer and Lori Sanders, "Moving to Work," *National Affairs*, Winter 2014. Accessible at https://www.nationalaffairs.com/publications/detail/moving-to-work
[25] Zillow, "Negative Equity Dips Below 10 Percent for First Time Since the Bottom of the Market," May 30, 2018. Accessible at https://www.zillow.com/research/negative-equity-20080/
[26] Pew Research Center, "Who Moves? Who Stays Put? Where's Home?" Dec. 29, 2008. Accessible at http://www.pewsocialtrends.org/files/2010/10/Movers-and-Stayers.pdf

good enough, and if businesses and government support them, Americans would be willing to cut regional ties and move for a job.

We just need to make things a little easier for them.

Solutions To Our Labor Mobility Crisis.

Businesses clearly have a role when it comes to encouraging mobility in the workforce. It's our job to attract talent with fair wages, family-sustaining benefits, and the promise of a stable job. I believe this crisis is so profound, however, that it is time for government action as well. It's imperative that local, state, and federal officials work in tandem with American job creators.

There is precedent, starting with the Homestead Act in the mid-19th century, for federal action that helps move workers to where the jobs are or to where their labor is needed. The Moving To Work program, which was championed by the late Jack Kemp when he was in charge of the U.S. Department of Housing and Urban Development, helped disadvantaged families in crime-ridden areas move. As Eli Lehrer and Lori Sanders pointed out in *National Affairs*, the centrist Brookings Institution called Moving to Work a "striking" success.[27]

The first solution I hope you will consider is to reinstitute the tax deduction individuals can receive for work-related moving expenses. I was a vocal supporter of the Tax Cuts and Jobs Act—it was an incredibly important piece of legislation for small businesses—but I believe doing away with that deduction was a mistake. If there's going to be a second piece of tax legislation this year, I encourage you to revive this important piece of tax policy.

Next, I encourage you to explore:

Mobility Incentives.

As each of you know, when you tax something, you generally get less of it. When you incentivize it, you get more. As we've discussed, there are many factors that, combined, keep Americans stuck where they are. Mobility incentives will help unstick our workers.

[27] Eli Lehrer and Lori Sanders, "Moving to Work," *National Affairs*, Winter 2014. Accessible at https://www.nationalaffairs.com/publications/detail/moving-to-work

Mobility grants and incentives are an idea championed by Enrico Moretti and others. One way to pay for these grants is to let unemployed individuals collect their state and federal unemployment benefits upfront if they are using them to move to another location in order to take a job.

The U.S. Labor Department executed a small-scale mobility grant program in the 1970s. The Job Search and Relocation Assistance Program involved 40 different unemployment offices across several southern states. Different offices offered different types of assistance, ranging from simply providing information about jobs to actually giving individuals grants to take jobs in other places. A 1981 analysis of the program found individuals with less education took advantage of relocation assistance more often than more highly-educated individuals did. Additionally, wages for those who relocated through the program also were higher.[28]

Local, state, and federal levels of government provide tax incentives to businesses to provide training to workers. Similar incentives should be given to employers who spend capital to relocate workers. For example, you could offer a deduction or credit to a firm that helps a prospective employee sell a home for which the mortgage is underwater.

Next, Congress must …

Harmonize Rules For Public Assistance.

In addition to providing mobility incentives, I encourage you to examine how you might harmonize the rules and requirements for public assistance across states and localities. In the *National Affairs* article mentioned earlier, Lehrer and Sanders note:

- Differing state eligibility requirements for Medicaid and other health insurance programs, and for the Supplemental Nutrition Assistance Program, mean that some low-income individuals will lose health coverage if they move; and

- While Section 8 rental-housing vouchers promote mobility within metropolitan areas, the long waiting lists in most areas are a strong disincentive against relocation.[29]

As illustrated, less-educated and lower income Americans are less likely to leave cities that are struggling economically. One reason is fear of losing the public benefits that are keeping their family

[28] *ibid.*
[29] *ibid.*

afloat today. Getting more Americans back into the workforce and off public assistance will require the federal government to streamline rules for federal welfare programs.

Finally, in your work with your colleagues in state and local government I hope you will…

Encourage Housing Policy Reforms.

In *The Atlantic* last fall, Alana Semuels pointed out that states like Texas, which have less strict zoning laws, have high in-migration rates. According to Semuels, Texas added 500,000 residents between 2015 and 2016, the highest growth rate in the nation. Semuels also noted Enrico Moretti and Chang-Tai Hsieh, mentioned earlier, have found reducing housing and land use regulations in San Francisco, New York, and San Jose to the level of regulation in the average U.S. city would increase GDP by 9.5 percent.[30]

It's not only urban areas that struggle to provide housing for new workers. In a May 31 article, *The Wall Street Journal*'s Shayndi Raice said, "Fewer homes are being built per household than at almost any time in U.S. history, and it is even worse in rural communities."[31] Raice found that in Platte County, Nebraska, there are around 990 jobs available but only 65 homes for sale. Housing prices in Nebraska are growing so rapidly that the state is considering a grant program that will give incentives for homebuilders to build.

With more construction, of course, comes more jobs, and the state already is having trouble filling positions that are open.

It's not a vicious cycle—clearly this problem is a better one to have than high unemployment—but it is a major problem and, if left unsolved, will have major ramifications for the U.S. economy, including slower growth, particularly for small businesses. It also will result in expanding companies taking their jobs to countries where labor is more plentiful.

Conclusion.

I want to thank you again for the opportunity to testify. I believe that the growing labor shortage is the central issue holding back the U.S. economy today. The lack of labor mobility clearly

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[30] Alana Semuels, "The Barriers Stopping Poor People from Moving to Better Jobs," *The Atlantic*, Oct. 12, 2017. Accessible at https://www.theatlantic.com/business/archive/2017/10/geographic-mobility-and-housing/542439/

[31] Shayndi Raice, "Rural America Has Jobs. Now It Just Needs Housing," *The Wall Street Journal*, May 31, 2018. Accessible at https://www.wsj.com/amp/articles/scarcity-of-housing-in-rural-america-drives-worker-shortage-1527672602

harms small businesses more than it does large ones and it hurts low-income individuals more than it does high-income.

This issue is one that should concern Republicans and Democrats alike, regardless of the region they represent, and it’s one we must work together to tackle in order to break free from historically low annual growth rates we’ve experienced over the last two decades. I hope you will consider the solutions I’ve outlined here.

Thank you.