

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: September 5, 2017  
Re: Hearing: "Examining the Small Business Labor Market"

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On Thursday, September 7, 2017 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 the small business labor market. The hearing will provide the Committee with an opportunity to understand recent trends in the labor market and how they affect small businesses. This hearing will also examine how current challenges locating and retaining employees with the proper skills affect the ability of small businesses to operate and expand in order to grow the American economy.

**I. Recent Labor Market Trends**

In July of 2017, there were 7 million unemployed Americans, and the national unemployment rate was at a 16-year low of 4.3 percent.<sup>1</sup> This rate is down significantly from the height of the Great Recession, where the unemployment rate peaked at 10 percent in October of 2009.<sup>2</sup> Recently, alternative measures of unemployment have also significantly improved. The amount of part time workers for economic reasons decreased by 11 percent from July 2016 to July 2017.<sup>3</sup> Also in the past year, the number of discouraged workers decreased by 9 percent and the number of Americans defined as marginally attached to the labor force decreased by almost 20 percent.<sup>4</sup>

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<sup>1</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, THE EMPLOYMENT SITUATION – JULY 2017 1 (2017) [hereinafter Employment], available at <https://www.bls.gov/news.release/pdf/empsit.pdf>.

<sup>2</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, LABOR FORCE STATISTICS FROM THE CURRENT POPULATION SURVEY (2017), available at <https://data.bls.gov/timeseries/LNS14000000>.

<sup>3</sup> The number of part time workers for economic reasons was 6.15 million in July 2016 and 5.47 million in July 2017. Employment, *supra* note 1, at A-8.

<sup>4</sup> A discouraged worker is defined by the BLS as an individual that did not actively look for work in the prior 4 weeks. Reasons included there is no work available, could not find work, lacks schooling or training, employer thinks the candidate is too young or old, and other types of discrimination. Individuals are considered marginally attached to the workforce by the BLS if the individual wants a job, has searched for work during the prior 12 months, and was available to take a job during the reference week, but had not looked for work in the past 4 weeks. *Id.* At A-16.

Job creation statistics have also been strong in 2017. From January to July, almost 1.3 million net new jobs were created.<sup>5</sup> The industries with the largest increases in job creation included leisure and hospitality, education and health services, and professional and business services.<sup>6</sup>

Low layoff rates have also contributed to a strong labor market. Layoffs peaked in January 2009, with a reported 2.5 million layoffs.<sup>7</sup> Today, layoffs are the lowest they have been since the Federal Reserve Bank of Saint Louis began tracking layoffs in December 2000, with 36 percent fewer layoffs in April 2017 than the previous high in January 2009.<sup>8</sup>

While many of these statistics point to a healthy labor market, 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.<sup>9</sup> The LFPR peaked at 67.3 percent in early 2000, but has declined to around 63 percent today.<sup>10</sup> However, discouraged workers are not accounted for in the unemployment rate because they are not actively looking for work. Therefore, the decline in the LFPR, and therefore the increase in Americans not working or actively looking for work, has actually contributed to the decrease in the unemployment rate and the increase in job vacancies seen today.

With the increase in job creation and the decrease in layoffs, the number of job openings and unfilled positions is currently at its highest point this century.<sup>11</sup> In just the past year, the amount of job openings increased from 5.5 million in June 2016 to almost 6.2 million in June 2017.<sup>12</sup> Broken down by industry, the education and health sectors had a combined 1.2 million openings, leisure and hospitality had 820,000 openings, and the construction industry had almost 250,000 openings.<sup>13</sup> Manufacturing has seen the number of job vacancies triple since the Great Recession.<sup>14</sup> So while employees who are looking for work are finding it easier to locate jobs in several industries and even command higher wages and better benefits, the increase in unfilled jobs inhibits business growth, and therefore, economic growth.<sup>15</sup>

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<sup>5</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, CURRENT EMPLOYMENT STATISTICS (2017), available at <https://www.bls.gov/web/empsit/ceshighlights.pdf>.

<sup>6</sup> *Id.*

<sup>7</sup> FEDERAL RESERVE BANK OF ST. LOUIS, LAYOFFS AND DISCHARGES (2017), available at <https://fred.stlouisfed.org/series/JTSLDL>.

<sup>8</sup> *Id.*

<sup>9</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, LABOR FORCE PARTICIPATION (2017), available at [https://www.bls.gov/bls/cps\\_fact\\_sheets/lfp\\_mock.htm](https://www.bls.gov/bls/cps_fact_sheets/lfp_mock.htm).

<sup>10</sup> *Id.*

<sup>11</sup> There were 6 million job openings in June 2017. The high just before the Great Recession was 4.8 million openings. FEDERAL RESERVE BANK OF ST. LOUIS, JOB OPENINGS (2017) [hereinafter St. Louis JOLTS] available at <https://fred.stlouisfed.org/series/JTJSJOL>.

<sup>12</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, JOB OPENING LEVELS AND RATES BY INDUSTRY AND REGION (2017), available at <https://www.bls.gov/news.release/jolts.t01.htm>.

<sup>13</sup> St. Louis JOLTS, *supra* note 11.

<sup>14</sup> 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>.

<sup>15</sup> NATIONAL FEDERATION OF INDEPENDENT BUSINESSES, JULY 2017 SMALL BUSINESS OPTIMISM INDEX (2017) [hereinafter NFIB July 2017], available at <http://www.nfib.com/surveys/small-business-economic-trends/>.

## II. The Labor Market and Economic Growth

The three most important variables to long-run economic growth, which is typically measured through a country's gross domestic product (GDP), are capital, productivity, and labor.<sup>16</sup> If there is strong job growth, and those jobs are being filled by qualified and hard-working employees, economic growth increases.

Under current conditions, the labor market could become an inhibitor to economic growth. From 1980 to 2006, the labor market grew at an average of 1.3 percent.<sup>17</sup> However, from 2007-2016, the labor market only grew by 0.45 percent.<sup>18</sup> According to the Congressional Budget Office, the main limit to economic growth from 2022-2027 will be the slowdown in labor market growth.<sup>19</sup> Although birth rates play a factor in the growth of the labor market, the need to replace retiring baby boomers and the decline in the labor force participation rate will make it harder to fill job vacancies and grow the economy in the coming years.

Filling vacant jobs from retiring baby boomers will be a significant hurdle for the American economy, and it will be even more difficult for certain sectors. For example, in 2012, one third of all farm operators were over the age of 65 and only 6 percent of principal farm operators were under the age of 35.<sup>20</sup> In the manufacturing sector, 2.7 million workers are expected to retire by 2025.<sup>21</sup> The average construction tradesman is estimated to be about 50 years old.<sup>22</sup> Clearly, there is an impending wave of new retirees in the coming years, and filling those jobs will be an issue for businesses in several industries. However, even workforce participation for prime-aged Americans years has taken its toll on the American economy.

Compounding the labor shortage issue is the decline of workforce participation by prime-aged workers. In 1954, 98 percent of prime-aged men (aged 25-54) were either working or actively looking for work.<sup>23</sup> By 2016, the number declined to 88 percent.<sup>24</sup> Although there are

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<sup>16</sup> The Cobb-Douglas production ( $Y = AK^\alpha L^{1-\alpha}$ ) is one of the preeminent functions used to measure gross domestic product. In the function, Y = gross domestic product, K = capital, L = labor, and  $\alpha$  is a parameter greater than zero and less than one to measure the share of rents paid to capital and labor in the economy. CHARLES I. JONES, *MACROECONOMICS* (2014).

<sup>17</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, *EMPLOYMENT* (2017), available at <https://www.bls.gov/data/#employment>.

<sup>18</sup> *Id.*

<sup>19</sup> CBO's economic projections measure future GDP growth absent changes in policy direction. CONGRESSIONAL BUDGET OFFICE, *THE BUDGET AND ECONOMIC OUTLOOK 2017 TO 2027 117* (2017), available at [https://www.cbo.gov/sites/default/files/52370-Outlook\\_OneColumn\\_0.pdf](https://www.cbo.gov/sites/default/files/52370-Outlook_OneColumn_0.pdf).

<sup>20</sup> U.S. DEP'T OF AGRICULTURE, *2012 CENSUS OF AGRICULTURE, PRELIMINARY HIGHLIGHTS, U.S. FARMS AND FARMERS 3* (2014), available at [https://www.agcensus.usda.gov/Publications/2012/Preliminary\\_Report/Highlights.pdf](https://www.agcensus.usda.gov/Publications/2012/Preliminary_Report/Highlights.pdf).

<sup>21</sup> DELOITTE, NATIONAL ASSOCIATION OF MANUFACTURERS, MANUFACTURING INSTITUTE, *THE SKILLS GAP IN U.S. MANUFACTURING 2015 AND BEYOND 5* (2015) [hereinafter *Manufacturing Report*], available at [http://www.themanufacturinginstitute.org/~media/827DBC76533942679A15EF7067A704CD/2015\\_Skills\\_Gap\\_Report.pdf](http://www.themanufacturinginstitute.org/~media/827DBC76533942679A15EF7067A704CD/2015_Skills_Gap_Report.pdf).

<sup>22</sup> Terry McDonough, *Facing the Skills Gap*, *CONSTRUCTION TODAY* (Dec. 21, 2016) [hereinafter *Construction*], available at <http://www.construction-today.com/sections/columns/2944-facing-the-skills-gap>.

<sup>23</sup> ALAN BERUBE, *WHERE ARE THE NONWORKING PRIME-AGE MEN?* BROOKINGS INSTITUTION (2016), available at <https://www.brookings.edu/blog/the-avenue/2016/06/21/where-are-the-nonworking-prime-age-men/>.

<sup>24</sup> *Id.*

several factors contributing to this phenomenon, such as women entering the workforce,<sup>25</sup> increased disability claims,<sup>26</sup> skills gaps for in-demand jobs,<sup>27</sup> and even the increase in opioid abuse,<sup>28</sup> the fact remains that declining labor force participation is a concern for the future growth of the American economy and American businesses. If finding and retaining qualified workers will be an issue in the coming years, examining how resource-constrained small businesses can hire and expand will be important to ensure both the success of small businesses and the American economy.

### III. Small Businesses and the Labor Market

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 labor market.<sup>29</sup> 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.<sup>30</sup>

Job vacancies are becoming one of the top concerns of many small business owners. According to the National Federation of Independent Business July 2017 Economic Trends Report, 60 percent of business owners either hired workers or were trying to hire workers in the last month, and 87 percent of those hiring or trying to hire reported few or no qualified applicants for vacant positions.<sup>31</sup> The survey also showed that while only 15 percent of businesses owners in June of 2012 had positions they could not fill, 35 percent of surveyed business owners in July 2017 reported positions they were unable to fill.<sup>32</sup> A 2017 poll conducted by the United States Chamber of Commerce produced similar results. In a sample of 1,000 small businesses owners, only 39 percent of business owners described the quality of potential hires as “good,” and finding workers was one of the top concerns of all those surveyed.<sup>33</sup> In the general contracting industry, a recent survey found that 86 percent of business owners experienced difficulty filling available

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<sup>25</sup> *Id.*

<sup>26</sup> SCOTT WINSHIP, LABOR-FORCE PARTICIPATION AMONG MEN IS DECLINING AS DISABILITY CLAIMS RISE, MANHATTAN INSTITUTE (2015), available at <https://economics21.org/html/labor-force-participation-among-men-declining-disability-claims-rise-1208.html>.

<sup>27</sup> Rob Kaplan, *America Has to Close the Workforce Skills Gap*, BLOOMBERG (April 12, 2017), available at <https://www.bloomberg.com/view/articles/2017-04-12/america-has-to-close-the-workforce-skills-gap>.

<sup>28</sup> Berkeley Loveface, *The Head of the Federal Reserve Believes Opioid Abuse could be Holding back the U.S. Economy*, CNBC (Jul. 13, 2017), available at <https://www.cnbc.com/2017/07/13/feds-yellen-believes-opioid-abuse-holding-back-the-us-economy.html>.

<sup>29</sup> 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](https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pdf).

<sup>30</sup> NATIONAL FEDERATION OF INDEPENDENT BUSINESSES, 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/>.

<sup>31</sup> NFIB July 2017, *supra* note 15.

<sup>32</sup> WILLIAM DUNKELBERG, HOLLY WADE, NATIONAL FEDERATION OF INDEPENDENT BUSINESSES, SMALL BUSINESS ECONOMIC TRENDS, JULY 2017, available at <http://www.nfib.com/assets/SBET-July-2017.pdf>.

<sup>33</sup> METLIFE, U.S. CHAMBER OF COMMERCE, SMALL BUSINESS INDEX 2 (2017), available at [https://www.uschamber.com/sbindex/files/SBI\\_Q3\\_082217\\_REL.pdf](https://www.uschamber.com/sbindex/files/SBI_Q3_082217_REL.pdf).

positions.<sup>34</sup> This issue also particularly affects small businesses in the manufacturing and retail industries.<sup>35</sup>

During periods with low unemployment, small businesses 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.<sup>36</sup> During periods of low unemployment when workers can demand higher wages and benefits, larger companies with more generous benefits and resources can typically afford higher salaries.<sup>37</sup> Examining solutions to help small businesses find and retain talent will hopefully mitigate these issues so that small businesses can continue to operate and expand.

#### **IV. Solutions to Improve the Small Business Labor Market**

Several proposals and initiatives exist that would help small businesses find and retain talent during periods of low unemployment. First, by limiting regulatory uncertainty, small businesses would have a better understanding of the labor regulations they need to comply with to maintain a robust workforce. With the uncertainty surrounding litigation of the Department of Labor's Overtime Rule, small businesses are left in limbo<sup>38</sup> and are uncertain if they will need to comply with a rule that would disproportionately impact small businesses in rural areas with already thin margins.<sup>39</sup> Uncertainty, especially when it comes to regulations, has a negative effect on small business growth, and creating a friendlier regulatory environment would make it easier for small businesses to understand their obligations when hiring new employees.<sup>40</sup>

Ensuring that America's education system could provide students with the skills needed in the 21<sup>st</sup> century could also help alleviate the skills gap in certain industries. For example, based on industry growth and retiring baby boomers, the manufacturing industry expects that by 2025, there will be 2 million manufacturing jobs unfilled due to the skills gap.<sup>41</sup> Similarly, one study noted that for every new construction worker in Tennessee, five are leaving the industry.<sup>42</sup> By reinforcing skills taught in STEM education, increasing collaboration between academic institutions and future employers, and ensuring more apprenticeship opportunities, small businesses would be able to find employees with the proper set of skills.

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<sup>34</sup> Construction, *supra* note 22.

<sup>35</sup> NFIB July 2017, *supra* note 15.

<sup>36</sup> <https://www.monster.com/career-advice/article/small-business-attract-talent-1-brand-0709>.

<sup>37</sup> Wendy Webb, *6 Ways Small Businesses Can Outcompete Large Forms on Talent*, TALENT ECONOMY (2017), available at <http://www.talenteconomy.io/2017/02/16/small-businesses-top-talent/>.

<sup>38</sup> Bill Pokomy, *DOL Brief in Overtime Rule Case Leaves New Uncertainty*, WAGE & HOUR INSIGHTS (Jul. 10, 2017), available at <http://www.wagehourinsights.com/2017/07/dol-brief-in-overtime-rules-case-leaves-new-uncertainty/>.

<sup>39</sup> Letter from the Hon. Steve Chabot, Chairman, Committee on Small Business, to the Hon. Howard Shelanski, Office of Information and Regulatory Affairs, OMB at 2 (April 28, 2016), available at [https://smallbusiness.house.gov/uploadedfiles/04282016\\_hsbcb\\_to\\_omb\\_re\\_dol\\_overtime\\_rule.pdf](https://smallbusiness.house.gov/uploadedfiles/04282016_hsbcb_to_omb_re_dol_overtime_rule.pdf).

<sup>40</sup> Stan Veuger, *Washington Must Reduce Policy Uncertainty for Small Businesses*, THE HILL (2017), available at <http://thehill.com/blogs/pundits-blog/economy-budget/320747-washington-must-avoid-policy-uncertainty-for-the-small>.

<sup>41</sup> Manufacturing Report, *supra* note 21, at 5.

<sup>42</sup> Construction, *supra* note 22.

## **V. Conclusion**

Currently, the United States is experiencing low unemployment, strong job growth, and low layoff rates. While this is advantageous for American workers, it hurts the ability of businesses to expand and grow. This labor shortage is one of the preeminent concerns regarding future economic growth prospects in the coming years. The lack of qualified workers disproportionately affects small businesses, which lack many of the resources of larger businesses to hire and retain qualified employees. However, by decreasing regulatory uncertainty for businesses trying to hire, incentivizing discouraged workers to reenter the labor market, and teaching Americans the skills necessary for the 21<sup>st</sup> century economy, small businesses can have the resources they need to innovate, grow the economy, and continue to be the primary creator of jobs in the United States.