GROWTH, OPPORTUNITY, AND CHANGE IN THE U.S. LABOR MARKET AND THE AMERICAN WORKFORCE: A REVIEW OF CURRENT DEVELOPMENTS, TRENDS, AND STATISTICS

HEARING

BEFORE THE

SUBCOMMITTEE ON HEALTH, EMPLOYMENT, LABOR, AND PENSIONS

COMMITTEE ON EDUCATION AND THE WORKFORCE

U.S. HOUSE OF REPRESENTATIVES

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C O N T E N T S

GROWTH, OPPORTUNITY, AND CHANGE IN THE U.S. LABOR MARKET AND THE AMERICAN WORKFORCE: A REVIEW OF CURRENT DEVELOPMENTS, TRENDS, AND STATISTICS

Thursday, June 21, 2018
House of Representatives
Committee on Education and the Workforce,
Subcommittee on Health, Employment, Labor, and Pensions
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:05 a.m., in Room 2175, Rayburn House Office Building. Hon. Tim Walberg [Chairman of the Subcommittee] presiding.

Present: Representatives Walberg, Allen, Lewis, Estes, Banks, Wilson of Florida, Norcross, Blunt Rochester, Courtney, and Fudge.

Also Present: Representatives Foxx and Scott.

Staff Present: Marty Boughton, Deputy Press Secretary; Courtney Butcher, Director of Member Services and Coalitions; Michael Comer, Deputy Press Secretary; Rob Green, Director of Workforce Policy; Nancy Locke, Chief Clerk; John Martin, Workforce Policy Counsel; Kelley McNabb, Communications Director; James Mullen, Director of Information Technology; Alexis Murray, Professional Staff Member; Krisann Pearce, General Counsel; Benjamin Ridder, Legislative Assistant; Meredith Schellin, Deputy Press Secretary; Olivia Voslow, Legislative Assistant; Joseph Wheeler, Professional Staff Member; Lauren Williams, Professional Staff Member; Tylease Alli, Minority Clerk/Intern and Fellow Coordinator; Mishawn Freeman, Minority Staff Assistant; Ron Hira, Minority Labor Policy Fellow; Eunice Ikene, Minority Labor Policy Advisor; Stephanie Lalle, Minority Deputy Communications Director; Andre Lindsay, Minority Staff Assistant; Richard Miller, Director Labor Policy; Udochi Onwubiko, Minority Labor Policy Counsel; and Veronique Pluviose, Minority Staff Director.

Chairman WALBERG. A quorum being present, the hearing will come to order. Good morning and welcome to today's Subcommittee hearing. I would like to thank the members of the Subcommittee and our witnesses for being here today as we examine important and timely topics. Current trends in the U.S. labor market, their benefits for American workers, the Bureau of Labor Statistics—BLS—labor market economic information and methodologies.

On the 1st of June, BLS released its May 2018 Employment Situation Report, which detailed the most recent data on U.S. employment. The report found numerous encouraging developments in the American economy and workforce, including improvements to rates of unemployment, job growth, and wage growth.

According to the report, the unemployment is down to 3.8 percent, the lowest rate of unemployment in nearly two decades. Since May 2017, the total number of unemployed workers has dropped by 772,000, to 6.1 million people. And there has been a 28.6 percent drop in individuals experiencing long-term unemployment.

As unemployment has fallen, the number of new jobs available across the country has risen. Since February 2017, a month after President Trump was sworn into office, the U.S. economy has added nearly 3 million jobs nationwide. In particular, health care, construction, manufacturing, retail trade, and mining have all experienced particularly robust job growth. This job upsurge has contributed to one of the most outstanding and astounding developments yet.

For the very first time in BLS reporting history, the number of job seekers, 6.3 million Americans, has been eclipsed by the number of available jobs, 6.7 million job openings nationwide. We know that in addition to a strong job market, wage growth can help families achieve financial independence and security. According to the report, the workforce has experienced a rise in wages with average hourly earnings increasing by 71 cents over the last 12-month period. Much of this growth can be attributed to tax reform as well as efforts by Congress and President Trump to rein in regulatory burdens.

The *Tax Cuts and Jobs Act*, which House Republicans delivered last year and President Trump signed into law in December, 2017, has lowered taxes for millions of Americans. Ninety percent of workers are seeing more in their take-home pay thanks to tax reform and the law has helped to spur powerful economic growth across the country.

Strengthening the workforce and adding more jobs to the U.S. economy have been top priorities for House Republicans and the Trump administration. And tax reform has delivered bigger paychecks and greater opportunities for more Americans.

Today's hearing presents an opportunity to delve into BLS's most recent information on the U.S. labor market. It recently published data on workers engaging in contingent and alternative forms of work and to gain a better understanding of BLS products and data to ensure we, as policy makers, and the public at large can best utilize this information. I look forward to hearing from our panel of witnesses and from other members of the Subcommittee today as we talk about these developments and ways to promote even greater growth for more American employers and workers.

I now yield to today's—I yield to today's Subcommittee Ranking Member, Representative Wilson, for her opening remarks.

[The statement of Chairman Walberg follows:]

Prepared Statement of Hon. Tim Walberg, Chairman, Subcommittee on Health, Employment, Labor, and Pensions

Good morning, and welcome to today's subcommittee hearing. I would like to thank members of the subcommittee and our witnesses for being here today as we examine important and timely topics – current trends in the U.S. labor market, their benefits for American workers, and a review of the Bureau of Labor Statistics' (BLS) labor market economic information and methodologies.

On the first of June, BLS released its May 2018 Employment Situation Report, which detailed the most recent data on U.S. employment. The report found numerous encouraging developments in the American economy and workforce, including improvements to rates of unemployment, job growth, and wage growth.

According to the report, unemployment is down to 3.8 percent—the lowest rate of unemployment in nearly two decades. Since May 2017, the total number of unemployed workers has dropped by 772,000 to 6.1 million people, and there has been a 28.6 percent drop in individuals experiencing long-term unemployment.

As unemployment has fallen, the number of new jobs available across the country has risen. Since February 2017, the month after President Trump was sworn into office, the U.S. economy has added nearly 3 million jobs nationwide. In particular, health care, construction, manufacturing, retail trade, and mining having all experienced particularly robust job growth.

This job upsurge has contributed to one of the most astounding developments yet: for the very first time in BLS reporting history, the number of job seekers – 6.3 million Americans – has been eclipsed by the number of available jobs – 6.7 million job openings nationwide.

We know that in addition to a strong job market, wage growth can help families achieve financial independence and security. According to the report, the workforce has experienced a rise in wages, with average hourly earnings increasing by 71 cents over the last 12-month period. Much of this

growth can be attributed to tax reform, as well as efforts by Congress and President Trump to rein in regulatory burdens.

The Tax Cuts and Jobs Act, which House Republicans delivered last year and President Trump signed into law in December 2017, has lowered taxes for millions of Americans. Ninety percent of workers are seeing more of their take-home pay thanks to tax reform, and the law has helped to spur powerful economic growth across the country. Strengthening the workforce and adding more jobs to the U.S. economy have been top priorities for House Republicans and the Trump administration, and tax reform has delivered bigger paychecks and greater opportunities to more Americans.

Today's hearing presents an opportunity to delve into BLS's most recent information on the U.S. labor market, its recently published data on workers engaging in contingent and alternative forms of work, and to gain a better a understanding of BLS products and data to ensure we, as policymakers, and the public at-large can best utilize this information.

I look forward to hearing from our panel of witnesses and from other members of the subcommittee today as we talk about these developments and ways to promote even greater growth for more American employers and workers.

Ms. WILSON of Florida. I want to thank Chairman Walberg for holding this hearing on current developments and trends in the U.S. labor market and the American workforce.

Wage stagnation and inequality remain a burden on workers and a drag on the American economy. The top-level labor market indicators have all been moving in a positive direction since the Obama administration rescued us from the depths of the Great Recession.

The number of jobs has steadily increased over the past seven years with more than 18 million jobs added. The national unemployment rate has declined from 10 percent in 2009 to 3.8 percent now. However, those positive numbers have not translated into higher wages. One key reason—for this is that link between pay and rising productivity is broken. From 1973 to 2016, the typical worker saw an increase in wages of just 13 percent despite overall productivity rising almost 75 percent. Between 1979 and 2016, the top 1 percent of earners saw nearly 150 percent cumulative gains and annual wages almost four times faster than average wage growth.

Wage stagnation has become worse under this administration. As you can see from this chart, President Trump inherited an economy that was beginning to show signs of modest wage growth. See the uptick between 2012 and 2017 on the left side.

However, since President Trump took office, wages have been mostly flat. Over the last year, the average American has not gotten ahead. You can see how the trend lines have flattened out in the chart. Growth and average hourly earnings on an inflation, inflation adjusted basis was zero. And in the case of production and non-supervisory workers who represent four fifths of private employed Americans, these groups actually lost ground over the last year as their real average hourly earnings have fallen.

These wage trends are more than just a line on the chart. This is a real blow to workers across the country who have been working hard and struggling to get by while healthcare and other costs go up.

The tax cut has further exacerbated income inequality. According to the Tax Policy Center, by 2027 the top 1 percent of households will receive 83 percent of the benefits from their $1.8 trillion tax scam. Proponents claim that this bill would boost workers' wages but we can see that since the tax bill was enacted, inflation adjusted wage growth has been zero. Meanwhile, wealthy corporations are on track to spend a record $1 trillion of this massive windfall from the Republican tax scam on dividends, and stock buybacks that benefit shareholders and executives.

We know some of the reasons why workers' wages are stagnant and income inequality continues to grow. For example, Congress and the administration have failed to update federal standards for the minimum wage and overtime. In addition, Congress has failed to strengthen workers' rights to collectively bargain for better wages and the administration has appointed officials who are aggressively undermining the limited protections that do exist.

Next week marks the 80th anniversary of the *Fair Labor Standards Act*. Landmark legislation that provided millions of working people with protection from substandard wages. In the absence of federal action, 18 states raised their minimum wage at the beginning of this year. Earlier this week, voters in the District of Columbia joined eight other states in phasing out the minimum wage for tipped workers. Yet many states have failed to act.

And in Miami, where I live, legislation that would have provided many workers with a minimum wage of $13 an hour was vetoed by the mayor. That's why we must act at the federal level to boost the minimum wage. Committee Democrats stand ready to pass policies that boost wages and combat income inequality. We should pass the *Raise the Wage Act*, H.R. 15, a bill to increase the minimum wage to $15 per hour by 2024 giving more than 41 million Americans a pay increase. We should enact the *Restoring Overtime Pay Act*, H.R. 4505, which codifies the Obama administration 2016 overtime rule. The Trump Administration's abandonment of this rule cost low and middle income salaried workers 1.2 billion per year in lost wages.

Committee Democrats also support the *WAGE Act*, H.R. 4548, legislation to improve workers' ability to bargain for better wages by strengthening workers' rights to join a union free from retaliation, establish meaningful deterrents for unscrupulous employers who interfere with their, with these rights.

I hope that we can have a serious discussion about these policies and how we can combat decades-long wage stagnation and income inequality. I thank the witnesses for joining us here today and I look forward to hearing their testimony. I yield back the balance of my time.

[The statement of Ms. Wilson follows:]

Prepared Statement of Hon. Frederica S. Wilson, a Representative in Congress from the state of Florida

I want to thank Chairman Walberg for holding this hearing on current developments and trends in the U.S. labor market and the American workforce.

Wage stagnation and inequality remain a burden on workers and a drag on the American economy. The top-level labor market indicators have all been moving in a positive direction since the Obama administration rescued us from the depths of the Great Recession. The number of jobs has steadily increased for over the past 7 years, with more than 18 million jobs added. The national unemployment rate has declined from 10 percent in 2009 to 3.8 percent now.

However, those positive numbers have not translated into higher wages.

One key reason for this is that the link between pay and rising productivity is broken. From 1973 to 2016, the typical worker saw an increase in wages of just 13 percent, despite overall productivity rising almost 75 percent. Between 1979 and 2016, the top one percent of earners saw nearly 150 percent cumulative gains in annual wages—almost four times faster than average wage growth.

Wage stagnation has become worse under this administration. As you can see from this CHART, President Trump inherited an economy that was beginning to show signs of modest wage growth – see the uptick between 2012 and 2017 on the left side. However, since President Trump took office, wages have been mostly flat. Over the last year, the average American has not gotten ahead. You can see how the trend lines have flattened out in the CHART— growth in average hourly earnings on an inflation adjusted basis was zero! And in the case of production and nonsupervisory workers, who represent four-fifths of privately employed Americans, these groups actually lost ground over the last year, as their real average hourly earnings have fallen.

These wage trends are more than just a line on the chart. This is a real blow to workers across the country, who have been working hard and struggling to get by while health care and other costs go up.

The tax cut has further exacerbated income inequality. According to the Tax Policy Center, by 2027, the top 1 percent of households will receive 83 percent of the benefits from their $1.8 trillion tax scam. The proponents claimed that this bill would boost workers' wages, but we can see that since the tax bill was enacted, inflation adjusted wage growth has been zero. Meanwhile, wealthy corporations are on track to spend a record $1 trillion of this massive windfall from the Republican tax scam on dividends and stock buybacks that benefits shareholders and executives.

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to collectively bargain for better wages, and the Administration has appointed officials who are aggressively undermining the limited protections that do exist.

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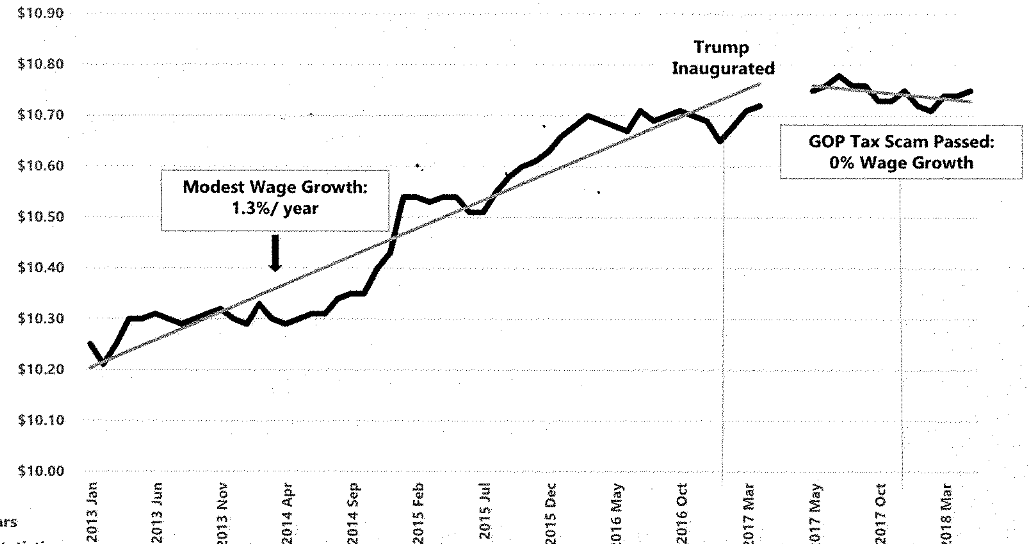
I hope that we can have a serious discussion about these policies and how we can combat decades-long wage stagnation and income inequality.

I thank the witnesses for joining us today and look forward to hearing their testimony. I yield back the balance of my time.



*1982 -1984 Constant Dollars

SOURCE: Bureau of Labor Statistics

REAL AVERAGE HOURLY EARNINGS OF ALL PRIVATE EMPLOYEES *

January 2013 to May 2018

COMMITTEE ON EDUCATION & THE WORKFORCE DEMOCRATS

Chairman WALBERG. I thank the gentlelady. Pursuant to Committee rule 7(c), all members will be permitted to submit written statements to be included in the permanent hearing record and without objection, the hearing record will remain open for 14 days to allow such statements and other extraneous material referenced during the hearings to be submitted for the official hearing record.

It is now my pleasure to introduce our distinguished witnesses. Mr. Stephen Moore is a Distinguished Visiting Fellow with the Project for Economic Growth at The Heritage Foundation Institute for Economic Freedom and Opportunity. Welcome.

Mr. Michael Farren, is a Research Fellow with the Project for the Study of American Capitalism at the Mercatus Center at George Mason University. Welcome.

Dr. William Spriggs is a Professor of Economics at Howard University and is testifying on behalf of the AFL–CIO. Welcome.

And finally, Mr. Jared Meyer is a Senior Fellow at the Foundation for Government Accountability. Welcome to all of you.

I will now ask our witnesses to raise your right hand.

[Witnesses sworn.]

Chairman WALBERG. Thank you. Let the record reflect the witnesses all answered in the affirmative. Before I recognize you to provide your testimony let me just briefly remind you, I think all of you know the lighting system there. Just like on the highways, green, keep on going in your five-minute testimony. When you see yellow be prepared to stop, you have a minute left, and when red hits, conclude your remarks as quickly as possible. We would appreciate that. And the same will be true for our committee as we have the opportunity to ask questions.

And so now I would recognize Mr. Farren first for—I am just reading as this was put here. Let's look down there and read directly. Mr. Moore, starting from the left here and moving. We recognize you and thank you.

TESTIMONY OF STEPHEN MOORE, DISTINGUISHED VISITING FELLOW, PROJECT FOR ECONOMIC GROWTH, THE HERITAGE FOUNDATION

Mr. MOORE. Thank you, Mr. Chairman. I appreciate the opportunity to do this. I was thinking as I was preparing this testimony that I was in this room 10 years ago when things weren't very good for the labor force and I have been doing this for a long time. I have been in this business 30 years. I am happy to report that the state of the American job market is as healthy as it has been probably in at least 20 years and maybe in 30 years. So it is good to report some really positive news.

And we all know about the reduction in the unemployment rate, that it has hit—by the way, full employment. Economists have generally defined full employment as four to four and a half percent so when you have a 3.8 percent unemployment rate that means you have a labor shortage and that's a good problem for a country to have. We—according to the latest labor department report, there are about 5 million more jobs than there are people to fill them.

And by the way, I think that Congresswoman Wilson really raised the most important challenge we have right now is now how do we get the wages up? Because boy, do we have the jobs. And so that is the challenge.

But I thought I would just walk you through a few of the trends that are going on. I don't know if we can put these up on the screen. But I just thought I would show you just a couple of quick things.

Number one, this relates to what Congresswoman Wilson was talking about, about how do we get the wages up? I was one of the architects of the Trump tax plan. I worked very closely with my friend Larry Kudlow who is now the National Economic Council Chairman as a senior economic advisor to Trump, and we, I just wanted to make it very clear to all of you that the intention of that bill from the very first day we started, was not to help rich people. We love rich people. We want everybody to get rich in this country but that was not our intention.

From the very first day we started working with Donald Trump about this is how do we get middle class wages up because Congresswoman Wilson is exactly right. We just have seen stagnation in middle income for at least the last 10 years and our goal was bring that number up.

We have created the jobs. I think there is no question that the tax bill has been a job creator, but Ms. Wilson is right that we haven't yet seen the wage growth and that is the big challenge. And the reason I show this chart is we do believe that the way you bring wages up is to increase the productivity of American workers and to increase investment by business.

When businesses invest that's when you get higher wages. You're right, we haven't seen. It's too early to tell whether that effect is going to happen, but we are very hopeful that because you can see there is a very high correlation between the amount that businesses invest and the amount that wages go up.

The next chart just shows you the unemployment data and I think, you know, you are all familiar with this. I just thought that one of the interesting things is that the U6 number which includes people who are forced into part-time jobs because they can't find a full-time job or people who are just discouraged workers, that number has fallen a lot as well. And I think that is one of the most important indicators of health of the labor force.

The next chart is, this is one of the most important ones. The big challenge that I see for your committee in terms of, you know, continuing with the healthy economy but also making sure that the gains are shared by everyone, is how do we get more people into the workforce? This is a problem that started, you know, with the recession and it still hasn't been cured, which is too many people are sitting on the sidelines and are not in the labor force. And what is disturbing about this is that most people don't understand this. Yes, it is obviously true that we have, you know, 10,000 people retiring every day. baby boomers are retiring and that is a challenge. But the big problem, if you look at this chart, is that actually older people are working more. We have actually increased the number of people or the percentage of people by age over 55 that are working.

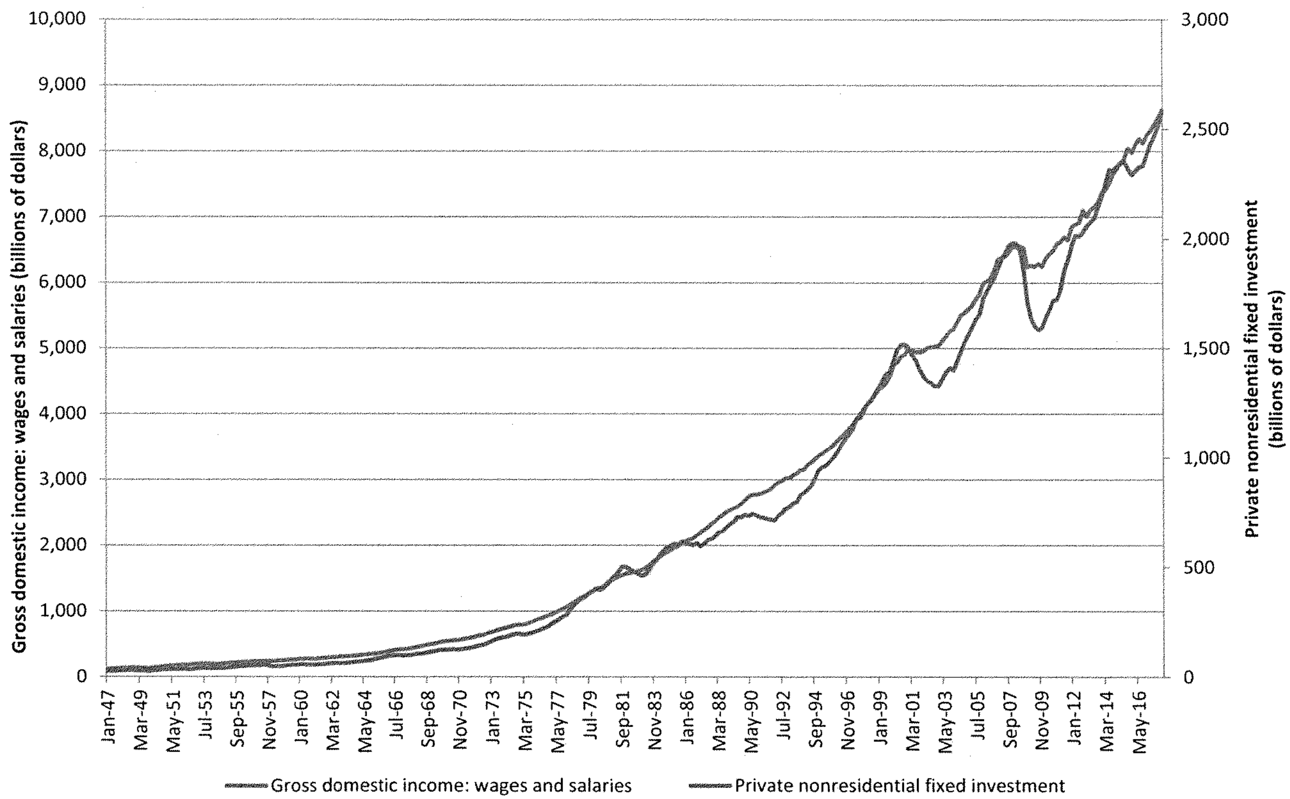
But look at the bottom, look at the young people. This is a big, big problem right now that Americans between the age of 16 and

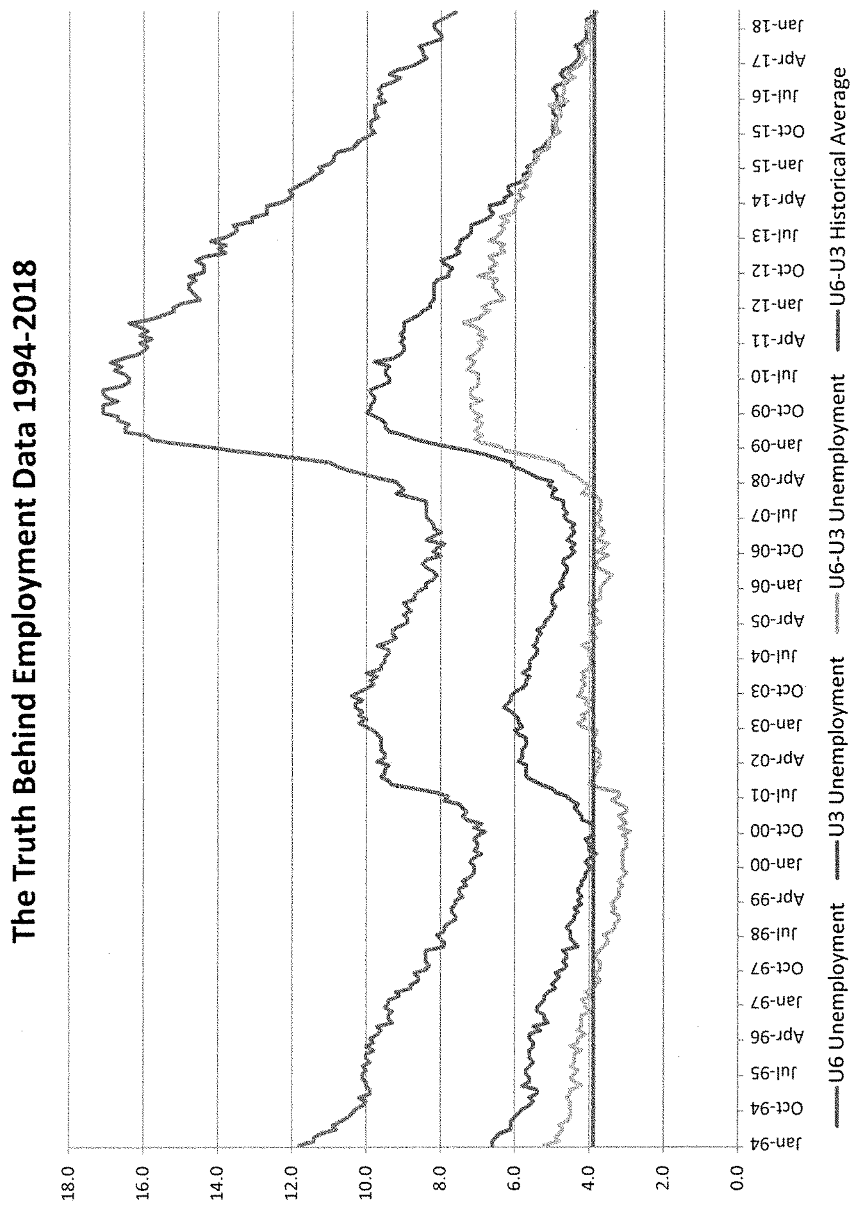
25 are working less. And I am a big believer, I think the statistics are very clear on this that the—your future earnings are very related to when you start working.

So someone who starts working at age 16 is a lot more likely to be successful later in life than someone who starts working at 20 or 22 or 24. We do a real disservice when we have policies that discourage young people from working. And the good news is for young people the jobs are out there, we just have to get them into those jobs. So that's an important one and I think there is one more chart I wanted to show. And this has to do with the minimum wage issue.

And look, I'm not—I want the highest wages for American workers. I completely share what Ms. Wilson was saying. We need to raise wages. I just reject the idea that raising the minimum wage is a very good way of doing that. And I would submit to you if there were going to be more increases in the minimum wage, lets at least think about a policy that creates a teenage minimum wage that would be, you know, six or seven dollars an hour so you can get those young people into the workforce. It is one of the most important things we can do for future earnings and future employment. Thank you.

99% Correlation Between Business Investment and Wages




The Truth Behind Employment Data 1994-2018
U6 Unemployment
U3 Unemployment
U6-U3 Unemployment
U6-U3 Historical Average
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4.0
2.0
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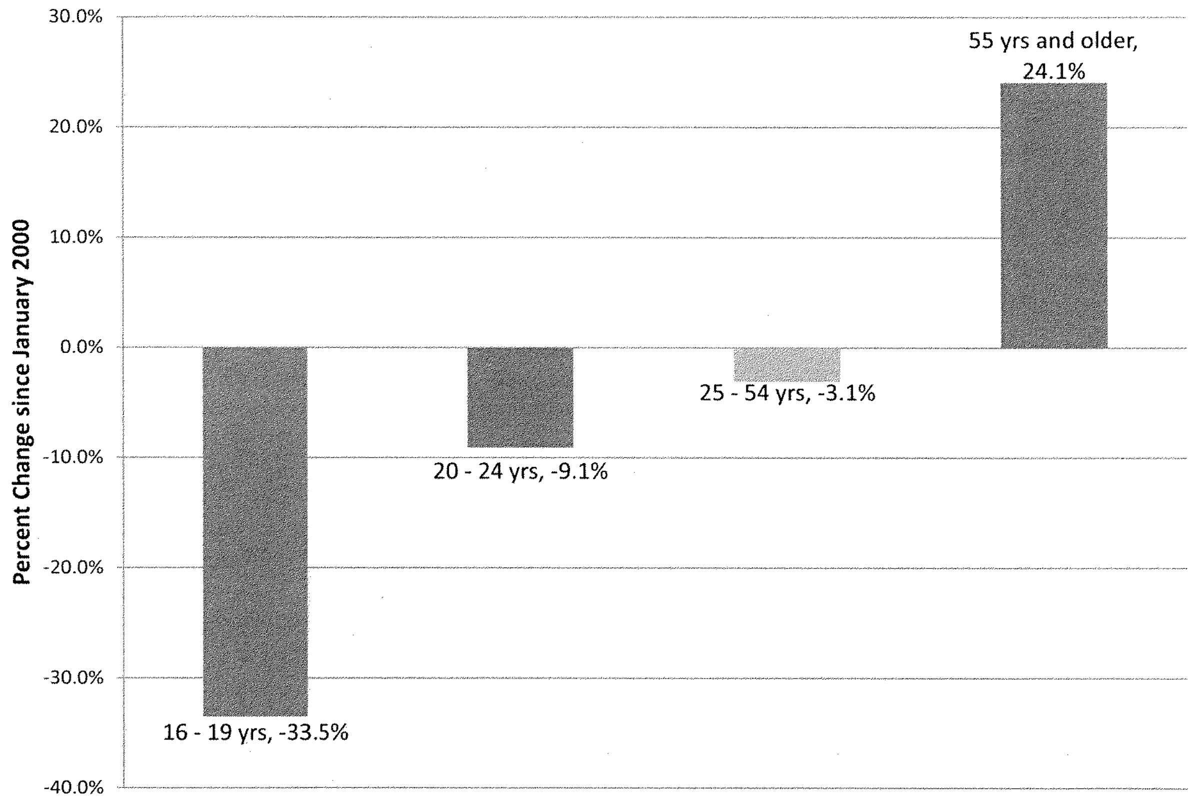
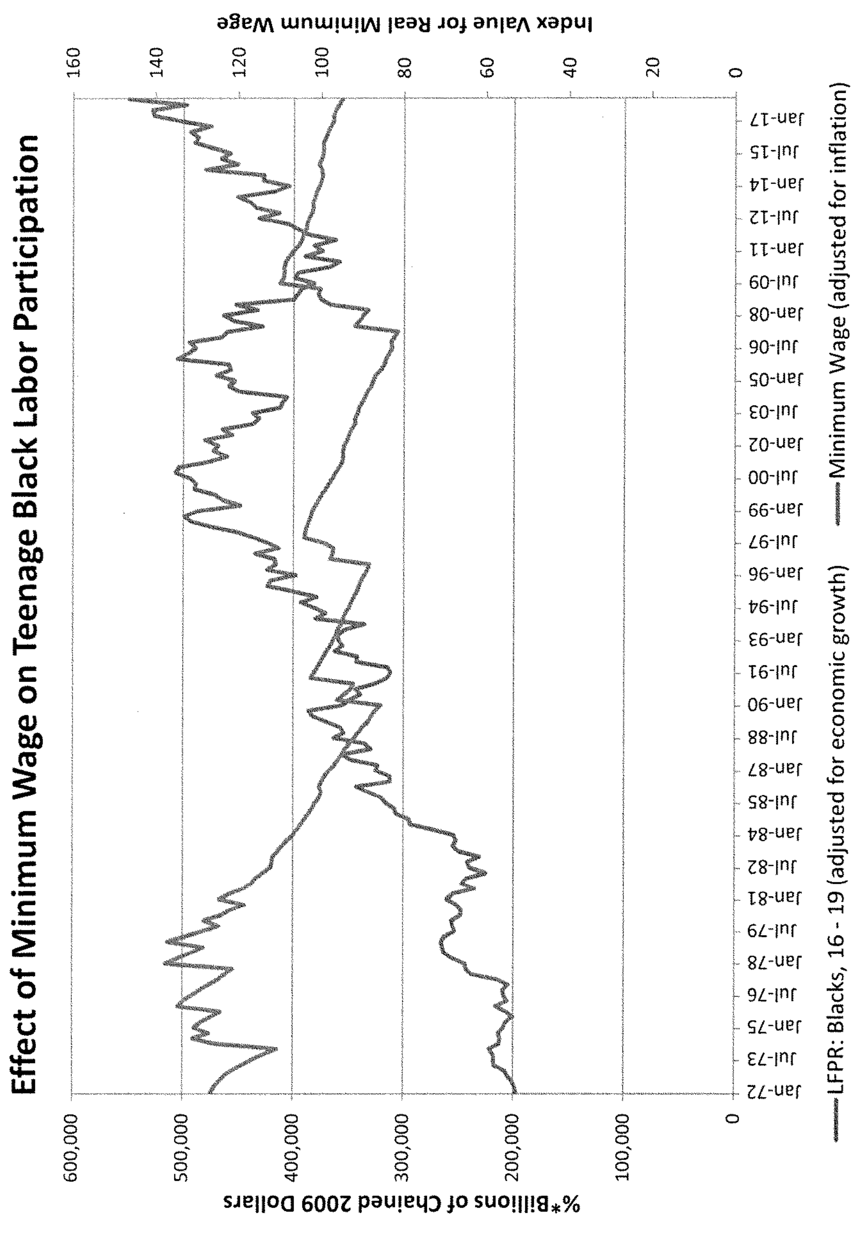
Changes in Labor Force Participation since January 2000





Effect of Minimum Wage on Teenage Black Labor Participation
%*Billions of Chained 2009 Dollars
600,000
500,000
400,000
300,000
200,000
100,000
0
Index Value for Real Minimum Wage
160
140
120
100
80
60
40
20
0
Jan-72
Jul-73
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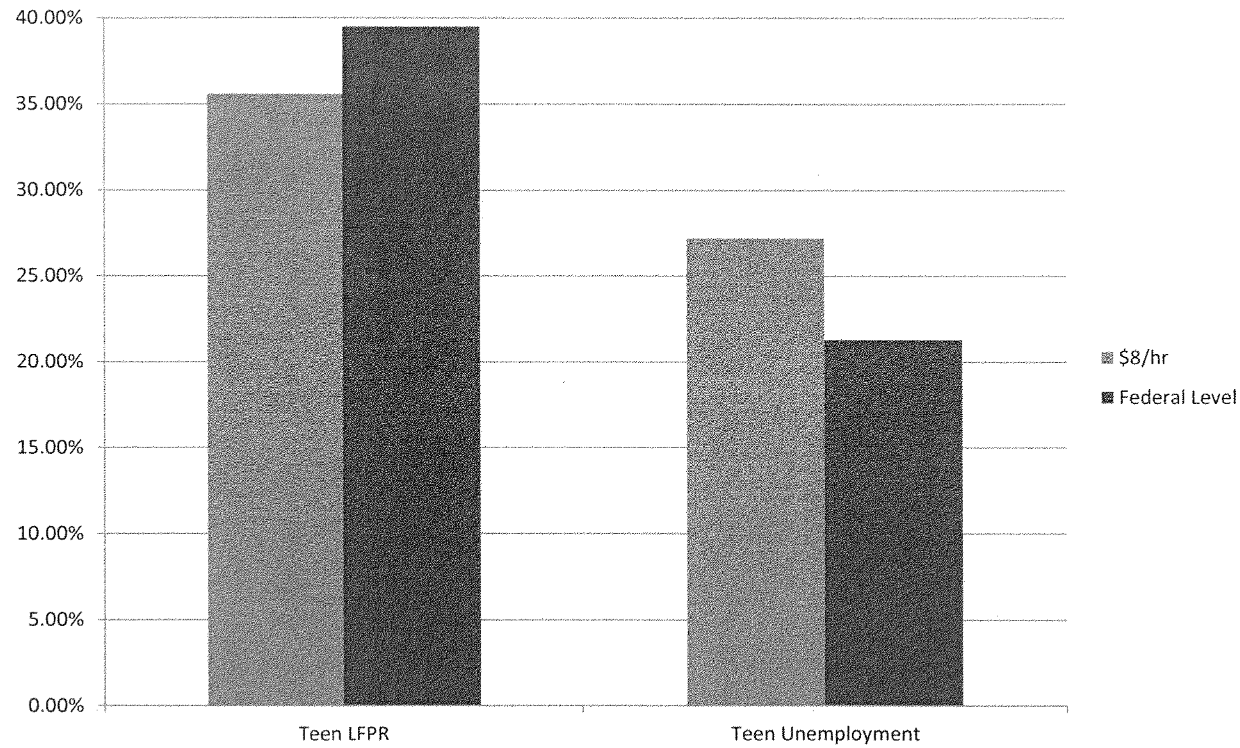
Jan-17
LFPR: Blacks, 16 - 19 (adjusted for economic growth)
Minimum Wage (adjusted for inflation)

Teen Labor Force in High vs. Low Minimum Wage States, 2009 - 2013



[The statement of Mr. Moore follows:]

Testimony

Stephen Moore

Senior fellow in economics at the Heritage Foundation

Before the House Committee on Education and the Workforce

June 21, 2018

Trends in the U.S. Labor Market and Their Impact on Economic Growth

My name is Stephen Moore and I am a senior fellow in economics at the Heritage Foundation and a former Trump senior economic campaign advisor. In compliance with the Truth in Testimony rules, I wish to report that neither I nor the Heritage Foundation take any federal, state or local government funds.

ECONOMY BOOMING

I am happy to report that the economic situation today in the United States is in many ways healthier than it has been in nearly two decades. The latest forecast from the Atlanta Federal Reserve Bank is that economic growth will exceed 4% in the second quarter of 2018 and may reach 5%. We haven't had growth that high in at least 15 years. The outlook for growth is strong for at least the next eighteen months. Tax cuts and deregulation policies have had a salutary effect on employment and growth.

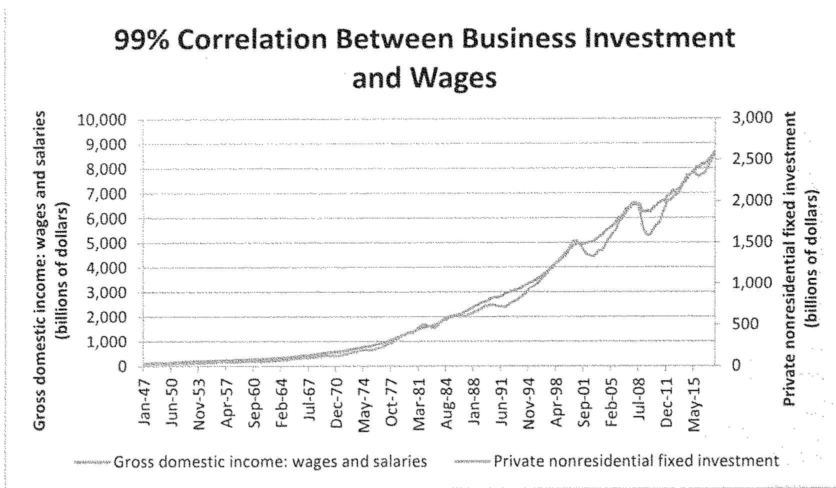
This growth spurt has created a very tight labor market. Bureau of Labor Statistics data tell us that today there are nearly 7 million jobs that are unfilled and fewer than that number of Americans looking for work to fill them. We are, in short, near full employment (4% unemployment rate), as economists conventionally measure things.

I served as a senior economic advisor to the Trump campaign and helped draft the Trump tax plan with my colleague Larry Kudlow, now Donald Trump's National Economic Council chairman. Our mission was to help design policies that would get the U.S. economy back to a sustained 3 to 4% growth path and to help raise middle class wages and salaries, which have been flat since 2000.

Many economists, such as Larry Summers, a former chief economist for President Obama, and Nobel-prize winner Paul Krugman, have argued that 3 to 4% growth will be impossible to achieve and that "secular stagnation" will condemn America to at best 2% growth for the foreseeable future.

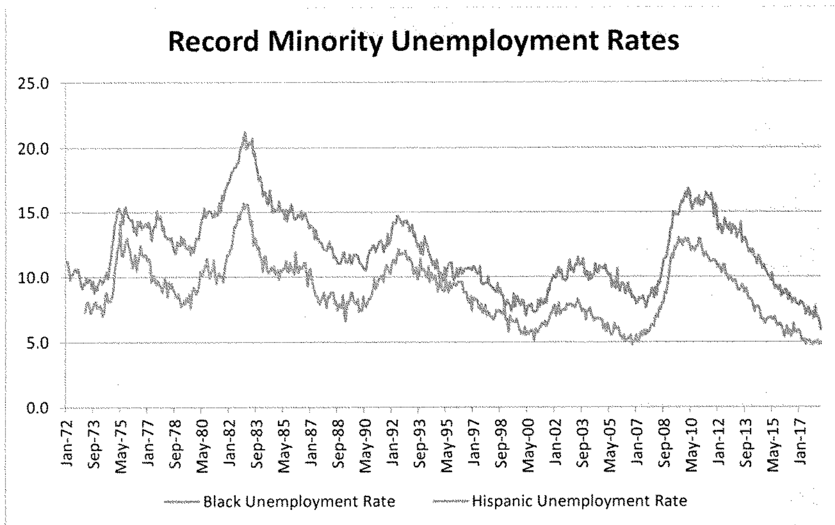
That's clearly wrong. We are already at three percent growth, but the central challenges to sustaining and accelerating that growth rate is 1) increasing the productivity of the workforce, which will raise wages, and 2) incentivizing more working-age Americans, who are sitting on the sidelines to enter the workforce.

The Trump tax cut will help with that first goal. Worker productivity is a function of capital investment. Three features of the Trump tax cut – the new 21% corporate tax rate, the 10% tax on most repatriated capital brought back to the United States, and the immediate expensing for capital purchases – encourage business capital investment. The rate of business investment has risen markedly over the past two years, more than 30%. The attached chart shows that business investment is about 99% correlated with higher wages over time.



MINORITIES HAVE BENEFITTED THE MOST

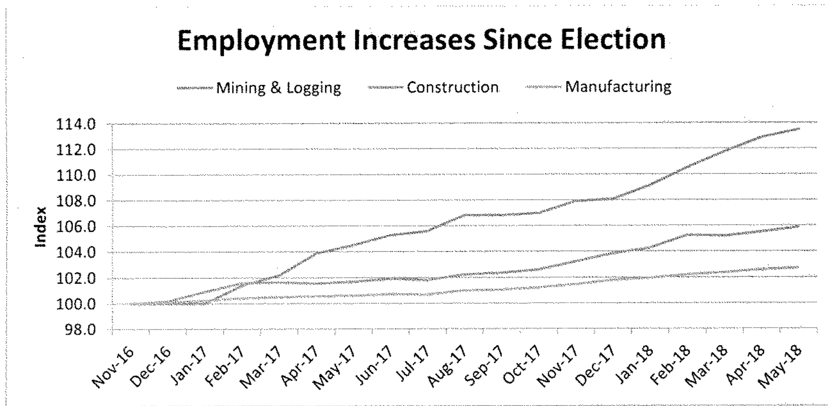
The black and Hispanic unemployment rates have come down the most. For both blacks and Hispanics the unemployment rates hit an all-time recorded low in May of 2018. This suggests that the expansion of the last 18 months has benefited those at the bottom of the income ladder, not just those at the top.



More good news is that we have seen an increase in the black labor force participation rate. This is a sign of economic health for minorities because the percentage of blacks outside the labor force soared during the 2008-09 recession and stayed high through the early stages of the recovery. Minority household incomes actually fell from 2009-14, according to Census Bureau data.

BLUE COLLAR JOBS COMING BACK

President Trump made a priority bringing back middle-class jobs especially in Midwestern states where the recovery was tepid at best. The chart below shows the turnaround in three major areas of blue-collar, middle class jobs where employment had continued to decline or lag behind other industries. These are manufacturing, mining and construction. Between November 2016 and May 2018, the number of new jobs in these industries has dramatically increased, with a net gain of almost 800,000 jobs.



Manufacturing has added 83,000 jobs

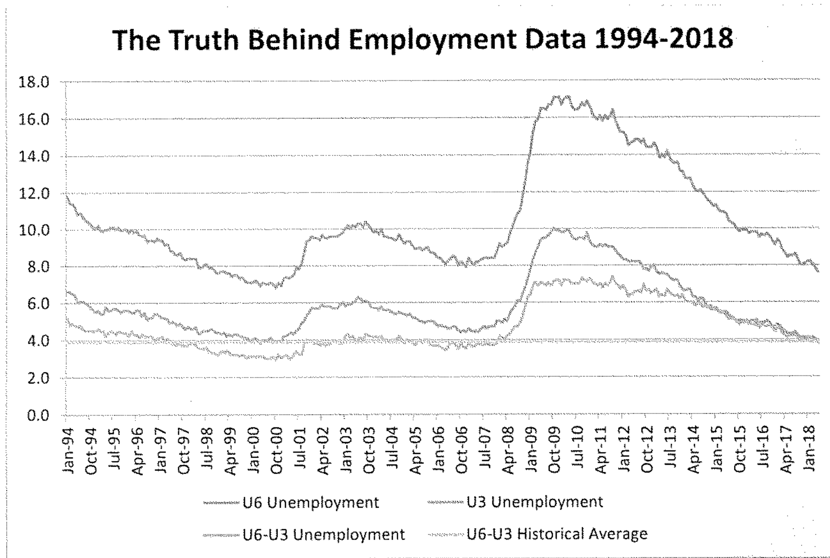
Construction has added 374,000 jobs

Mining and Logging have added 316,000 jobs

LABOR FORCE PARTICIPATION STILL WAY TOO LOW

The major issue confronting this Committee is: How do we get more Americans who could and should be working, into the labor force? In 2015, we reached an unhealthy milestone with just under 100 million Americans over the age of 16 out of the workforce. That number has dropped to closer to 95 million outside the workforce, but is still way too high to maximize our growth potential. The chart below shows the official "headline" unemployment rate, with the U-6 rate, which includes discouraged workers and those who are in part time jobs but want a full time job. It also shows the differential between these two rates.

The U6 rate went up much faster than the official unemployment rate during the recession and the slow recovery. But the U6 rate is still around 8% and there is room for improvement in bringing this number down. The chart below shows the good news that the gap between the U6 and headline unemployment rate (U3) has fallen from as high as 7.5% under Obama to about 4% today. Not only are we creating more jobs, but more full time jobs that pay a full time salary.



WHERE DID ALL THE WORKERS GO?

This presents a conundrum. In the U.S. today, we still have very high numbers of working-age Americans out of the labor force at the same time we have businesses desperately trying to find workers. For example, the Washington Post reported in April that in some areas of the country employers are offering signing bonuses of up to $25,000 for blue collar workers. According to the article:

> *BNSF is offering something rare in blue-collar America: signing bonuses up to $25,000 for hourly workers, including electricians, boilermakers and pipefitters.*
> *"We want to meet our customers' needs, and we're going to do what we need to do to hire for our company," said Amy Casas, the railroad's director of corporate communications.*

The American Transportation Research Institute estimated recently that there were about 60,000 trucker jobs that could be filled tomorrow if workers would take these jobs:

> *"We've probably never had a situation like we have today, where the demand [for workers] is strong and capacity is constrained,"*

> *says Bob Costello, chief economist of the American Trucking Associations (ATA).*

For skilled and reliable mechanics, welders, engineers, electricians, plumbers, computer technicians and nurses, jobs are plentiful. If you're good at a trade and are a reliable worker, in most areas of the country, you can often find a job in 48 hours.

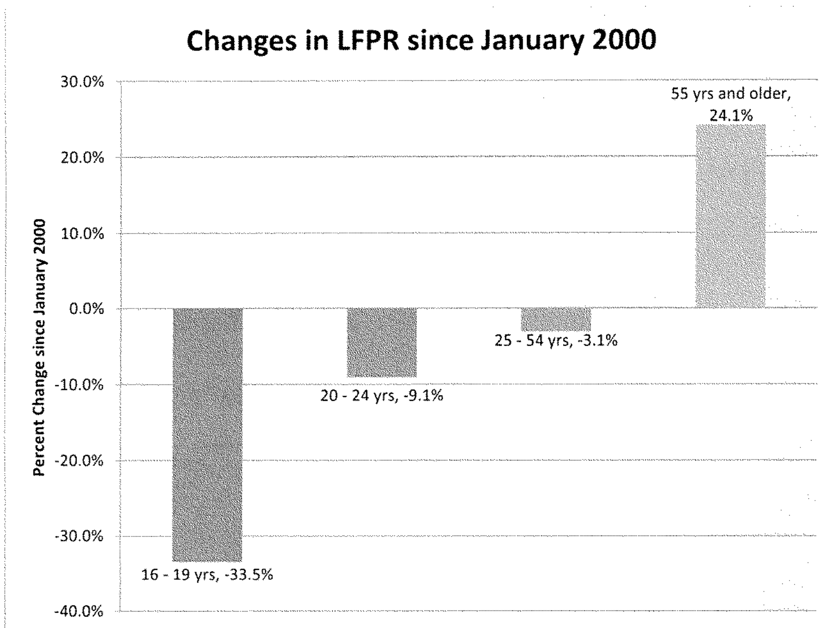
When Wal-Mart announced at the start of the year that starting wages for many workers would rise to $11 an hour — well above the federal legal minimum — they weren't being humanitarians. They were responding to a tightening labor market. Costco, another major employer has raised starter wages to attract and retain workers that are increasingly hard to find.

Where did all the workers go? The labor force participation rate for those 16 + dropped from 65.8% at the start of the Obama presidency to just 62.9% at the end of the Obama presidency and is now just creeping up again.

This is partially explained by baby boomers retiring – at the pace of nearly 10,000 a day. But this excuse masks the real and acute problem afflicting our economy. We've known for decades that some 75 million baby boomers would be retiring in the first two decades of this new century. But if we examine the age-adjusted retirement ages, there is good news with baby boomers. Their age-adjusted labor force participation rate has INCREASED. They are MORE likely to be working past the age of 65 than previous cohorts.

WE NEED MORE YOUNG AMERICANS WORKING

The largest reduction in the workforce has been among the millennials. Under Obama the labor force participation rate for the 16 to 24 age group fell to 55.1% down from 60.8% a decade ago and more than 66% back in the late 1990s. We're headed toward Greece where half the young people don't work. Even workers in their prime working years, the 25 to 54 age group, have seen a slight downturn in work participation.



If the three younger age groups were still at their labor force participation rates from January of 2000, there would be 2.56 million more people working in the 16 to 19 age group, 1.4 million more people working in the 20 to 24 age group, and 3.18 million more people working in the 25 to 54 age group, for a total of more than 7 million more Americans that would be working. That would be more than enough to fill all available jobs, assuming these workers had the skills to take them.

So why aren't Americans of working age filling available jobs — or getting the skills necessary to fill them? I would posit several impediments to putting more Americans back to work:

First, welfare is replacing work. Welfare consists of dozens of different and overlapping federal and state income support programs. A recent Census Bureau study found more than 100 million Americans collecting a government check or benefit each month. The spike in families on food stamps, Supplemental Security Income, disability, public housing and early Social Security remains very high even five years into this recovery. This should come as no surprise given the combination of the scaled-back welfare work requirements and the steep phase-out of benefits as a recipient begins earning income. Economist Casey Mulligan of the University of Chicago has shown that workers with modest incomes and qualifying for an array of welfare programs can lose nearly 50 cents on the dollar for every additional dollar they earn from work. Professor Mulligan found:

> *"a startling amount of work incentives eroded by the labyrinth of new and existing social safety net program rules. Using prior results from labor economics and public finance, I estimate that the labor market contracted two to three times more than it would have if redistribution policies had remained constant, thus altering the path of the economy and making the recession one of the deepest and longest in decades."*

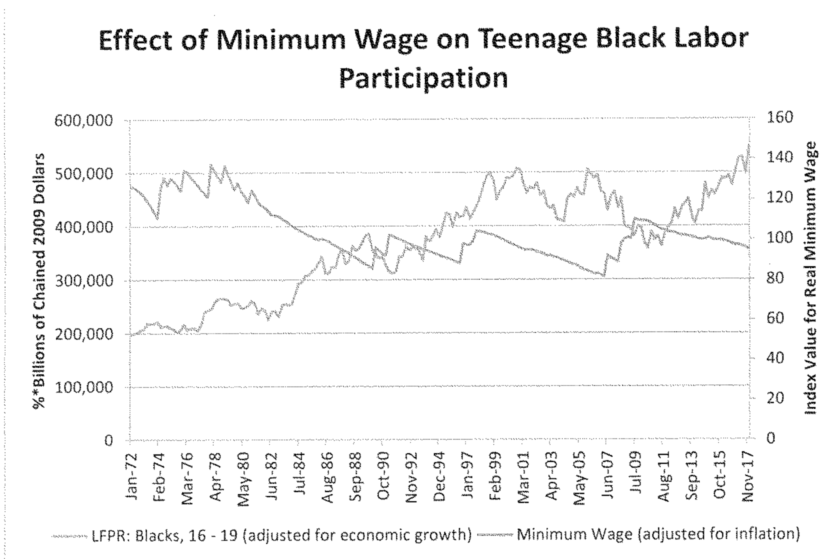
Mulligan found that many workers would only "earn" about \$2 an hour extra pay for working rather than staying home. What is disturbing is that to this day, many of these welfare expansions remain in force. For many low-income Americans, work doesn't pay.

Second, there is an ethic in America that young people should get more years of schooling and should not work. I believe that is a completely misguided concept. Yes, of course, more years of schooling is associated with higher lifetime earnings. But the earlier in life one begins working is also associated with higher lifetime earnings and economic success. The academic studies are clear on this point. Developing work skills at an early age may be as important as gaining more years of schooling. Working while in school delivers double benefits. It is especially counter-productive to have college age students completely outside the workplace.

Third, our public school system often fails to teach basic skills. Whatever happened to shop classes? We have schools that now concentrate more on ethnic studies and tolerance training than teaching kids how to use a lathe or a graphic design tool, or bookkeeping and personal finance. Charter schools can help remedy this. Universities are even more negligent. Kids are graduating commonly from four-year colleges with \$100,000 or more of debt and little practical or vocational training. A liberal arts education is valuable, but it should come paired with some practical skills.

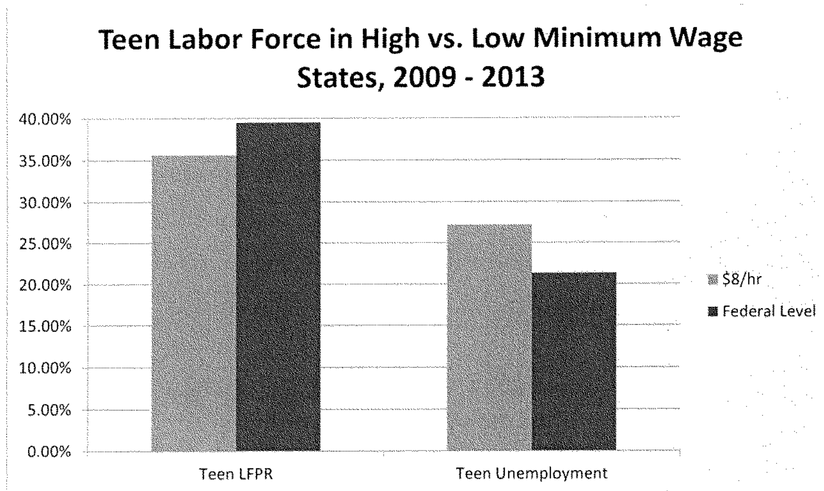
Fourth, there is a pervasive over-emphasis on going to college and negative attitudes toward blue-collar work. I've talked to parents who say they are disappointed if their kids want to become a craftsman – instead of going to college.

Fifth, higher minimum wage laws have a statistically negative effect on labor force participation, particularly among the young, and even more so among black teenagers.



I have conducted my own research on this subject and have followed the economic literature closely. From 2009 to 2013 (right after the federal minimum wage was raised) 8 states had a minimum wage averaging $8 or higher. In those states the teen labor force participation averaged 35.6%. Teenage unemployment averaged 27.2%. In the 31 states which did not exceed the federal level, the labor force participation rate was nearly 4 percentage points higher (39.5%) while the unemployment rate was nearly 6 percentage points lower (21.3%). These are big statistical differences.

A more complex analysis we conducted at Heritage for 2009-2013 for all 50 states and the District of Columbia shows a small negative correlation between labor force participation and minimum wage (-0.14) for those age 16 to 19. There is a larger positive correlation between teen unemployment and minimum wage (0.36). Over a longer period (1999 to 2013), the correlations are nearly the same at -0.15 and +0.32, respectively. In short, higher minimum wages correspond with lower labor force participation and increased unemployment amongst teenagers.



Texas A&M University Economists Jonathan Meer and Jeremy West recently published a 2014 study through the prestigious National Bureau of Economic Research (NBER) "indicating that job growth declines significantly in response to increases in the minimum wage..." Additionally, the economists found this decline in jobs growth to be "primarily driven by a reduction in job creation by expanding establishments, rather than by an increase in job destruction by contracting establishments." The study by Meer and West concluded that "the effect on job growth is concentrated in lower-wage industries and among younger workers."

My point is that one of the single greatest constraints on economic growth and prosperity for American families is the falling labor force participation rate. Some of this is due to rising affluence – that as Americans get richer, they work less. But some of it is due to poor policy decisions by Congress that inhibit work. If you tax something, you get less of it. If you subsidize something, you get more of it. We tax work and subsidize non-work and we are paying a price for these poor decisions.

REFORMS IN LABOR POLICY TO ENCOURAGE WORK

In closing, I would suggest the following reforms in labor policy:

1) Reinstate the work for welfare requirements of 1996 that helped pull Americans out of welfare dependency and into the workforce. These helped reduce welfare caseloads in the late 1990s by half and those who moved into work, generally, moved up the economic ladder.

2) Impose work requirements on all welfare programs including Medicaid and food stamps for all able-bodied recipients.

3) Create a new teen federal minimum wage at $5 to $7 an hour to encourage young workers to get job experience.

4) Encourage apprenticeship programs that would give young Americans a "college degree equivalent" for successfully learning a useful trade. President Trump has proposed such changes.

5) Make the Trump tax cuts permanent, especially the immediate expensing provisions that encourage business capital spending.

6) Allow employers to "opt out" of ObamaCare mandates and requirements if they provide lower cost health insurance coverage to their workers. ObamaCare has corresponded to about a $3,000 rise in health insurance premium costs with more escalations expected in 2019 and 2020. These higher insurance costs to employers are crowding out pay raises for workers and thus reducing work incentives.

The great American work ethic has not been lost, but it has been eroded by years of dumb government policies that could and should be corrected.

Chairman WALBERG. Thank you and now, Dr. Farren, I recognize you for your five minutes.

TESTIMONY OF MICHAEL FARREN, RESEARCH FELLOW, STUDY OF AMERICAN CAPITALISM, MERCATUS CENTER AT GEORGE MASON UNIVERSITY

Dr. FARREN. Good morning, Chairman Walberg, Ranking Member Wilson and distinguished members of the Subcommittee. I'm grateful for the invitation to discuss how the work done by the Bureau of Labor Statistics serves policymakers, researchers, and ordinary people.

My name is Michael Farren. I am a research fellow in the Mercatus Center at George Mason University and my previous research has left me pretty well acquainted with a lot of the data used and distributed by the BLS. In particular the Current Population Survey, which provides a lot of the information that is used in the BLS's monthly update on the state of the economy.

The underlying goal of my testimony is to help members of Congress better understand the BLS and the information that it provides. The main takeaways from that are that the BLS, now and throughout the past, represents some of the best economics research available. Its data collection and analytical work are generally seen as the gold standard that other economists attempt to emulate.

The weak link in the chain however, is how the BLS communicates the information it has developed. The BLS website is the primary platform through which data users interact with the BLS. But despite efforts to make it more user friendly, attempting to access the BLS data and actually understand it accurately can sometimes feel like wandering through a labyrinth.

Thankfully though, the leaders at the BLS recognize the agency's struggles in this area and are taking steps to improve. But improvements should include additional expanded outreach to non-economists in additional—in addition to the outreach to researchers and policy wonks.

So how can the BLS better connect with John Q. Public? And the unemployment rate is a good example of how it can do this better. Many Americans know a family member or a friend who once worked but grew discouraged and gave up looking for a job, especially during the Great Recession. But because these discouraged workers aren't actively looking for work, the BLS doesn't actually include them in its headline unemployment rate.

That fact that the official unemployment measures families to account these people as jobless previously ignited some suspicion and distrust in the official estimates. The problem is that the definition used for unemployment by the BLS makes a great deal of sense to economists. It's accurate for an economist to understand unemployment to be but it seems arbitrary to non-economist leading to a suspicion that policy makers are influencing the official statistics in favor of one political party or another.

A better approach would be to appeal to both economists and to John Q. Public adding additional measures of unemployment that make more intuitive sense to ordinary people, like the comprehensive jobless rate. That way the BLS could engage with non-economists and actually provide them with a starting point to understand the national economy better.

The idea behind the comprehensive jobless rate is the result of previous Mercatus Winship by Scott Winship of the Joint Economic Committee and it represents the most holistic measure of unemployment possible. It simply counts all adults and adolescents who say they want a job as unemployed. And in doing so it provides an upper bound on the job—upper bound on the measure of joblessness. And therefore a comparison benchmark for the official BLS unemployment measures and in this way it is even useful to economists.

In short, the comprehensive jobless rate could be one way for the BLS to more fully engage with the general public and help them understand the overall economic situation better.

In conclusion, the BLS is rightfully regarded as an objective, data focused organization whose efforts are essential to a better understanding of the U.S. economy. Its data collection and analysis set the professional standard for many economists to follow. However, non-economists would have great difficulty using the BLS's resources to actually answer their own questions about the economy. Now this might be unavoidable. We shouldn't necessarily expect that deep economic understanding is commonplace and, in fact, some people might argue that deep economic understanding isn't even commonplace among economists. Regardless though, a worthwhile endeavor would be to make the data curated by the BLS more useful and more easily accessible to ordinary people as well as the economists who use it on a regular basis. Thank you very much.

[The statement of Dr. Farren follows:]

MERCATUS CENTER
George Mason University

TESTIMONY

HOW TO MAKE THE BLS BETTER

Michael D. Farren, PE, PhD
Research Fellow, Study of American Capitalism, Mercatus Center at George Mason University

House Committee on Education and the Workforce, Subcommittee on Health, Employment, Labor, and Pensions
Growth, Opportunity, and Change in the U.S. Labor Market and the American Workforce: A Review of Current Developments, Trends, and Statistics

June 21, 2018

Good morning, Chairman Walberg, Ranking Member Sablan, and distinguished members of the House Committee on Education and the Workforce Subcommittee on Health, Employment, Labor, and Pensions. I am grateful for the invitation to discuss how the work done by the Bureau of Labor Statistics (BLS) serves policymakers, researchers, and ordinary people. I am a research fellow at the Mercatus Center at George Mason University, where my previous research has left me well acquainted with data provided by the BLS, particularly the Current Population Survey, which provides much of the information for the BLS's monthly updates on the state of the economy.

The underlying goal of my testimony is to help members of Congress better understand the BLS and the information it provides. The main takeaways are as follows:

1. The BLS, now and throughout the past, represents some of the best economics research available. Its data collection and analytical work often set the gold standard that other economists attempt to emulate.
2. The weak link in the chain is in how the BLS communicates the information it has developed. The BLS website is the primary platform through which data users interact with the BLS, but despite efforts to make it more user friendly, attempting to access BLS data and understand it accurately can feel like wandering through a labyrinth.
3. Leaders at the BLS recognize the agency's struggles in this area and are taking steps to improve. Improvements should include communicating not only to professional economists, but also average Americans. The St. Louis Federal Reserve Bank's work in this area might be a starting point.

THE ORIGIN OF THE BLS

The BLS has a more intriguing history than many government agencies. Its precursor, the Bureau of Labor, was created in 1884 amidst a surge in popular support for labor issues as workers' bargaining power diminished with increasing industrialization. The mission of this agency was to "collect information on the subject of working people and the 'means of promoting their material, social, intellectual, and moral prosperity.'"[1]

[1] Jonathan Grossman, "The Origin of the U.S. Department of Labor," *Monthly Labor Review* 96, no. 3 (1973): 3–7.

For more information or to meet with the scholar, contact
Mercatus Outreach, 703-993-4930, mercatusoutreach@mercatus.gmu.edu
Mercatus Center at George Mason University, 3434 Washington Blvd., 4th Floor, Arlington, Virginia 22201

Early labor advocates envisioned the Bureau of Labor as an inside-government agent through which to advance their agenda. Indeed, this had been the case in Massachusetts, the first state to create a bureau of labor statistics. The initial directors of that agency invited severe criticism by publishing research biased by their pro-labor views, and in response opponents called for the bureau to be abolished. Instead Governor Washburn appointed Col. Carroll Wright to head the agency, arguing that the correct response was "not in discontinuing the investigation . . . but in lifting it to a higher and broader level."[2]

Although Col. Wright was neither an economist nor a statistician, he brought a dedication to impartiality to the position and rebuilt the agency's reputation to be focused on objectivity.[3] He was so successful that President Chester A. Arthur, after a long struggle with labor advocates' attempts to hijack the newly created federal Bureau of Labor, appointed Col. Wright as the first Bureau of Labor commissioner. Wright continued to serve after the agency gained department-level status, establishing a reputation for even-handed analysis that continues to this day.[4]

DATA COLLECTED BY THE BLS

In keeping with the objective nature of BLS research, the modern mission statement is less labor focused, calling for the BLS to "collect, analyze, and disseminate essential economic information to support public and private decision making."[5] To this end, the BLS collects data on the following:

- Employment
- Unemployment
- Productivity
- Compensation
- Prices and Inflation
- Expenditures and Time Usage

BLS-sourced data is considered to be of the highest quality by most economists, and BLS survey methodology and subsequent data processing generally set the "best practice" standard that other researchers aspire to.[6] The most-used BLS data collections include the following:

- Current Employment Statistics (CES)[7]
  - State- and metro-level monthly data from employer surveys on employment, hours worked, and worker earnings by industry
- Current Population Survey (CPS)[8]

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[2] Grossman, "The Origin of the U.S. Department of Labor."
[3] Wright said that he administered the Massachusetts Bureau of Statistics of Labor "'as a scientific office, not as a Bureau of agitation or propaganda, but I always take the opportunity to make such recommendations and draw such conclusions from our investigations as the facts warrant.' He stressed that the agency should be free of political influence." See Joseph P. Goldberg and William T. Moye, *The First Hundred Years of the Bureau of Labor Statistics* (Washington, DC: US Department of Labor, 1985), 3.
[4] The long history of regulatory capture is filled with examples of special interest groups commandeering the authority of government agencies, so Col. Wright's dogged embrace of objectivity—his conception of the Bureau's mandate was "the fearless publication of facts"—offers a model for all policymakers. See Adam Thierer, "Regulatory Capture: What the Experts Have Found," *Technology Liberation Front*, December 20, 2010; Bureau of Labor Statistics, "About the U.S. Bureau of Labor Statistics," accessed June 15, 2018, https://www.bls.gov/bls/infohome.htm.
[5] Bureau of Labor Statistics, "About the U.S. Bureau of Labor Statistics."
[6] Bernie Langer, "Why I Love the Bureau of Labor Statistics," *PolicyMap*, June 13, 2017.
[7] Bureau of Labor Statistics, "Current Employment Statistics - CES (National)," accessed June 15, 2018, https://www.bls.gov/ces/; Bureau of Labor Statistics, "State and Metro Area Employment, Hours, & Earnings," accessed June 15, 2018, https://www.bls.gov/sae/.
[8] Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," accessed June 15, 2018, https://www.bls.gov/cps/.

  - State- and metro-level monthly data from household surveys on employment, hours, earnings, and information on special considerations such as union affiliation and contingent workers
- Job Openings and Labor Turnover Survey (JOLTS)[9]
  - National monthly data on available jobs, new hires, and separations from employment
- Business Employment Dynamics (BDM)[10]
  - Quarterly data reported by individual employers on the net change in employment at their establishments
- Quarterly Census of Employment and Wages (QCEW)[11]
  - Industry-specific quarterly data on employment and earnings reported by employers as part of unemployment insurance program participation; available at the county level and covers nearly all (over 95 percent) of official jobs
- Occupational Employment Statistics (OES)[12]
  - Annual data on employment and earnings for over 800 occupations available for metropolitan and nonmetropolitan areas
- National Longitudinal Surveys (NLS)[13]
  - A set of long-running surveys tracking the employment, schooling, and social situation of a given group of individuals throughout their lives
- American Time Use Survey (ATUS)[14]
  - Quarterly data from individual surveys available at the national level estimating the time spent by Americans in a variety of activities

WHO USES THE BLS DATA?

Although it can be argued that all Americans, to varying degrees, benefit from the data collected by the BLS, the primary users of the data are various researchers and media professionals who have the expertise to search out, engage, and digest the data. These primary users then deconstruct the raw data into usable information for policymakers and the public.

In its current state, the average person—a prospective employee, business owner, or student choosing a future career—would be hard pressed to find, analyze, and fully understand most of the BLS data. The complexity of the underlying methodology, specificity of information definitions, and difficulty in access and analysis mean that in its current state the BLS data requires a clerical class (commonly known as "wonks") to interpret what seem like economic tea leaves.

THE WEAK LINK IN THE CHAIN: COMMUNICATING THE DATA

The greatest obstacle facing the BLS seems to be communicating information clearly and accurately. Despite my own relatively extensive experience using BLS data, I still encounter difficulty in either finding what I need or even knowing about the existence of data that would benefit my research. In fairness to the BLS, this difficulty occurs in part because it is the curator of an enormous amount of complex information, and there is naturally a steep—and long—learning curve to fully understand what data are available and where they are kept. To modify a metaphor, Rome wasn't built in a day, and it would probably take more than a week to read through the Library of Alexandria.

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[9] Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey," accessed June 15, 2018, https://www.bls.gov/jlt/.
[10] Bureau of Labor Statistics, "Business Employment Dynamics," accessed June 15, 2018, https://www.bls.gov/bdm/.
[11] Bureau of Labor Statistics, "Quarterly Census of Employment and Wages," accessed June 15, 2018, https://www.bls.gov/cew/.
[12] Bureau of Labor Statistics, "Occupational Employment Statistics," accessed June 15, 2018, https://www.bls.gov/oes/; Bureau of Labor Statistics, "Consumer Expenditure Surveys," accessed June 15, 2018, https://www.bls.gov/cex/.
[13] Bureau of Labor Statistics, "National Longitudinal Surveys," accessed June 16, 2018, https://www.bls.gov/nls/.
[14] Bureau of Labor Statistics, "American Time Use Survey," accessed June 15, 2018, https://www.bls.gov/tus/.

However, the tools through which BLS makes its data available don't seem to make the task much easier. Searching the BLS website, for all of the effort to try to make it user friendly, often feels like wandering through a labyrinth. And upon finding the needed information, it's often in a format that requires subsequent modification in order to be usable.

Perhaps most telling is the fact that intermediaries have emerged to offer researchers the raw BLS data in a more accessible fashion. For example, the Unicon Research Corporation previously offered the proprietary CPS Utilities software, which cleaned up the raw Current Population Survey data to allow for easier analysis. The Minnesota Population Center's Integrated Public Use Microdata Series (IPUMS) has now taken over as the go-to source for easily accessible CPS data.[15] Its website is substantially easier to navigate, and its presentation of the data allows it to be more readily usable and understandable.

The good news is that the BLS seems to recognize that its website and data handling software make the task of finding, understanding, and using its data more difficult. BLS administrators acknowledge the difficulties facing users and are doing what they can within the constraints of their current system to make it better. This suggests, though, that perhaps what the BLS needs is to build a better mousetrap from the ground up. The success of IPUMS and the Federal Reserve Economic Data (FRED) database maintained by the Federal Reserve Bank of St. Louis may offer some starting points for consideration.[16]

Lastly, the BLS should consider expanding its engagement to ordinary people in addition to professional economists. For example, the primary definition for unemployment used by the BLS (the U-3 estimate) makes a great deal of sense to economists—it is accurate for what *economists* consider unemployment to be. But requiring that a person have actively looked for work within the last four weeks and be currently available to take a job (the required characteristics to be considered officially unemployed) seems arbitrary to noneconomists, leading to suspicion that policymakers are influencing official statistics in favor of one political party or another.

A better approach would appeal to both economists and John Q. Public. Adding additional measures of unemployment that make more intuitive sense to ordinary people, such as the Comprehensive Jobless Rate, could help the BLS engage with noneconomists and provide a starting point for ordinary people to understand the national economy better.[17]

The Comprehensive Jobless Rate is the most holistic measure of unemployment. It counts all adults and adolescents who say they want a job as unemployed. In doing so it provides an upper bound on joblessness and therefore a comparison benchmark for the official BLS unemployment measures (it's even useful to economists for this reason).

The BLS has avoided similar unemployment measures in the past because of the "cheap talk" nature of such a response—it's easy for survey respondents to say they want a job, whereas actively pursuing employment signals a "revealed preference" that a person truly wants to be part of the labor force. But

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[15] IPUMS, "What Is IPUMS?," accessed June 16, 2018, https://www.ipums.org/whatIsIPUMS.shtml; IPUMS, "What Is CPS?," accessed June 16, 2018, https://cps.ipums.org/cps/collaboration.shtml.

[16] Federal Reserve Bank of St. Louis, Federal Reserve Economic Data home page, accessed June 16, 2018, https://fred.stlouisfed.org/.

[17] The Comprehensive Jobless Rate is based on Mercatus Center research conducted by Scott Winship. See Michael D. Farren, "What's the Truth about Unemployment? Introducing the Comprehensive Jobless Rate (U-5b)" (Mercatus on Policy, Mercatus Center at George Mason University, Arlington, VA, March 28, 2018); Michael D. Farren, "May Jobs Report Shows Strong Economic Growth despite Decline in Labor Force Participation," *The Bridge*, June 1, 2018, https://www.mercatus.org/bridge/commentary/may-jobs-report-shows-strong-economic-growth-despite-decline-labor-force; Scott Winship, "What's Behind Declining Male Labor Force Participation: Fewer Good Jobs or Fewer Men Seeking Them?" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, 2017).

ordinary Americans may know friends and family who are discouraged in their job search and have given up actively looking for work. The fact that the official unemployment measures fail to count these people as jobless ignites suspicions and distrust in the official estimates. The Comprehensive Jobless Rate could serve as a bridge to reengage with these people and therefore help them understand the overall economic situation better.

CONCLUSION

The BLS is rightfully regarded as an objective, data-focused organization whose efforts are essential to a better understanding of the US economy. Its data collection and analysis set the professional standard for many economists to follow. However, ordinary Americans would have great difficulty using the BLS's data resources to answer their own questions about the economy.

This might be unavoidable—we shouldn't necessarily expect that deep economic understanding is commonplace (in fact, some people might argue that deep economic understanding isn't even commonplace among economists). Regardless, a worthwhile endeavor would be to make the data curated by the BLS more useful and more easily accessible to ordinary people, as well as to the economists who use them on a regular basis, in view of the important information the BLS provides.

Sincerely,

Michael D. Farren, PE, PhD

Research Fellow
Mercatus Center at George Mason University

Mrs. FOXX. [Presiding] Thank you, Dr. Farren. Dr. Spriggs, you are recognized for five minutes.

TESTIMONY OF WILLIAM SPRIGGS, PROFESSOR OF ECONOMICS, HOWARD UNIVERSITY

Dr. SPRIGGS. Thank you very much, Mrs. Foxx, and I want to thank Chair Walberg and Ranking Member Wilson for inviting me and thank you to the members of the subcommittee who are here.

As the Ranking Member mentioned, the great puzzle we have is to raise the wages of the American workers not just for the sake of the workers and for our families but for the sake of our economy. We need to have a recovery that is led by wages, not a recovery that is led by workers going into debt.

The trends that started in 2010 have continued. They have not accelerated and so that's good news that nothing has happened to slow down the rate at which we have been creating jobs, at the rate at which job openings have been coming relative to the number of unemployed persons, and the labor force participation rate for African Americans has continued to recover during this expansion, chasing the unemployment rate and the unemployment population ratio down and up for those communities. All that is good news.

The puzzle for labor economists and what we all as policy makers have to answer is at this level of labor market tightness why aren't wages going up? And labor economists have begun to look and challenge themselves and their theories on this point. What is becoming clear from that research is that institutions, in fact, matter.

One reason economists are finding that institutions matter is that we have increased concentration of firms both at the local and at the national level. This creates an inordinate power in the hands of employers, what economists call monopsony, and it isn't always this sort of textbook, "I'm the only coal mill in town or whatever and so I'm the only employer." This is a broader sense of which employers have power over workers in their bargaining position.

So if you look at what labor economists are doing now to look at that, Economist Benmelech, Bergman, and Kim have bothered to look at the local level, what is the concentration of firms and what does that mean for wages? And what they have found is what we would predict, that the increasing concentration of firms at the local level has lowered the wages of workers.

What are the policies that can counterbalance that phenomenon? What is clear in their data is that when workers are unionized, they become that counterbalancing force. So they don't observe the negative pressure on wages from monopsony where they see higher unionization rates. This is melded together with what we know over the broader horizon of U.S. economic history and the post—war era that when we had higher union density, wages did go up with productivity and we saw the wages of nonunion members go up as well as union members.

In fact, when you decompose what has happened for nonunion members, researchers have been able to document that nonunion workers actually had more downward pressure on their wages from the decline in union density than wages going down from competition with Chinese imports. So this is an important factor to consider.

Over the longer span, research has now been able to document what happens to inequality broadly in our society and what happens to the link between wages and productivity because of our decline in union density. And it's quite clear that having workers' voice matters a lot. Raising the minimum wage is very important in this equation. That's the other way in which we help low wage workers combat the type of monopsony that takes place particularly among low-wage workers.

This October will be the second longest period we have failed to raise the federal minimum wage since 1938. June will be the longest. Since there is no pending law, we will probably break those records. Congress has the ability to change the institutions, put them back to where America had them, restore to workers the voice and power that they had. That's in Congress'Congress's power. Thank you.

[The statement of Dr. Spriggs follows:]

Statement of William E. Spriggs

"Trends in the U.S. Labor Market: Americans need a Raise"

Testimony prepared for

US House of Representatives Subcommittee on Health, Employment, Labor and Pensions

115th Congress, Second Session

Hearing on

Growth, Opportunity, and Change in the U.S. Labor Market and the American Workforce: A Review of Current Developments, Trends, and Statistics

June 21, 2018

Thank you, Chair Tim Walberg and Ranking Member Frederica S. Wilson and members of the Subcommittee, for the opportunity to provide testimony on policies and trends impacting the workforce. I am testifying today on behalf of the AFL-CIO, America's house of labor, representing the working people of the United States; and based on my expertise as a professor in Howard University's Department of Economics and as the former Assistant Secretary of Policy in the U.S. Department of Labor.

Today, I want to highlight that the labor market is continuing trends that began almost eight years ago. The primary focus of policy needs to be to continue the trends in job growth but to focus on raising wages, which is clearly emerging as the hurdle left to overcome. At this stage in the recovery, market forces alone cannot boost wages. There are nonmarket forces causing imbalances that need to be addressed to restore bargaining power to workers.

Beginning in October 2010, the U. S. labor market started its greatest uninterrupted string of monthly job gains since records began in 1939. By January 2017, during a 76 straight month period, job growth increased workers on payrolls by a net of 15,331,000 jobs. During that period, the unemployment rate fell from 9.4 percent to 4.8 percent. Those trends in job creation and falling unemployment rates continue, though at a slightly slower rate since January 2017.

The recovery was from the worst labor market since records began in 1939. Beginning in February 2008, the U.S. labor market suffered 21 straight months of job losses. The job losses were so severe that in January 2009 fewer workers were on payroll than there had been on January 2001--the first time that in over an eight-year period there was net job loss. Yet, by January 2017, the unemployment rate returned to its previous peak reached in 2007, as did the unemployment rate for men, women and the race and ethnic groups the U.S. Bureau of Labor Statistics measures. And, payroll employment was 11,641,000 higher in January 2017 than in January 2009.

Figure 1 shows the trend in unemployment rates from October 2010 to January 2017, and a trend line with projections through June 2018. It also shows the actual unemployment rate from January 2017 to May 2018. So far, the unemployment rate is very close to the pre-2017 trend.

Figure 1

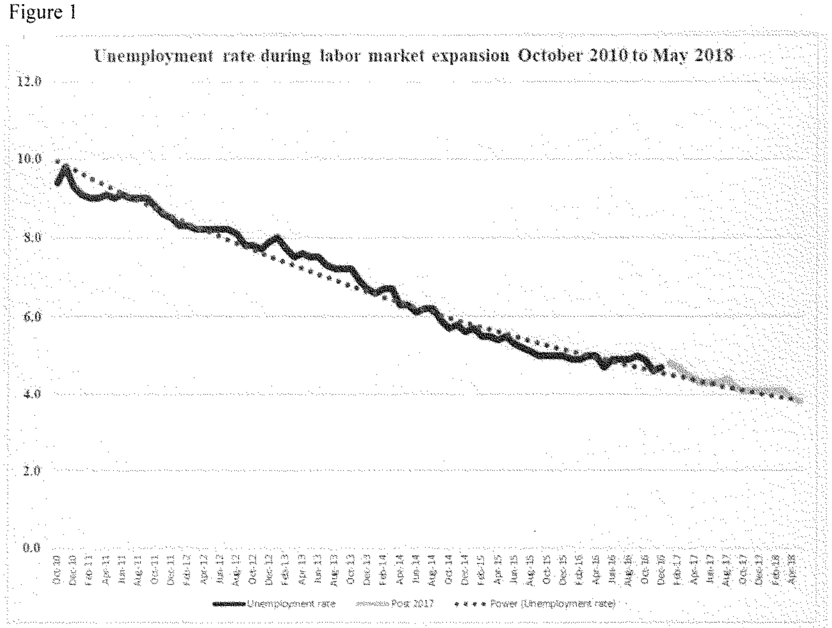
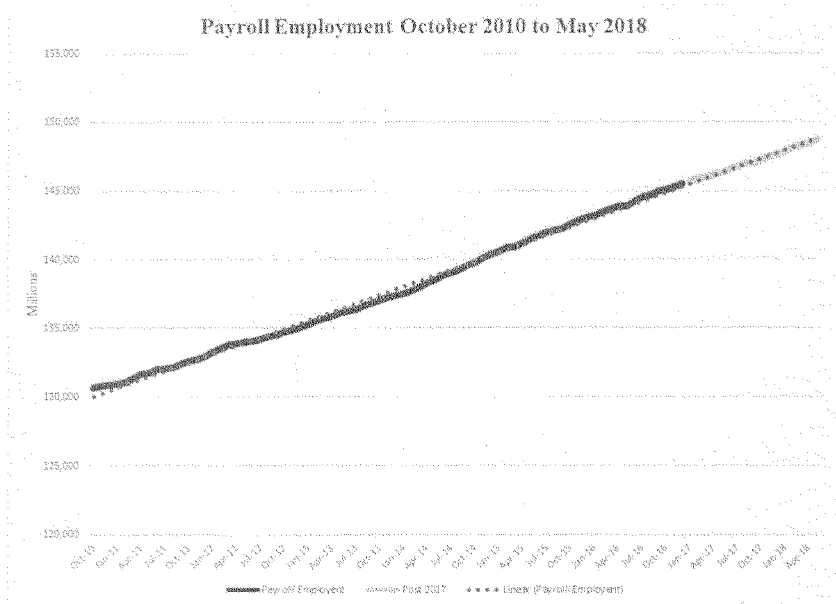


Figure 2 shows the trend in payroll employment from October 2010 to the preliminary figures April and May 2018. The projected payroll numbers for the post 2017 data are on trend with the figures from the October 2010 to January 2017 data. So, there is no appreciable change in the payroll data either.

Figure 2

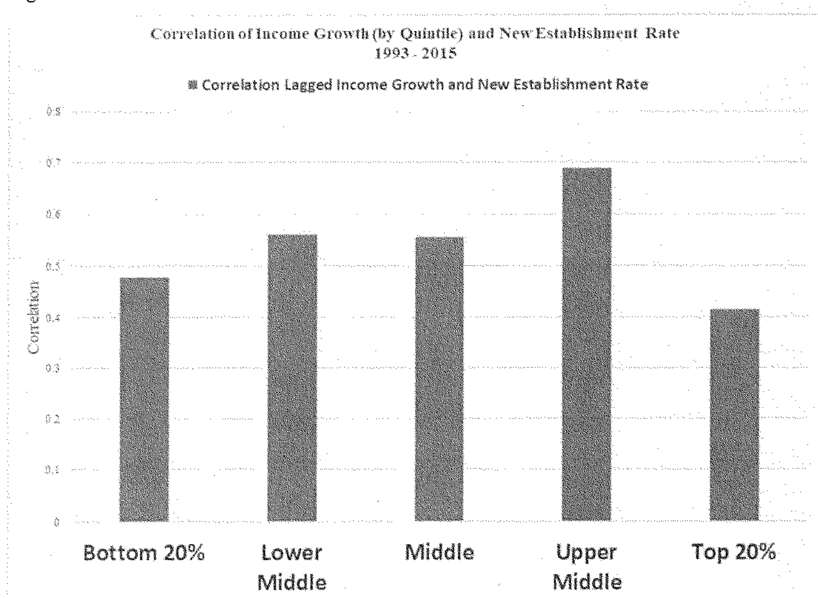


The labor market recovery was driven by private sector employment. Public sector employment still lags behind it 2008 peak. Because a large part of the public-sector job deficit is in public school teachers, it means we are continuing our underinvestment in critical K-12 public education. To keep up with the growth in student population, local public education was short almost 327,000 jobs this past school year, and it was still shy almost 128,000 jobs compared to its pre-recession level in 2008, according to calculations by Elise Gould of the Economic Policy Institute.[1] This is unfortunate at a time demand for skills in the American workforce is growing.

[1] Elise Gould, Local public education employment may have weathered recent storms, but schools are still short 327,000 public educators Economic Policy Institute: Washington, DC October 6, 2017

The approach to economic recovery taken in the American Recovery and Reinvestment Act to balance benefits across the income distribution was important. Policies that promote broad based income growth promote new firms because they maximize the number of potential new customers in the market. Private sector employment recovered because the positive dynamics of new firm formation recovered in 2010, and picked up in 2014 as incomes recovered, particularly for the bottom 80 percent of the income distribution. New firm formation lags income growth, it is most highly correlated with growth in income for the bottom four quintiles of income in the previous two years. This is shown in Figure 3. That is why policies that promote broad based income growth are important. The bias of the Tax Cut and Jobs Act (TCJA) toward high income earners is not likely to be as much a stimulus to business formation and job growth as a tax plan that was more equally shared by all, or one that was more slanted toward benefiting the bottom 80 percent of the income distribution.

Figure 3



Though net job growth from new firm formation and older firm exits—so called creative destruction, is only a small share of net job formation, still, during the economic downturn, in 2008, the collapse of demand forced the closing of more firms and losses of jobs, than could be made up for by new firms creating jobs. The expansion from 2010 returned dynamism to that part of growth. And, that trend continues to be a source of growth. This is shown in Figure 4.

Figure 4

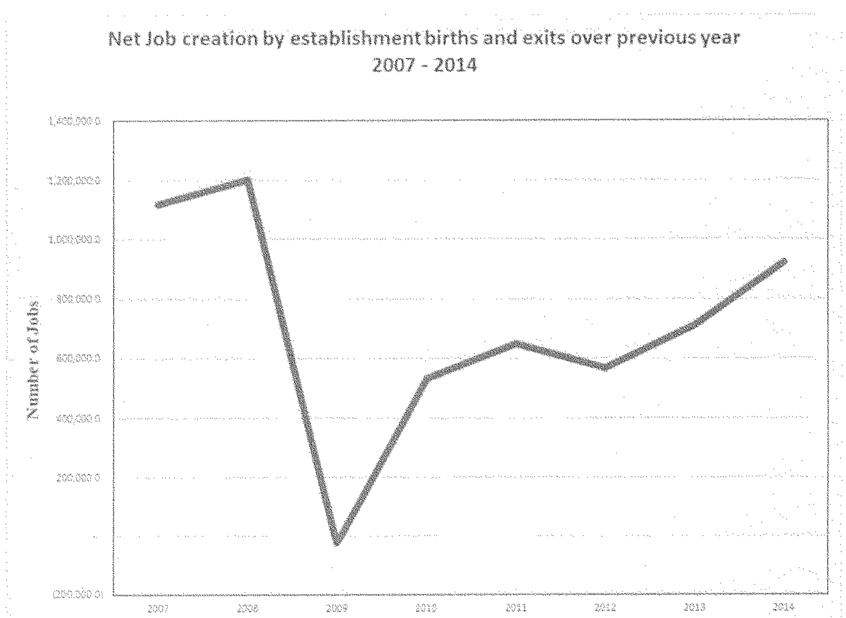
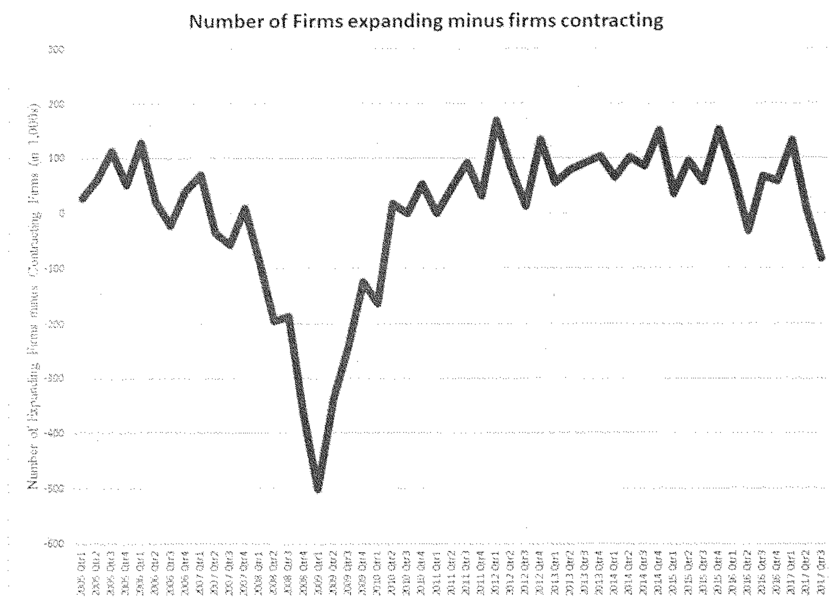


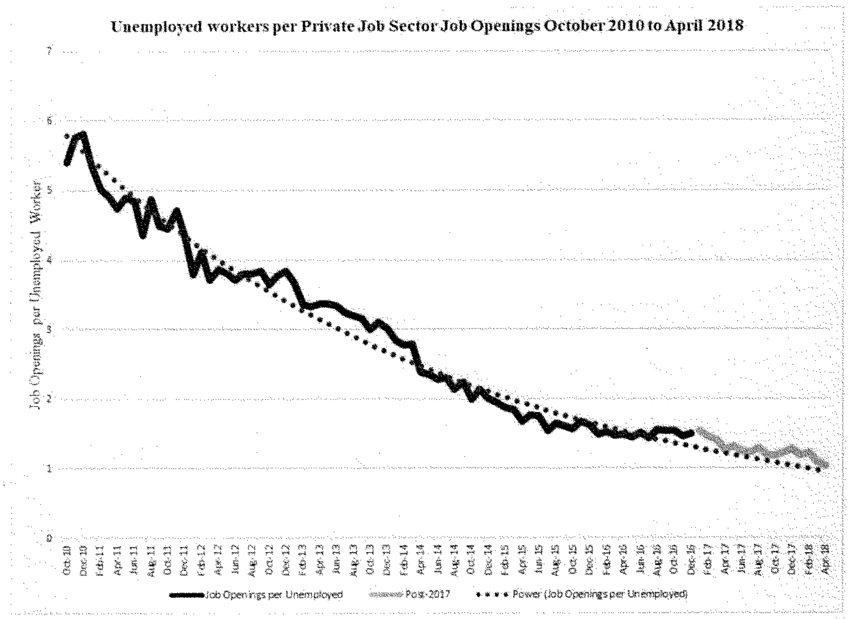
Figure 5 shows a different perspective, which is to compare the number of firms that are expanding compared to the number of firms that are contracting. Again, when most firms are expanding employment it is a likely indicator that job search will be easier. During the expansion, this indicator clearly recovered. However, it has begun to falter in 2017.

Figure 5



Despite the downturn in 2017, with more firms contracting in the third quarter than were expanding, the number of job openings continues to grow on pace so that the ratio of openings to job seekers continues to improve. This is shown in Figure 6. The trend of increasing job opportunities that began in October 2010 has continued. Current improvements in the ratio since 2017, have closely followed the trend prior to 2017.

Figure 6



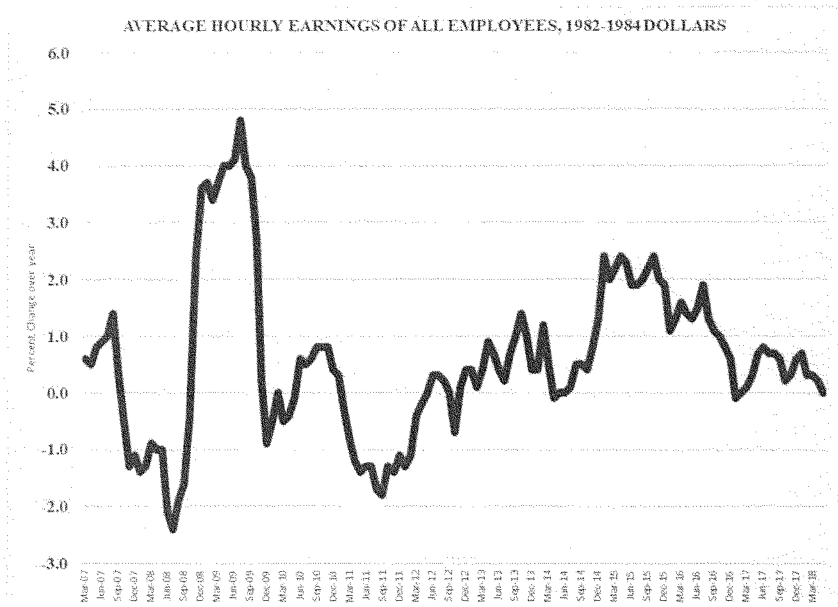
Though the major positive elements of the improving labor market that were put in place in October 2010 continue, there are still challenges for the labor market. The challenge will be the restoration of public sector job growth, especially given the headwind TCJA gives to local governments raising the revenue and sustaining investment by forcing potential double taxation on their citizens. The TCJA also exacerbates income inequality, when more equal income growth yields more new business formation.

Challenges in the Labor Market—Wages

The biggest challenge facing the labor market is wage growth. Wage growth has remained tepid throughout the recovery. In part, this reflected weakness in the labor market. In part, it reflected low inflation. Yet, now with the labor market continuing to tighten, it is becoming clear that non-market forces are slowing wage growth. Figure 7 shows that after a short spurt in wages in

2015 and early 2016, real wage growth has flattened. It includes the most recent data from the U.S. Bureau of Labor Statistics showing that in May, over the year, real wages fell 0.1 percent. There are two leading possibilities for the wage stagnation.

Figure 7



First, is growing evidence of monopsony power on the part of firms. One possible source, is the growing consolidation of market power. This is evidenced in agreements struck by major firms in Silicon Valley to collude on wages and prevent competition for workers,[2] combined with heavy lobbying by Silicon Valley firms to expand the H-1B visa program—which is overwhelmingly used to hire computer programmers—despite the underutilization by Silicon Valley of the diversity of the American computer work force documented by the GAO in a report

[2] Brian Fung, What the Apple wage collusion case says about Silicon Valley's labor economy, Washington Post, April 23, 2014

requested by ranking member of the Committee, Congressman Bobby Scott.[3] Further evidence is mounting in the use of agreements in low wage sectors to limit labor mobility through the use of various non-compete clauses, as work by Alan Krueger and Orley Ashenfelter have shown.[4]

In the past, the U.S. made successful use of the National Labor Relations Act of 1935,[5] and the minimum wage[6] and overtime pay to counterbalance monopsony power in firms. For instance, economic research suggests a significant portion of wage inequality that grew in the 1980s between earners at the bottom ten percent of the wage distribution and median wage earners was because the federal minimum wage was unchanged between 1981 and 1990.[7] Further, declines in the purchasing power of the minimum wage are also significant in explaining the growth in overall income inequality, as measured by the Gini coefficient, a broad measure of income inequality.[8] In October, the federal minimum wage will tie the second longest period it has gone unchanged since it was passed in 1938; and in June 2019, it will break the record the for the longest it has gone unchanged. Those states currently with the lowest minimum wages are those linked to the lowest levels of income mobility. And, those same states are among those who diminish the bargaining strength of workers by have very few or no inspectors to enforce wage and hour laws.[9] This is further complicated by efforts at the U.S. Department of Labor to roll back key protections that help balance the voice of workers with employers, heard in testimony before this committee earlier this year. Proposals that roll back updating overtime pay rules, that let employers claim tip money earned by workers and failing to protect workers' interests in the management of their retirement accounts, weakening worker safety by speeding up hog slaughter

[3] GAO, DIVERSITY IN THE TECHNOLOGY SECTOR: Federal Agencies Could Improve Oversight of Equal Employment Opportunity Requirements, GAO-18-69: Published: Nov 16, 2017

[4] Alan Krueger and Orley Ashenfelter, Theory and Evidence on Employer Collusion in the Franchise Sector, Princeton Industrial Relations Section Working Paper 614, September 2017

[5] National Labor Relations Act of 1935 (Wagner Act), 29 U.S.C. §§ 151–169 (2010).

[6] *History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938—2009*, DEP'T OF LABOR, WAGE AND HOUR DIV. HTTPS://WWW.DOL.GOV/WHD/MINWAGE/COVERAGE.HTM

7. David H. Autor, Alan Manning & Christopher L. Smith, *The Contribution of the Minimum Wage to US Wage Inequality over Three Decades: A Reassessment*, 8 AM. ECON. J. APPLIED ECON. 58 (2016); John DiNardo, Nicole M. Fortin & Thomas Lemieux, *Labor Market Institutions and the Distribution of Wages, 1973—1992: A Semiparametric Approach*, 64 ECONOMETRICA 1001 (2016); David S. Lee, *Wage Inequality in the United States During the 1980s: Rising Dispersion or Falling Minimum Wage?*, 114 Q.J. OF ECON. 977 (1999).

8. FLORENCE JAUMOTTE & CAROLINA OSORIO BUITRON, INT'L MONETARY FUND, INEQ. AND LAB. MKT. INST. (2015), https://www.imf.org/external/pubs/ft/sdn/2015/sdn1514.pdf

[9] Marianne Levine, Behind the minimum wage fight, a sweeping failure to enforce the law, Politico, February 18, 2018 https://www.politico.com/story/2018/02/18/minimum-wage-not-enforced-investigation-409644

lines and workers exposure to beryllium are examples of shifting the power balance between workers and employers.[10]

While there has been much buzz that American workers are no longer in traditional work settings, the release by the Bureau of Labor Statistics clearly shows no big increase in workers relying on the "gig" economy as the primary source of their work. While the survey does not rule out workers' may have a growing reliance on "gig" jobs as their primary source of work, the idea that labor standards need to watered down to accommodate some new work style is very premature.

The rise of monopsony power without a balancing force from labor is another key issue. Research points to the importance of unions in lowering inequality in the United States. Using data from the Gallup Poll researchers Henry S. Farber, Daniel Herbst, Ilyana Kuziemko and Suresh Naidu are able to identify the role of labor unions in fighting inequality from 1935 to 1986. Covering the period before the 1970s is important, because it includes the period of rising union density through the peak in the early 1970s. With this new data they are able to show that despite changes in the skill of union members relative to non-members, and over a long period of rapid technological change and increasing productivity, unions are an important factor in why inequality was lower when density was high, and inequality has been rising since density began to fall.[11]

Efraim Benmelech, Nittai Bergman and Hyunseob Kim show that local labor market concentration in the U.S. increased over the 1997 to 2009 period, but at rates that varied by location. Their key findings are that where concentration increased most, wages grew slower. And, that where unions were stronger, the negative effect on wages was attenuated.[12]

Using international data and a comparative approach, Florence Jaumotte and Carolina Buitron are also able to attribute a large increase in inequality in the United States from the decrease in

[10] Heidi Shierholz, Hearing on "Regulatory Reform: Unleashing Economic Opportunity for Workers and Employers," U.S. House of Representatives Committee on Education and the Workforce, Subcommittee on Workforce Protections, 115th Congress, 2nd Session (May 23, 2018)

[11] Henry S. Farber, Daniel Herbst, Ilyana Kuziemko and Suresh Naidu, UNIONS AND INEQUALITY OVER THE TWENTIETH CENTURY: NEW EVIDENCE FROM SURVEY DATA, NBER Working Paper 24587 (May 2018).

[12] Efraim Benmelech, Nittai Bergman and Hyunseob Kim, STRONG EMPLOYERS AND WEAK EMPLOYEES: HOW DOES EMPLOYER CONCENTRATION AFFECT WAGES?, NBER Working Paper 24307 (February 2018)

union density.[13] Jake Rosenfield, Patrick Denice and Jennifer Laird take a different approach to show the effect of union strength on raising the wages of non-union workers. They show that the decline in union density had a larger negative effect on wages than the increase of trade with China between 1979 and 2013.[14]

The imbalance in current labor law frustrates the desire of Americans to belong to unions. Work by Tom Kochan, William Kimball, Duanyi Yang, and Erin L. Kelly points to the rising share of Americans who want to belong to unions. In a survey just completed this year, nonunion workers were asked if they would vote for a union at their work today if they could, and the response was so large that if nonunion workers were given a real chance to vote, union membership would be higher by almost 55 million members—increasing union membership back to above 20 percent density in the private sector.[15]

Legislation to raise the minimum wage and update labor laws would go a long way in boosting the health of the labor market. Rising wages would be a boost to increasing labor force participation.

Second, it is possible that the raising of interest rates now by the Federal Reserve reconfirms expectations of employers that raising wages above the current level would be counterproductive. So, the firms are holding wages in check. And, given the state of household debt, that is not a wise policy for the Fed to pursue now. Instead, it needs to focus on getting wages and incomes to rise, and to have incomes outrun the household debt overhang that is slowing automobile sales and serving as a drag on employment in the automotive manufacturing.

It is early on, but there are no indications so far that the TCJA is leading firms to raise wages. More firms have announced stock buy-backs than have announced wage increases. And, the size of the announced buy-backs, according to S & P Dow Jones, will come close to $1 trillion in 2018—virtually the price tag of the corporate tax cut. The Federal Reserve's monitoring of new

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[13] Jaumotte and Buitron, op. cit.

[14] Jake Rosenfield, Patrick Denice and Jennifer Laird, Union decline lowers wages of nonunion workers, Economic Policy Institute, Washington, DC: August 30, 2016. https://www.epi.org/files/pdf/112811.pdf

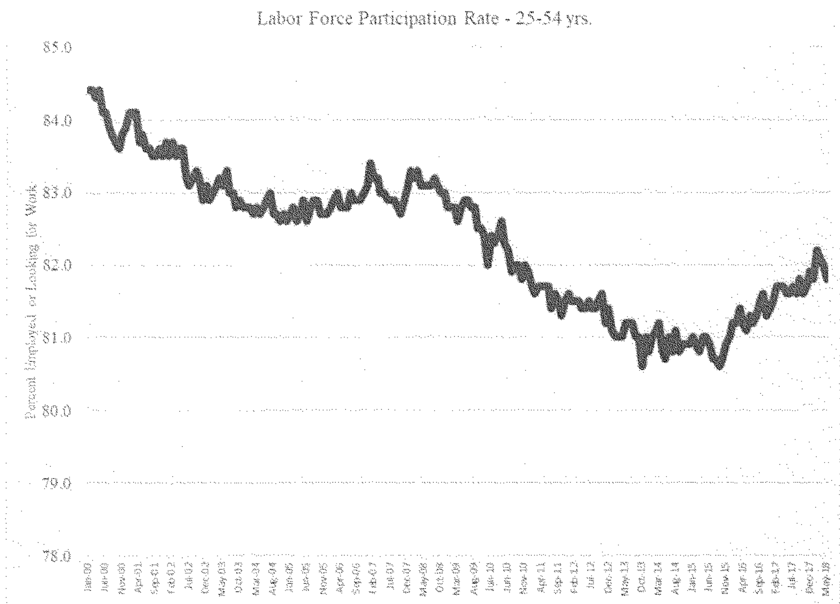
[15] Tom Kochan, William Kimball, Duanyi Yang, and Erin L. Kelly, Worker Voice in America: A Current Assessment and Exploration of Options, http://iwer.mit.edu/wp-content/uploads/2018/01/worker-voice-paper-1_16_18_tablesintext12pt.pdf

orders for non-defense capital goods has remained flat since last summer, indicating there are not any new investments that would boost productivity and lead to wage increases later.

Challenges in the Labor Market—Labor Force Participation

The other puzzle of the labor market recovery is the slow recovery in labor force participation. Most marked is the labor force participation of prime age workers. Figure 8 shows the labor force participation rate for prime age workers over both the 2001 and 2008 recessions. It is clear, that participation has not recovered from the 2001 recession. Employment to population ratios, the share of people employed, cannot recover if labor force participation remains low. Labor force flow data is showing that people who are not in the labor market are more likely to land a job in the following month than to simply end up in queue looking for work. That is a likely indication that many who are listed as "not in the labor force" are doing some type of job search activity. And, workers appear less discouraged, since it is now more likely that someone who is unemployed is more likely to find a job or remain looking than to drop out of the labor force. The latter point is a key reason that labor force participation rates have been slowly recovering, since the flow out of the labor market has slowed.

Figure 8



Several studies looking at the U.S. in comparison to other labor markets in industrialized countries recovering from the Great Recession have found that the U.S. stands out for losing ground in women's labor force participation. The focus has been on women in a number of international studies. The decline in population growth rates, means national economies need to look at increasing labor force participation. And, this can mean trillions of dollars in a large economy the size of the United States. The U.S. is now surpassed by the United Kingdom, Germany and Japan, three nations which once had lower women's labor force participation. Key factors include greater access to free or affordable child care, paid maternity leave and greater certainty in scheduling for those working part-time. Another problem with the TCJA is that is squeezes out fiscal room to expand child care and pre-Kindergarten programs or assist states in establishing paid maternity leave or to implement paid maternity leave at the federal level.

Claims that demography is driving lower labor force participation point to the aging of the workforce. The potential workforce is defined as those over age 16. But, a higher share of people over age 16 are now at ages above 55 than before. So, that shifts the population to include a higher share of workers who are less likely to work. However, this explanation does not address the puzzle of prime age workers. Nor does it solve another puzzle. If a higher share of workers are flowing out of the labor force to retirement, then the net new jobs the economy must produce to satisfy new entrants is smaller. More new entrants can simply fill-in to those slots that are becoming open. So, that would make the job market even tighter. And, so it is a puzzle why more young people are not choosing work and school, and are instead choosing full-time post-secondary education over part-time work and post-secondary education?

A Key Opportunity, the Labor Force is showing increased diversity

In several places, it has been noted that the unemployment rate for African Americans has reached new lows. But, as it is true for the labor market as a whole, the trend of improvement for African Americans began during the recovery of the labor market. What has been less noticed is that the labor force participation rate for African Americans has been rising and is now almost equal to the labor force participation rate for whites. This is key, because even though African American women have nearly twice the unemployment rate of white women, because African American women have a much higher labor force participation rate, their employment-to-population ratio is higher than white women's. Because the African American labor force participation rate has grown, the employment-to-population ratio is moving closer to its 2007 level. The employment-to-population ratios are not on a similar clear path to return to 2007 levels.

Figure 9 shows the clear path of decline for the African American unemployment rate that began falling in 2010. The post 2017 downward trend simply follows the trend from 2010 to 2017. The implication is that the work force is growing more diverse. This is an opportunity to see how the nation can respond to insuring the proper investments are made to keep producing a modern workforce. In particular, both African American and Latino college students are more reliant on Pell Grants than is true for college students as a whole. With tuitions at four-year schools still rising above the maximum Pell Grant it will be important to understand the barriers our new workforce will be facing in acquiring the skills needed to succeed. And, it will be important to understand the supports needed for the colleges and universities that are leading in producing this skilled workforce. And, a growing reliance on Latino workers means we have to think about the Dreamers who can provide us with a ready pool of well educated workers already among us with the soft skills sensitivities needed in the American market place and on the job.

Figure 9

Mrs. FOXX. Thank you, Dr. Spriggs. Mr. Meyer, you are recognized for five minutes.

TESTIMONY OF JARED MEYER, SENIOR FELLOW, FOUNDATION FOR GOVERNMENT ACCOUNTABILITY

Mr. MEYER. Thank you very much, Mrs. Foxx, and I want to thank Chair Walberg and Ranking Member Wilson and other members of the Committee for the opportunity to testify today. My name is Jared Meyer and I'm a senior fellow at the Foundation for Government Accountability, which is a non-profit research organization that promotes work at both the state and federal levels.

The American economy is generating more jobs outside of the traditional employee-employer relationship and implementing the right policies to accommodate this change is impossible if all of you don't have access to comprehensive, up-to-date data. Imagine navigating an unfamiliar city when your smart phone is out of battery or getting married before meeting your future in-laws. Thankfully the Bureau of Labor Statistics recently released the Contingent Workers Supplement, or what I will refer to as the CWS, to survey the prevalence of these alternative work arrangements like independent contracting. While the Committee should applaud this release, here are three improvements to ensure that the survey doesn't under estimate the workforce and give an incomplete picture of how Americans are working.

First, the CWS needs to capture work arrangements that are used for supplemental income. Second, the survey needs a longer look-back period given the nature of flexible work. And third, the survey needs to be released regularly.

So all of us constantly hear about these online platforms like Airbnb and Lyft. But the changes to the workforce, they extend far beyond transportation and travel. Consider my mom's story. When I was growing up, my mom would go to Goodwill and buy old sweaters that she would then sew into mittens. I grew up in Minnesota, so mittens were pretty necessary. But then, during the holidays, she would go to local craft fairs and sell them and on a good weekend, maybe she would sell a dozen pairs to put towards Christmas gifts to the family.

But imagine what my mom could do today. With just a few clicks of a mouse, and in a few minutes, she could have an online store on Etsy that could reach people all over the world, turning her hobby into a major source of income for our family. This is what technology has done for the labor force, opened more avenues for entrepreneurship.

So the new CWS comes after a 13-year break from conducting the survey. During that time, there were many organizations that attempted to measure the technology-fueled change in the workforce. The consensus reached was that the number of people working as independent contractors has increased over the years. Most estimates place the share of workers who are working as freelancers, as independent contractors between about 15 percent and 30 percent of the workforce.

But according to the newly released CWS, independent contractors represent just 6.9 percent of the workforce. This is less than half the level of other estimates and less and lower from the levels of the previous CWS which was released in 2005. Do any of us believe that there are fewer people freelancing today than in 2005, two years before the iPhone was first released?

I don't question the accuracy of the CWS but its design leads to an incomplete picture of the labor force because it doesn't count most independent contractors. Its main shortcoming is that it only measures alternative work if these jobs are a respondent's primary source of income.

See, I earn about 20 percent of my income from independent contractor work, but I wouldn't be counted as participating in an alternative work arrangement under the CWS because I earn more as a full-time employee at FGA. So this decision likely explains the dramatic difference between the CWS and other reputable estimates. But something needs to change when millions of Americans are working hard and to earn supplemental income, but this isn't reflected in government data.

To count independent contractors, I suggest that the CWS use an earnings threshold of $600 a year rather than a majority of income. This is the same threshold that the IRS uses to require firms to issue 1099 tax forms to workers. Many workers, especially millennials, desire these types of nontraditional jobs. Less than 10 percent of independent contractors identified by the CWS would have preferred a traditional work arrangement and the data show that independent contractors are as educated as traditional workers. They earn just as much and they're just as secure in their jobs.

Workers also value flexibility, but the CWS only considers work done during the previous week. Given the nature of freelancing work, the CWS should ask about independent contractor jobs done over the previous year. For example, a teacher may freelance as a math tutor over the summer or a landscaper may work as a ski instructor over the winter. And rather than just being a sporadic survey, BLS should release an update to the CWS every two years as it did from 1995 to 2001 but with the additional updates to give a more broader and accurate picture of the labor market.

When crafting policies to help your constituents, you need access to comprehensive, up to date labor market data. This is why, to summarize, the CWS should measure independent contractors based on a $600 a year earning threshold. Second, use a one year look back period instead of a one week and third, be released every two years rather than us having to wait another 13 years to see this data.

Thank you again for the opportunity to testify and I look forward to your questions.

[The statement of Mr. Meyer follows:]

TESTIMONY ON GROWTH, OPPORTUNITY, AND CHANGE IN THE U.S. LABOR MARKET

U.S. House of Representatives
Committee on Education and the Workforce
Subcommittee on Health, Employment, Labor, and Pensions

June 21, 2018

Jared Meyer
Senior Fellow
Foundation for Government Accountability

Chairman Walberg, Ranking Member Sablan, and members of the Subcommittee on Health, Employment, Labor, and Pensions, thank you for the opportunity to testify on the changing American workforce. My name is Jared Meyer, and I am a senior fellow at the Foundation for Government Accountability (FGA). FGA is a non-profit research organization that focuses on promoting work at both the state and federal levels.

The Economic Trends Changing the U.S. Workforce

The 21st-century American economy has been generating more jobs in which workers are self-employed. High-profile growth in online "sharing economy" platforms such as Airbnb, Lyft, and Thumbtack have brought increased attention to this change in the workforce. While people working through online platform companies account for a small percentage of the U.S. labor force,[i] the individualized work arrangements that these business models embrace make up a much larger, and growing, percentage of overall work.

The key to understanding the rise in the type of independent work seen in the sharing economy is the realization that the driving force behind these changes is not flashy smartphone apps but lower transaction costs.[ii] Lower transaction costs affect every industry, not just for-hire transportation and travel lodging.

The Nobel Prize-winning economist Ronald Coase's transaction cost theory of the firm helps explain these changes in the American workforce.[iii] In the 20th century, the financial and time costs were too high for many firms to benefit from contracting out work. Everything from finding the right provider and coming to an agreement on cost, to determining quality and enforcing contracts, carried higher costs than they do today. As an example, high transaction costs meant that it would have made more financial sense for a company to hire a graphic designer as a full-time employee, even if it would have been ideal to find contract professionals with the specific expertise for each design task.

But today, lower transaction costs, driven by advances in technology, have led to more opportunities for firms to use outside workers rather than in-house employees. Independent contractors are the driving force behind this change. Working as an independent contractor allows someone to choose his or her hours and benefit from flexible work arrangements.

Across all sectors of the economy, technology creates entrepreneurial opportunities for anyone with productive resources. These resources can be anything from physical or intellectual services (such as handyman jobs, academic tutoring, and legal advice) to the use of property (be it a drill, car, or spare room).

It is still difficult to start a business and work for oneself. But prior to the rise of peer-to-peer online interaction, growing a business was even more difficult. By catering to producers of niche products, online platforms like the craft shop Etsy help launch widely successful independent companies. These platform businesses allow independent workers to reach customers all over the world. eBay has provided a similar type of benefit to sellers since 1995. In other words, lower transaction costs make it easier for millions of Americans to work for themselves.

Most U.S. labor policy is designed for a workforce that is comprised primarily of employees.[iv] Though the employee-employer model of work is still the most common work relationship, further advances in technology and changing worker preferences should lead to steadily-increasing levels of alternative work arrangements.

Implementing the right policy changes to accommodate this change will require accurate data on workforce trends. Thankfully, the Bureau of Labor Statistics (BLS) recently released a survey that attempts to measure the prevalence of non-traditional work arrangements. While the committee should applaud BLS for taking this step, several changes would make the survey's results more comprehensive.

The Findings of the May 2017 Contingent Worker Supplement

To more clearly understand how these fundamental changes are affecting the labor market, BLS created the Contingent Worker Supplement (CWS) to the monthly Current Population Survey (CPS).[v] The CPS surveys 60,000 eligible households and provides reliable employment data used by policymakers and the public. The most recent edition of the CWS was released on June 7, 2018. This followed a 13-year break from BLS conducting the CSW, which was released previously in 1995, 1997, 1999, 2001, and 2005.

The survey, based on May 2017 data, estimated the number of contingent workers and workers in alternative arrangements, with the two categories considered separately. As defined in the survey, contingent workers are comprised of those who do not expect their jobs to last or who work temporary jobs. Alternative work arrangements include independent contractors, on-call workers, temporary help agency workers, and workers provided by contract firms. The survey's questions referred to the characteristics of respondents' jobs in which they worked the most hours and were based on work performed during the previous week.

According to the results of the survey, independent contractors are the most common of the four alternative work arrangements. Given the prevalence of independent contractors and the structural changes that are affecting the U.S. labor market, the CWS's measurement of this alternative work arrangement requires additional attention, and my testimony will focus primarily on the measurement of independent contractors. Independent contractors are defined as "Independent contractors, consultants, and freelance workers, regardless of whether they are self-employed or wage and salary workers."

According to the CWS, in May 2017, there were 10.6 million independent contractors, representing 6.9 percent of total employment. Independent contractors were 6.7 percent of the workforce in 1995, 6.7 percent of the workforce in 1997, 6.3 percent of the workforce in 1999, 6.4 percent of the workforce in 2001, and 7.4 percent of the workforce in 2005. All previous surveys were conducted in February, but there is little evidence that conducting the survey in May makes the most recent data not comparable.

Only three percent of independent contractors were also classified as contingent workers. This is the same percentage as workers in traditional arrangements and the lowest number among alternative work arrangement categories. This data point shows that most independent contractors are secure in their line of work, which should allay common concerns that workers outside of the traditional employer-employee relationship face job insecurity.

Median weekly earnings for full-time independent contractors were $851, which is similar to those for workers in traditional arrangements ($884). Median weekly earnings for part-time independent contractors were $333, which is higher than the average earnings for part-time workers in traditional arrangements ($255). Furthermore, educational attainment among independent contractors was in line with workers in traditional work arrangements, providing evidence that people of all education and skill levels can find work as independent contractors. Far from only encompassing some of the relatively low-paying jobs found in the sharing economy, the most common industry in which independent contractors work is professional and business services.

It should also be noted that, from 2005 to 2017, inflation-adjusted median earnings for full-time independent contractors decreased at a lower rate than the median for all full-time employed workers. While full-time independent contractor median earnings decreased by 0.5 percent over that time, all the median earnings for all full-time employed workers fell by 1.5 percent.[vi] Similarly, from 1997 to 2005, full-time independent contractor median earnings increased by an inflation-adjusted 1.6 percent while median earns for all full-time employed workers rose by 0.9 percent. A factor outside of weekly pay that could affect this comparison is the rising share of overall compensation that comes from employer-sponsored health insurance.

Why the CWS's Independent Contractor Data Are Low

According to the CWS, 84 percent of workers with traditional arrangements had health insurance coverage, and 53 percent of these workers received health insurance benefits through their employers. Among independent contractors, 75 percent had health insurance coverage, which they obtained through another family member's policy, a government program, or purchasing it on their own.

Employers are the principal source of health insurance in the United States, providing health benefits to about 151 million non-elderly people. In 2017, the average annual premiums for employer-sponsored health insurance were $6,690 for single coverage and $18,764 for family coverage. For employer-sponsored health insurance, the average single premium increased four percent, and the average family premium increased three percent from 2016 to 2017.[vii]

Outside of the employer-sponsored health insurance market, about 22 million people had individual health insurance coverage in 2017. For this market, premiums per enrollee grew 22 percent over the prior year.[viii] Premiums for individual market coverage have more than doubled from 2013 to 2017.[ix] This difference in health insurance costs is a contributing factor to the stagnation of people who are working primarily as independent contractors.

Employer and employee contributions to employer-sponsored health insurance are excluded from federal and state income and payroll taxes. The estimated tax subsidy for this form of coverage was $250 billion in 2013.[x] Because this favorable tax treatment is not available for independent contractors, there is an incentive for people to remain in employer-employee relationships to access more affordable health insurance. As health insurance costs continue to increase faster for the individual market, this incentive will grow larger.

Despite the problems with affording individual health insurance, 79 percent of independent contractors identified by the CWS prefer their arrangement over a traditional job and only nine percent would prefer a traditional work arrangement. These preferences are in line with the data from the 1995 CWS release. Workers value flexibility, and this preference can be seen clearly in young workers' priorities.

Deloitte's 2018 millennial survey finds that 78 percent of people born from the beginning of 1983 to the end of 1994 would consider short-term contracts or freelance work to supplement full-time employment. Furthermore, 57 percent would consider this type of alternative work instead of full-time employment.[xi] Beyond the potential for higher income, flexibility and work/life balance are the top reasons why young workers are interested in alternative work arrangements.

The value of independent contractor work as supplemental income cannot be ignored. For the 70 percent of Americans ages 18 to 24 who experience an average change of over 30 percent in their monthly incomes, the opportunity to smooth out earnings to meet rent, pay down student loans, or fund a new business venture is a clear benefit of alternative work arrangements.[xii]

The main shortcoming of the CWS is that it only measures alternative work arrangements if the jobs are the respondents' primary source of income. This decision likely explains most of the reason why the CWS results differ drastically from other reputable estimates.

Another factor that lowers the CWS's estimates of overall independent work is the decision to exclude self-employed people who are not independent contractors (such as shop or restaurant owners). While there is potential for confusion from some respondents if they owned an Etsy shop, for example, BLS's decision makes sense given that this group of self-employed people is captured under BLS's regular CPS survey. As the CWS's technical note states, "Nearly 9 in 10 independent contractors are self-employed. Conversely, 3 in every 5 self-employed workers are independent contractors."[xiii]

If BLS updates the CWS survey to capture those who use alternative work arrangements for supplemental income, then it should also ask respondents about work done over the previous year. The May 2017 CWS only asks about work in the previous week, and participation in part-time independent contractor work can be seasonal. For example, those who work construction jobs may work as a math tutor over the slower winter, or college students may drive for a ridesharing firm during summer breaks.

Other BLS numbers from the CPS could explain why the number of people who earn most of their income from alternative work arrangements has not risen. The seasonally-adjusted unemployment rate stands at 3.8 percent, a level that was last seen in 2000.[xiv] Some scholars have suggested that alternative work arrangements are counter-cyclical, meaning participation increases when the labor market is weak.[xv] Given the tax-preferred treatment of health insurance for employees, it is understandable why someone would forego flexibility in favor of full-time employment when the job market is as strong as it is today.

It should be noted that BLS added four new questions to the May 2017 CWS. These questions attempt to measure electronically-mediated employment, like those independent contractor jobs found through popular sharing-economy companies. The data from these questions are yet to be released, though they are expected to be made public later this year. While these results should be interesting, it is more important that the CWS captures supplemental independent contractor status work in future editions of the survey, regardless of if it was mediated by online platforms.

Other Measures of Alternative Work Arrangements

During the 13-year gap between CWS releases, a variety of government, nonprofit, academic, and industry organizations attempted to estimate the growth in alternative work arrangements. While estimates vary depending on how alternative work is defined, the consensus reached is that the number of people working as independent contractors has increased over recent years. This conclusion differs from the conclusion one would reach from CWS's data, lending further evidence to the claim that BLS's statistical picture of alternative work is incomplete.

For example, a 2017 report from Upwork, the Freelancers Union, and Edelman Intelligence estimates that nearly 60 million Americans are freelancing, which translates to 36 percent of the workforce.[xvi] From 2014 to 2017, the growth in freelancing was three times faster than the growth of traditional work. Additionally, the Upwork report projects that a majority of the U.S. workforce will be freelancing by 2027. This estimate is based in part on the 47 percent of millennials who already freelance, the highest percentage of any generation. Oddly, the CWS finds that independent contractor work was rarer among young workers and most common for workers ages 45 to 64. These divergent data suggest that young workers are the most likely to use independent contractor work for supplemental income.

Like Upwork, the American Action Forum (AAF) found that the growth in alternative work arrangements far outpaced the growth of traditional work from 2002 to 2014.[xvii] Between 2010 and 2014, growth in independent contractors alone accounted for nearly 30 percent of all jobs added. The AAF report also showed that workers in alternative arrangements are more likely to be part-time workers, and the prevalence of part-time work among alternative arrangement workers has increased since 2002.

MBO Partners finds that the number of American workers who work independently irregularly or sporadically, but do so at least once a month, increased to nearly 13 million in 2017. This represents a 23 percent increase from 2016.[xviii] The report also finds that because of the strong job market, the number of people who work independently but would prefer traditional work fell to 24 percent, which is the lowest that the percentage has been in the study's seven-year history. Similar to the Upwork report, MBO projects that half of American workers will be independent or have worked independently within the next five years.

The Mercatus Center released a report in 2015 that measures the growth in alternative work arrangements by evaluating 1099-MISC forms issued by the Internal Revenue Service.[xix] 1099-MISC forms are issued to individuals who received between $600 and $20,000 from an entity outside the traditional employment relationship. The number of 1099-MISC forms issued by the IRS increased by 22 percent from 2000 to 2014. Over that time, the number of W-2 forms issued by the IRS to employees fell by 3.5 percent. A single worker can be issued multiple 1099-MISC forms, and there were 235 million W-2s issued in 2014 compared to 91 million 1099 MISCs, but the growth in this type of worker classification shows that companies and workers are taking advantage of lower transaction costs.

This data on 1099-MISC forms follows the conclusions of a 2016 paper by Lawrence Katz and Alan Krueger, which finds that 94 percent of the net U.S. job growth from 2005 to 2015 occurred in alternative work arrangements.[xx] The Katz and Krueger paper relies on a survey that resembles the CWS with a smaller sample size, and the authors find that 16 percent of workers were primarily independent contractors in 2015. This result is more than double the level from the May 2017 CWS.

The McKinsey Global Institute estimates that 20 percent to 30 percent of the working-age population in the United States and the EU-15 countries are engaged in some form of independent work.[xxi] This estimate is lower than the Federal Reserve's Enterprising and Informal Work Activity survey, which estimates that 36 percent of workers took part in informal paid work in 2015.[xxii] In its survey of around 8,000 U.S. and EU independent workers, McKinsey finds that 70 percent of independent workers preferred their work arrangement and 56 percent of respondents use independent work to earn supplemental income.

A Treasury Department report evaluates tax return records from 2014 and finds that nearly 17 million Americans filed returns that showed the profitable operation of a nonfarm sole proprietorship, an increase of a third since 2001 levels.[xxiii] The report shows that essentially all the increase in self-employment came from a growing number of independent contractors, though some of the increase could be accounted for by misclassified employees.

An additional reason besides different definitions of who counts as an independent contractor that could explain the wide variation in the findings of the surveys and studies previously mentioned is that some survey respondents may not realize their worker classification status. For people who identify themselves as wage and salary workers, the CWS asks if last week they were working as "someone who obtains customers on their own to provide a product or service."[xxiv]

People who work as Uber drivers, for example, could think that they do not obtain customers on their own because they rely on the application as an intermediary. Additionally, there have been administrative changes from the Department of Labor over how courts are supposed to interpret worker classification that could add to workers' confusion.[xxv] These administrative changes are possible because the Fair Labor Standards Act uses a definition of employee that differs from most other federal statutes, including the National Labor Relations Act, the Equal Pay Act, and the Social Security Act.[xxvi]

Conclusion

While conducting the CWS is a major undertaking, the data it provides can help policymakers better understand how work is changing. Rather than being a sporadic survey, BLS should work to release an update to the CWS every two years, as it did from 1995 to 2001. However, the CWS's divergent findings on the prevalence of alternative work arrangements—especially for independent contractors—show that additional measures are needed to capture a complete picture of the changing American workforce.

Alternative work arrangements are desirable to many workers, especially when they are used for supplemental income. Failing to capture this reality through the CWS leads to the impression that independent work is stagnating, a conclusion that is in direct opposition to other reputable estimates and what is expected from economic theory.

I appreciate this committee's continued interest in understanding how the American workforce is changing and how federal policy can facilitate independent work for those who desire it. Thank you again for the opportunity to testify. I look forward to answering any questions from the committee.

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Mrs. FOXX. Thanks to all of our witnesses for your excellent presentations. I will begin the questioning and yield myself five minutes.

Mr. Moore, as you presented in your testimony, many economic trends for American workers are moving in very positive directions. Unemployment rate at the lowest rate we have seen in two decades, the number of unemployed workers dropped by nearly three quarters of a million people, wages are beginning to rise. In fact, for the first time on record, the number of job openings now 6.7 million actually exceeds job seekers. Some have suggested President Trump was handed an economy that was already creating jobs and was primed for the sort of growth we are now experiencing.

However, in your testimony you pointing to an economic forecast which suggests growth of more than 4 percent in the second quarter of this year, exceeding the growth rate seen as President Obama left office. Knowing of the positive impacts of the tax law passed by Congress, is there another recent policy change impacting the current economic boom which is significant in terms of its positive financial impact on the typical American household?

Mr. MOORE. Well, first of all, I mean, I don't think there is any question that the tax bill has had a very positive effect, I mean, if you look at the growth rates in the economy we have seen just unquestionably a bump up in growth and, you know, we had a recovery over the last seven years but it was the weakest recovery we had from a recession since the Great Depression. So it was an anemic recovery. It was a long recovery but it was very weak with very little wage growth and not enough growth.

The average growth rate from 2009, June of 2009 when the recovery began though June of 2016 was less than 2 percent per year. We—the growth, you know, I have heard you all talking about how do we, you know, reduce income inequality. How do we reduce poverty? How do we get wages up? You have to have growth. You have to have economic growth.

Now there is some really good news that just came out literally yesterday from the Federal Reserve Bank of Atlanta that the growth rate for the 2nd quarter is—looks like it's going to come and 4 and a half to 5 percent. That's a phenomenal number. Congratulations. I think that the—we are going to see I think another four or five quarters of very high growth rates.

So the big issue now is, you know, why did it happen? I think the tax cut—why was the tax cut so related to growth? I think the two most important things you did in the tax cut was bringing down our business tax rates. You know, it has just made America more competitive. America is a great place to invest in. One of my favorite headlines of I think this was from last week, from the Wall Street Journal, U.S. economy is now the envy of the world. We are growing faster than virtually any other country. Europe is growing at half a percent right now, we are growing at four.

So I think you guys should take a lot of—you deserve a congratulations for the tax cut but the work isn't done because we are not—we still haven't seen the wages rise enough. And we, I really am concerned about that we are not seeing enough young people getting into the workforce and we need to have that happen.

Mrs. FOXX. Thank you very much. I saw some very compelling statistics about young people not working in the summer for example, college students and high school students recently, phenomenally low numbers, very, very telling.

Dr. Farren, as you state in your testimony, and I would agree the Bureau of Labor Statistics collects and publishes information that can be very helpful not only to policy makers but to business owners, perspective employees, and students choosing a future career.

However, given that most people do not access BLS's website on a daily basis, how do they learn about current economic and labor market conditions? And how can BLS make its products more accessible and understandable to non-economists who have an interest in this information?

Dr. FARREN. Thank you very much for the question. The easiest way for the BLS to make the data more accessible to non-economists is to make it more accessible to economists in the first place. The people in this panel, the people in the media that actually use this data, the people in trade associations and union associations that actually use this data to communicate with their constituents and with the people that read what they write is the first way.

The second way is there is some evidence of other websites like the Fed websites from the St. Louis Federal Reserve Bank and the IPUMS website that offer additional ideas of how to make the website more accessible.

Mrs. FOXX. Thank you very much. I now recognize Ranking Member Scott for five minutes.

Mr. SCOTT Thank you, Madam Chair. Mr. Moore, you indicated that the purpose of the tax bill is not to help the top 1 percent. What portion, when it finally passed, what portion of the tax benefits went to the top 1 percent and corporations?

Mr. MOORE. So this is a key point, I'm so glad you asked about this, Representative. The—we believe that when you cut the corporate tax rate and the business tax rates that a big percentage of the benefits of that go to working class Americans. That's why I showed you that chart about increasing productivity and increasing investment.

Mr. SCOTT So you don't disagree with the 80 percent went to the top 1 percent and corporations?

Mr. MOORE. No absolutely not. We actually think that if you look at a Congressional Budget Office study that came out last, I believe it was in 2016 or '17 and I can get you that data. The Congressional Budget Office sets a 70 percent of the benefit of cutting the business tax rate goes to workers. So the—

Mr. SCOTT. Okay. So that is the trickledown effect.

Mr. MOORE. Because you—the way you get wages to rise is to have number—two things you need. A tighter labor force, right. You need a tight labor force to have wages rise. And number two, you need workers to be more productive and workers are more productive when they have more computers and technology to work—

Mr. SCOTT And how many jobs are projected to be created with the $1.5 trillion tax cut?

Mr. MOORE. I'm sorry, I had a—

Mr. SCOTT How many jobs did you—are you projecting will be created?

Mr. MOORE. From the tax bill or?

Mr. SCOTT Yes.

Mr. MOORE. It's hard to say, I mean, I think we projected that the tax bill over 10 years could create an extra 10 million jobs. I mean, so far so good. The tax cut has only been in existence for less than six months.

Mr. SCOTT And you have seen projections in the 300,000 range?

Mr. MOORE. Sorry, monthly or?

Mr. SCOTT No. No. Total.

Mr. MOORE. I'm sorry, I'm not understanding your question.

Mr. SCOTT Well, you said 10 million. Most of the projections have been in the 300 to 600,000 range.

Mr. MOORE. The 300,000.

Mr. SCOTT Yes.

Mr. MOORE. I'm sorry, I'm not understanding your question.

Mr. SCOTT Well, I guess not if you are guessing 10 million but—

Mr. MOORE. You know, the numbers that have come in just in this last six months on the unemployment have been pretty robust. I mean, we got over 200,000 in the last month. It's going to take a little. Look. This isn't going to happen overnight.

Mr. SCOTT That is right.

Mr. MOORE. When you cut the business tax rates it is going to take maybe a year or two for the full impact of the tax cut to kick in.

Mr. SCOTT Dr. Spriggs, can you say how much the jobs have been increasing since the passage of the tax bill?

Dr. SPRIGGS. The creation of jobs has not accelerated since the passage of the tax bill. Wages have not accelerated. In fact, real wages have remained flat since the tax bill. So so far, the only thing that has happened is that the trend in wages has flattened but the trend in the terms of job creation haven't accelerated. So in order to get 10 million jobs which would be 1 million jobs a year, we would have to see some marked acceleration in job creation because that is a projection above trend in order for this to have an effect. And so far we are not above trend.

If you look from 2010 to today, we have been on the same path for the last eight years. So nothing has changed either in the last two years, nothing has changed since January in terms of job creation.

Mr. SCOTT And can—we have heard about the effect of minimum wage. Can you say how minimum wage affects positive or negative job growth?

Dr. SPRIGGS. So the best research we have done and labor economists have gotten far better at being able to identify the precise effects of the minimum wage are that it essentially doesn't do anything on job growth. It changes the nature of jobs that will be created. They will tend to be higher wage which is the intent. When you look at the period when Congress made sure to keep the minimum wage going up with median wages, you see that, broadly speaking, wages went up and we had higher productivity. So the effect of raising the minimum wage isn't so much on job growth as to the character of the jobs and the wages that go up for everyone.

Mr. SCOTT What about youth employment?

Dr. SPRIGGS. Youth are the area that economists looked at first because the, in the old days they were the ones who predominately had those jobs. Today predominately people of the minimum wage are immigrants. That's part of the reason why we haven't found an effect on teenagers.

Teenagers' unemployment we have as many studies that say there is positive growth as there is negative growth. The net effect is zero when you look at all the studies, add them all up together.

Mr. SCOTT Thank you, Mr. Chair.

Chairman WALBERG. I thank the gentleman and I recognize myself for five minutes of questioning. I had markup votes in Energy and Commerce, I am sorry I had to leave. I wanted to hear the testimonies, glad we had a chance to read those. This is certainly an opportunity amongst many to see the difference between a formula that says increase taxes, spending, and regulation to grow the economy versus reduce taxes, spending, and regulation to grow the economy. And time will bear it out. I am betting on the last. It will work better because it has worked throughout the course of history in our country.

Mr. Moore, as you highlighted in your testimony, the growth in the U.S. economy and prospects for workers now better than they have been in more than a decade. Much of this growth is due to our work with the President to update and modernize U.S. tax code. However, the tax code is not the only set of laws that have grown outdated and stifled workforce opportunity. Many federal labor and employment laws were written in the 1930s and 40s and have not been substantially updated in decades.

In your view, what changes to our nations labor laws are needed to continue the growth and opportunity to begun under the Trump administration?

Mr. MOORE. That's a good question. I think we have a fundamental disagreement at this table about the effect of the minimum wage. I think that, you know, the evidence is pretty clear from the academic studies that when you raise the minimum wage the people are mostly—who feel the brunt of that are teenagers and especially minorities because they tend to have the lower skills.

I mean, obviously, you know I have a 17 year old son, Congressman. I love him to death, but even I wouldn't pay him $8 an hour, right. I mean, he just doesn't know how to—he doesn't have the skills. I mean, the importance of the starter job is so critical to getting people, I mean, when you—everyone remembers the first job they had. And I remember mine. Will give you a, you know, an indication of my age. My first job I was working for $2.10 an hour in a warehouse in Chicago, Illinois.

Chairman WALBERG. I was working for a buck 50 at a gas station.

Mr. MOORE. Okay, you're a little older than I am.

Chairman WALBERG. In Chicago.

Mr. MOORE. In Chicago. So but my point is, you know, you learn a lot from your first job. You learn how to show up, work skills, maybe work with a cash register or equipment and so on. In fact, you know, and the evidence is very clear that people who are on the minimum wage, most of them, not all of them but most of the people on the minimum wage it's a starter job and it's after six to nine months most of the employers pay them on increase once they get the skills and learn how to do things.

You know, the interesting thing about this minimum wage issue because I think it is important because, remember what happened literally six weeks after you passed the tax cut. Two of the biggest employers in the United States, Walmart and Costco, what did they do?

Chairman WALBERG. Raised the minimum wage.

Mr. MOORE. They raised their minimum wage. And this is the argument we, you know, it was the argument I was making earlier. When you create a tighter labor market as we have right now, it benefits workers because if you don't like your one job, you can go down the street and get another job. And that has helped and that is why Walmart and these companies are increasing their wages because they have to retain their workers.

Chairman WALBERG. Right.

Mr. MOORE. And that's a great way to get wages up.

Chairman WALBERG. Competition, yes. Dr. Farren, it's clear a lot has changed since 2005, which was the last time the BLS completed the Contingent Worker Supplement. With the technology available today, hailing a ride, job sharing, the economy, et cetera, it is freelance work and flexibility is easier than ever. We need to know the statistics on that. How can BLS ensure this population of workers is captured in future studies in a more realistic way?

Dr. FARREN. Thank you. So one of the ways that the BLS can do this is to make sure that they are targeting the right people with their surveys.

Chairman WALBERG. Excuse me, Dr. Farren. I meant Dr. Meyer on that. We could get that on you but I think I probably Mr. Meyer is better set for that one.

Mr. MEYER. Well, I'll just continue on what Dr. Farren was responding to your question because you brought up that this is important. We don't want people doing hard work, being left out of government data do I will just reiterate that first we need to measure independent contractors even if they're not getting the majority of their income from this. And I just recommended a $600 threshold because it seems to be based on how we determine other tax law along independent contractors. But also consider—you unfortunately missed the story of my mom selling mittens in Minnesota at craft fairs.

Chairman WALBERG. I heard about it yesterday.

Mr. MEYER. Oh. Well, with this surgery that was currently done it was from May 2017 was when the respondents were asked. My mom wouldn't be reflected in that because she wasn't working the alternative work arrangement at that point. So I think bumping it back to a year and looking at over a year, that $600 threshold that would give us a much more complete picture. Though it should be noted that the BLS is releasing another supplement to the CWS that focuses just on technology mediated work so think of online platforms but I care about all independent work. We want to capture the self-employed, the entrepreneurial economy and I think by making those simple changes it—additionally additions rather than changes to the survey it would go a long way to providing you with better information.

Chairman WALBERG. It is an amazing growing economy with all sorts of diversity to it. Thank you. My time is expired and I now recognize the gentlelady from Florida, Ms. Wilson.

Ms. WILSON of Florida. I ask unanimous consent that the chart I showed earlier—be entered into the record.

Chairman WALBERG. Without objection. And hearing none it will be entered.

Ms. WILSON of Florida. At this time I would also like to note that the mention of increased wages by Chair Walberg did not adjust for inflation. Real wages adjusted for inflation have not grown from May of last year.

Dr. Spriggs, thank you so much for being here today. And I have a few questions. Why is it that wages aren't rising even though the unemployment rate is at historic lows? What does this tell us about the state of our labor market institutions and what are the top three actions Congress should take to repair these institutions?

Dr. SPRIGGS. Thank you, Congresswoman, and briefly before I answer your questions, Walmart raised wages at the same time they announced they were letting go of thousands of workers. At the same time they were announcing they were going to do a massive stock buyback. So the net effect for workers really was zero. The net effect for the Walton family was that they got a whole lot richer.

So for labor economists, this is the exact market where our elementary theory should make wages go up because there are more job openings announced than there are people looking for work. The young people are entering the labor market are far better educated than the older workers who are retiring. Companies have had several years of record profits, they have just been given a tax cut that gives them billions of dollars. This is exactly the environment in which our textbooks say wages should go up if it was only the market. Wages aren't going up.

So it's clearly that you have to look back at our economic history, the time period that most people think we want to get back to, meaning the period from 1946 to 1979, and when you look at that period what stands out is we relied on labor market institutions that Congress had established. Knowing the history of the Great Depression, they understood that labor markets on their own don't work. We gave workers the right to bargain so we need to revisit and see what went wrong because workers have been losing the right to bargain and Congress could pass legislation as you mentioned that could restore that.

We have not done the job to maintain the minimum wage. My first minimum wage job, we must be the same age, Chair, was $1.75 because Sears Roebuck told us we are going to pay you 25 cents over the minimum wage. That was their incentive to make sure that we kept the job and didn't go walking off.

Today, that would be around $10 an hour. It would have been illegal. It would have been illegal to pay someone $8 an hour.

Now I was a high school student. I don't think, I think I'm pretty smart, but I don't think that I'm that much smarter than today's high school student that we can justify paying them less than I got paid for my starting job. And clearly they are more productive.

The third thing that Congress can do is not only is it just help with labor standards and organizing but when the balance of power turns against workers through labor market standards, that lowers the bargaining power of workers so when you roll back safety standards like the beryllium rule and exposure to beryllium, when you speed up hog slaughtering lines, when you do other actions that diminish the relationship between workers and management, you undermine the whole ability of workers to bargain. And that's key to raising wages so Congress must watch these rollbacks and labor standards.

Ms. WILSON of Florida. Quickly, how will the *Tax Cuts and Jobs Act* affect income inequality?

Dr. SPRIGGS. Well, it's weighted heavily towards those at the top. If the intent was that companies were going to use it to actually invest in capital which would improve the productivity of workers, so far we see no signs of that. The Federal Reserve's forward looking orders for new equipment not in defense show no signs that companies are spending any more money on physical capital- the capital that increases the productivity of workers. Instead, companies have announced over a trillion dollars in stock buybacks.

Ms. WILSON of Florida. Thank you.

Chairman WALBERG. Thanks, gentlelady, and then I recognize the gentleman from Georgia, Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman and thank you so much for participating in this important hearing. You know I don't know how it is in other districts, but in my district, obviously we have—everybody needs workers. Right now I'm meeting with companies and the wage issue is, I mean, you know, truck drivers for example. $70,000 a year and all their medical care paid for. Chemists or plant workers, $20 an hour, all their medical paid for. But yet we still have these shortages. The biggest restraint that we see, obviously that the tax reforms and tax cuts and the jobs act has done exactly what we had hoped it would do and that was grow the economy. We are looking at tremendous job growth throughout this country.

But you cannot grow an economy without a workforce. And there is going to be a lot of pressure on all of our institutions to produce that workforce. We have got a lot of people that still aren't in the workforce that need to be in the workforce. In fact the New York Times reported that Social Security disability benefits are plummeting which means we are getting folks into the work place.

And so with that, Mr. Moore, you know, this article attributed this reduction as the latest evidence that a stronger economy is pulling people back into the workforce and keeping people into the workforce. Does this report surprise you given the strengthening in the labor market?

Mr. MOORE. No, I saw that same report that you're mentioning and it is such good news that because what happened in the last, after the last recession was that disability became a new form of welfare. So we saw a huge spike up in disability payments. It wasn't because more people were injured on the job, it was because this is the way you got paid because you couldn't find a job.

As we have created, I mean, this is what I was just telling Chairman Walberg, I think this relates to your point is that there is so many benefits to creating a tight labor market where, you know, there was a story in the New York Times a few months ago about employers literally waiting outside of the prisons so when people were released from prison they could get them into the workforce. I mean, this is a wonderful thing to see.

I'll mention one other quick thing that is related to this whole discussion. Just yesterday, the manufacturing numbers came out. As you know, manufacturing numbers did not grow virtually at all during the first seven years of the recovery. Manufacturing, over 90 percent of manufacturers are positive and bullish and they expect to expand their operations. I mean, that is a wonderful thing. So those are high paying, blue-collar jobs in states like Michigan and Georgia and many of those states we went to on the campaign were frankly, look, we had a recovery but there were a lot of states like Michigan and Wisconsin and Pennsylvania and Ohio and West Virginia where people didn't feel the recovery. Now they are starting to feel a recovery.

Mr. ALLEN. Yes. Yes and again to my district, we are seeing that, we are seeing new businesses being created and I will tell you this. You know, my folks in the 12th district are very appreciative of the increase that they have gotten in their paychecks. The increased benefits, I mean, nationwide we are talking more than 4 million people, $6 billion, you know, that companies are putting out there.

And again, you know, it's to number one is to keep their folks because of the competiveness in the work place. How do you use us solving this problem, Mr. Moore, as far as, you know, we got 6.7 million jobs out there? We have got to get, you know, we have lot of people that aren't in the workforce back to work, give them the dignity and respect they deserve.

Mr. MOORE. It's a skills problem. It's a skill problem. I mean, there are a lot of workers out there that could be and should be working but a lot of them just don't have the basic skills that are necessary and I like what President Obama proposed and I think President Trump has reiterated this. I love the idea of apprenticeship programs. If you do—if you get an apprenticeship program and you've, you know, you learn how to be a plumber, or a, you know, an electrician or something like that, why shouldn't we give those people the same equivalent of a four-year college degree? If they are getting the kind of skills they need.

I do think one of the things you all have to think about in this committee, I think it's a really important issue for the next 20 years is what is the real valuation of a four-year college degree with somebody getting a sociology degree versus somebody who is getting a real skill?

I mean, if you are a pipe fitter these days, my goodness, a pipefitter or a welder, you can get a job for $60, $70,000 a year, start your own business, you can be making $100,000. There is nothing wrong, Congressman, with working with your hands. And those are getting to be better jobs all the time.

Mr. ALLEN. Right. Well, thank you so much and I yield back.

Chairman WALBERG. I thank the gentleman. Now I recognize my friend from Connecticut, Mr. Courtney.

Mr. COURTNEY. Thank you, Chairman Walberg, and thank you to all the witnesses for being here today. Again the timing given the fact that it's six months since passage of the Trump tax cuts is appropriate to begin the process of trying to understand better the impact. And again, I think, you know, it seems like pretty much everyone is pretty much unanimous about the value of having the Department of Labor, you know, have the tools to track data because otherwise we are just sort of stumbling around in the dark.

So if you look historically at the Reagan tax cut, the Bush tax cut, and now the Trump tax cut, what is interesting is that in the first two cases, every single House Republican voted in favor of those bills. The Trump tax cut however, was kind of interesting is that there was a dozen House Republicans who voted no. Eleven were concentrated in states, New Jersey, California and New York. And the reason is because of one aspect of the bill which has not gone into effect yet really, which is the cap on state and local tax deduction which Mr. Moore giddily described as death to Democrats in the lead up to the vote which I'm sure those Republicans from those states would sort of ask themselves what am I, chopped liver? And as well as Governor Baker from Massachusetts.

So you know, Dr. Spriggs, you did actually focus on this on page seven of your testimony about the fact that, you know, this shoe is going to start dropping with the next tax filing in 2018 where a lot of middle class families and frankly it isn't just blue states, Mr. Moore, it's going to impact states all across the country, are suddenly going to be in a totally, you know, no win situation in terms of, you know, how you pay for basic fundamental services like public schools, public safety, transportation, infrastructure, et cetera. Which again a large portion of that is paid for by state and local governments.

So when we talk about the skills gap, the biggest vehicle is still the public school system and the career and technical schools which again I would say yes, apprenticeships. I can take you up to Electric Boat in Connecticut and show how successful that's going but frankly, we need to go deeper into the tech schools and invest there but the bulk of that is going to come from state governments and local governments. So, Dr. Spriggs, could you talk about again that shoe which has still not dropped yet in terms of capping and crippling and handcuffing the ability of state and local governments to deal with labor market issues with education and job training?

Dr. SPRIGGS. Thank you very much, Congressman Courtney, because that is the big gap that we have experienced. We have done the things to restore business dynamism, businesses have been created because we took a more balanced approach in terms of who benefitted from the recovery act—and you need balanced income growth to generate the most number of customers and that's what gets you business creation.

But we didn't do the job in restoring public investment. And you're exactly right, it's not just the blue states. We saw teachers in Oklahoma and West Virginia- These are very much red states- walk out because they have had their school starved for the necessary investment and they have seen their pupil-teacher ratios go up and up and up and they can't do their jobs effectively.

We are down 100 over 120,000 teachers just to get back to where we were in 2008 and then you have to think about the growth in the student population. We probably need close to another 200,000 local school teachers and you're exactly right. The states that have been squeezing on public education the most are now going to find how do they catch up with the tax bill that is going to force them to double tax their citizens. And it's that double taxation that creates the bind for the state and local governments and it will in many voters' eyes appear to be unfair. Why am I paying taxes twice just to get the necessary things for my child to get educated? And if I'm an employer for the workforce I want to be educated.

We have never in the history of the United States had this massive de-investment in K through 12. We are moving against the trend globally where everyone else is increasing their investment in education and this is just going to make it that much more difficult.

Mr. COURTNEY. And again just to drive one last point again, we have still not seen the true effect yet of the SALT provision in the Trump bill which is going to really again start landing hard on middle class families in 2019 and years beyond. Isn't that correct?

Dr. SPRIGGS. That's correct because it's going to take a lot more revenue to get back to where we were because we are falling further behind.

Mr. COURTNEY. Thank you. I yield back.

Chairman WALBERG. I thank the gentleman. And I recognize the gentleman from Indiana, and glad to have you on our Subcommittee and the Committee as the newest member, appreciate that. Mr. Banks.

Mr. BANKS. Thank you, Mr. Chairman. A pretty good first committee. I appreciate each of the panelists who are here today.

Mr. Moore, when we passed the *Tax Cuts and Jobs Act* six months ago before the bill passed, all of the loudest voices in your field said we'll never exceed 3 percent GDP. Why were they so wrong and how good can it get moving forward?

Mr. MOORE. That's a good question. You know, the economy for the last four quarters has been growing at about 3 percent so we are there now. And you're right, most economists believe—who were skeptics of the tax and by the way, this growth isn't just being driven by the tax cut. I mean, it's being driven by pro-America energy policies, by the deregulations, by just being, by a pro-business kind of atmosphere.

I mean, you saw literally the day after the election consumer and business confidence went through the roof. It didn't happen by accident. This was a, the American had elected a pro-business president.

It's a, we will see if this is, look. I don't want to read too much in short term data. It's only been, you know, a year and a half since Trump has been president. The tax cut is only six months old so it's a little early to make a big, you know, bold proclamations about the tax bill. All we can say so far, so good. You know, almost every economic indicator right now, almost every indicator is pointing straight north. And so this is a positive thing.

One just quick thing on this SALT deduction because this is a big issue and I was one of the biggest advocates of eliminating the SALT deduction. And I just want to point out this because it is really important. Ninety percent of taxpayers around the country are not affected one iota by that because there is a $10,000 deduction on their state and local tax deduction. That means for the bottom 90 percent they are completely unaffected.

The top 1 percent pay half of the cost of the cost of getting—this is the—this was the most progressive if you want to use that term, feature we had in the tax bill. Is half of the cost of that was paid by the richest 1 percent. It is one of the reasons that the tax bill is not regressive because the, you know, it's paid for by millionaires and billionaires, the very people that the people voted against the bill said they wanted to tax more. That's what you did by getting rid of the state and local tax, right.

You come from Indiana by the way. Indiana is a fairly modest spending state. Your taxes are pretty modest, your spending is pretty modest, it's one of the reason people are coming to Indiana. Why should people in Indiana have to pay higher taxes, federal taxes to pay for high cost services in New York, New Jersey, Connecticut and California? It's just not fair. People, if people in New York and California and New jersey ant high cost government services, they're certainly entitled to do it but that should be paid for the by the people who live in those states, not a person who lives in Elkhart, Indiana. In my opinion.

Mr. BANKS. I appreciate that. I have a couple of more questions for you. Dr. Spriggs has had me thinking a little bit when he talked about income equality, wage equality. Yet in your testimony you include a very compelling graph, a 99 percent correlation between business investment and wages. Could you perhaps expand on that for a moment? I have a very important question to ask you after that and have very little time so.

Mr. MOORE. So it's just a, you know, connecting the dots that for higher wages you have to have more productive workers, you know, why is an American worker paid more than a Mexican worker in Mexico? Because American workers are more productive. They produce more on the job. I don't think any economist really disputes that.

So how do you get workers to be more productive? Better education, better skills, certainly so that you have more human capital but also so they have more computers, more technology and things to work with. I mean, a worker works with a computer makes twice as much as one who doesn't have the computer and, you know, I just disagree with this analysis that investment has an increase.

If you look at the cap ex numbers what we call cap ex which is business capital expenditures, they have gone way up since the tax cut. And, I mean, look, if you tax something, you get less of it. If you tax something less, you get more of it. You reduced the taxes on business capital investment. That is why one of the most important things, Mr. Chairman, I think you did in this bill was the immediate expensing provision so that businesses could go out.

I remember talking to Fred Smith who is the, you know, the chairman and CEO of FedEx, one of America's, you know, most successful companies. And I think FedEx employs well over 100,000—a couple hundred thousand workers. And, you know, I remember talking to him and he said, "Look, you pass this thing with the expensing and the lower corporate tax reduction, we are going to start, you know, purchasing planes, trucks, all of these things," and it is happening. It's a great story of revival.

Mr. BANKS. Yes, okay I have 10 seconds left. Either tonight or tomorrow we will be passing the Farm Bill which includes significant reforms for work requirements.

Mr. MOORE. Absolutely.

Mr. BANKS. Would you agree that is significant to fill our workforce gap?

Mr. MOORE. We need to do that, right. I mean, look. In this day and age I think we all agree, anybody who wants a job and has basic skills can find a job. Let's have, you know, for food stamps and other welfare programs work requirements. And this is a good way to get people into the workforce. You can't get anybody out of poverty if they're on welfare. Right. The first step to getting a person out of welfare is, I mean, out of poverty is to get them into a job. So we did this by the way in the mid-1990s, Congressman. Signed by Bill Clinton, a Democrat and a Republican Congress. And the work for welfare requirements were the most successful things we ever did. We saw the income of those people who moved off of welfare over the next five or six years rose. Get people into a job, it's the most important thing you can do to help those families.

Mr. BANKS. Thank you, my time has expired.

Chairman WALBERG. I thank the gentleman and even as a Wolverine it gives me pleasure to recognize the Buckeye, the gentlelady from Ohio, Ms. Fudge.

Ms. FUDGE. Thank you so very much, Mr. Chairman. Thank you all for being here. And just, Mr. Moore, just to be accurate, most people on food stamps who can work do work. So let's start there.

You know, we all have heard the statements that all politics is local. And I agree with that and so since my unemployment rate is nowhere near 3.8 percent, I just consider it fake news. It's just all fake news. Just like a 4 percent GDP is also fake news.

Mr. Moore, if it was not your intent to make the rich richer with the Trump tax scam, you absolutely failed miserably because that is exactly what the bill did. And for those people who have received a small reduction in their taxes, they are paying three to four times that just trying to get healthcare because my colleagues continue to try to do away with the *Affordable Care Act*.

Mr. Spriggs, how much of the Republican tax cut has actually gone to workers?

Dr. SPRIGGS. At the moment it's not clear to see what went to workers. Again, if it was going to be in the form of investment at their job that gave them more equipment that would increase their productivity we haven't seen it. Productivity hasn't gone up, the investment in the equipment hasn't gone up and so it's not clear and their real wages haven't gone up.

Ms. FUDGE. So then since you don't know then whatever numbers they keep telling us is just made up. Just more fake news, right?

Dr. SPRIGGS. I—

Ms. FUDGE. Tell me, who benefits from the billions in stock buybacks that the companies announced after the tax scam was passed?

Dr. SPRIGGS. So, we know that the ownership of stocks is highly concentrated at the top 1 and 10 percent despite people wanting to say it is in your 401(k) we have to remember that lots of workers, the majority don't have 401(k)s. So the reality is this goes to a very few. And in the case of the Walmart example that I gave, this goes to one family, essentially. So this has been a, the effect has been a massive redistribution upward.

Ms. FUDGE. Okay. Let me just ask because we were talking earlier about the concern that young people not working primarily because older people are working longer because they can't afford to not work. This country knows that we are more than a billion dollars in debt as it relates to funding pensions. We compounded the problem when we passed the tax scam and put the country $2 trillion in debt. So now we come back and we say we are going to cut Social Security benefits and we are going to cut Medicare and Medicaid to pay for a tax cut for rich people. So if older people cannot afford to retire because they can't, they don't have the savings and or they don't have the pension, what do we do from here?

Dr. SPRIGGS. Well, we have a big problem for the generation that entered the labor market during the Great Recession. They didn't get the job to start with that was typical. They weren't able to pay into a retirement plan. We have left them in a very, very hard position. And employers have skipped over them and now want to hire new graduates so we have that problem. We have the—

Ms. FUDGE. Mr. Spriggs, I don't want to—my time is really running short so do you think it would be more effective if we put money into summer jobs instead of taking care of children at the border who we took their parents away from them. It would probably be less expensive I would guess to just give kids summer jobs or give them better training instead of creating a problem that is costing this country billions of dollars.

Let me just ask this question of all of you. You were talking about vocational education. I think it's great. I think there is absolutely nothing wrong with working with your hands. How many of you steered your kids into vocational education instead of college. Just raise your hand. Okay. I didn't think so.

Mr. Chairman, I would like to yield the last 30 seconds I have to the Ranking Member, Mr. Scott.

Mr. SCOTT Thank you. Dr. Spriggs, can you tell me some of the challenges involved in the gig economy?

Dr. SPRIGGS. Well, the challenges are that many of the jobs are an attempt to arbitrage labor market regulation. They attempt to find areas where we don't do a good job of regulating and they attempt to create the myth that these aren't employees when in fact they are employees. So think of Uber. Uber is really just Louis on Taxi. It's just a dispatcher, except now it's the phone. And they want to pretend that they don't have employees. They have employees. So the biggest problem is it creates huge holes in our labor standards and that's not good for workers or for the economy or for our tax system.

Chairman WALBERG. I thank the gentleman and the gentlelady. I recognize the gentlelady from Delaware, Ms. Lisa Blunt Rochester.

Ms. BLUNT ROCHESTER. Thank you, Mr. Chairman and thank you Ranking Member Wilson and thank you also to the panel.

I had the opportunity to serve as Secretary of Labor in the State of Delaware so the issue of labor market information is vital. I believe it is vital. We, as we already mentioned it is vital to policy makers, to economists, to students, to parents. And as Secretary of Labor, we had a lot of good partnerships and also products. Everything from working with schools to our workforce investment boards to the media.

So one of my questions is about data itself and about the integrity and confidence and validity of it and I will start with Dr. Spriggs.

Before becoming president, I know Mr. Trump talked about BLS unemployment data covered up massive unreported unemployment levels and used words like fake and phony and so I just want to get your impression. I know you worked for the Department of Labor. If you could talk a little bit about the data itself and the integrity of the data. Just share is it fake, is it phony?

Dr. SPRIGGS. Well, like Dr. Farren, I sing high praises for the BLS and for the integrity and for the way that they are very careful to be as nonpartisan as possible in their work and to be focused and to be professional and as he mentioned the world recognizes them as the gold standard. They do provide many products. One of the most important is their quarterly census of employment in workers that allows local workforce boards to see the flow of work and to be able to better predict where are new jobs being created within both their WIB area and within their county so they do marvelous jobs.

Ms. BLUNT ROCHESTER. Can I ask Dr. Farren and Dr. Meyer, you both mentioned it also in your testimony. Dr. Farren, you mentioned making it more useful and accessible to ordinary people. Mr. Meyer, you talked about updating the CWS. I guess my question is, do you support increased funding? Because I think we are seeing a decline in staffing so how can we provide great services and great products if we don't have the people or the resources to do it? Oh, it's just a yes or no question. Do you support increased funding?

Dr. FARREN. I'm an economist, so I can't give a yes or no question.

Ms. BLUNT ROCHESTER. Okay.

Dr. FARREN. But the answer is what is efficient, what are the tradeoffs for additional funding? What are the tradeoffs for spending money more better?

Ms. BLUNT ROCHESTER. Okay, Mr. Farren, if you can't because you're an economist I will go to Mr. Meyer.

Mr. MEYER. I would say yes if it would lead to better measurements that policy makers can use to put in place the best data—

Ms. BLUNT ROCHESTER. Excellent.

Mr. MEYER. If it's just spending for the sake of spending, then no.

Ms. BLUNT ROCHESTER. We don't do that. Excellent. Okay. And then my last comment or question. I am actually my other committee is agriculture and so I get the opportunity to be a part of the Farm Bill discussions. One of my concerns I think all of us agree that we have these unfilled jobs and that we have a skills mismatch and that we really want people to work whether you're Democrat or Republican.

My question is on the Farm Bill, we are—the proposal is basically to create a massive jobs program and I was around for welfare reform as well. This appears to be untested and underfunded. We are talking $30 per person per, you know, per month. Good jobs training programs cost more than that.

Dr. Spriggs, can you talk a little bit about what you think would be the impact of instituting something like this, where people would be sanctioned off and not also have good job training programs.

Dr. SPRIGGS. The work requirement changes the program into a subsidy for employers who do not raise wages. And that would be bad. So when you look at how much we subsidize Walmart and McDonalds, the two largest employers in the United States and in the world because they fail to pay their workers sufficient wages that they do not need food assistance, it is the most inefficient system of employment in the world.

No one subsidizes, no one in the world subsidizes people going to fast food restaurants to make their nation fat but that's exactly what this legislation would do because when you force a worker to accept a low wage in order to get the benefit that is what you are doing. And so no, this is a bad public policy. The far better public policy is to address why in the name of having shortages of workers these employers are not raising their wages. You would lower the use of food assistance if workers got paid a decent wage.

Ms. BLUNT ROCHESTER. Thank you.

Dr. SPRIGGS. Because already it is the case that workers are needing food assistance.

Ms. BLUNT ROCHESTER. Thank you, Dr. Spriggs. I yield back.

Chairman WALBERG. I thank the gentlelady and now I am pleased to recognize the gentleman from Minnesota, Mr. Lewis, for your five minutes of questioning.

Mr. LEWIS. Thank you, Mr. Chairman, and thank you, panel, for your testimony today. Dr. Farren, I want to start with you if I may. In your testimony, you mentioned the research related to the current population survey and as we have seen, even in an economy with 3.8 percent unemployment, the lowest since 2000 I believe, even in an economy that may be growing at 4 percent, 4.2 percent GDP when in fact CBO predicted we would only grow 1.9 percent. Even in the economy this hot, we still have a problem with the sticky labor force participation rate. And I am just wondering your analysis of the March 2018 study by the American Action Forum that found that there was some relation to opioid dependency as a part of at least the absence of nearly a million prime-age workers from the labor force and with a reduction in that serious problem helped.

Dr. FARREN. So looking at it from a purely economical standpoint, certainly if the workers who were ill and addicted and therefore not in the labor force were actually in the labor force, economic growth would even be larger and you wouldn't even necessarily have to have them in the labor force for that to happen because addiction obviously hurts peoples performance and their families and taking care of their loved ones and that sort of thing as well. And also, obviously it would be much better for the people engaged who are addicted to actually have better lives as a result.

Mr. LEWIS. And between 1999 and 2015, this decline, this absence, results in about $700 billion loss in real GPD, real output. And that is consistent with your analysis?

Dr. FARREN. That's what I have seen other economists reporting, yes.

Mr. LEWIS. Mr. Moore, I want to drill down a little bit on labor force participation rate. As someone who has studied macroeconomics for some time, you are quite familiar with this. The fact of the matter is we are still stuck back into the 70s era of cardigan sweaters and malaise when it comes to some of these labor force participation rate figures. Is it a matter, as one panelist said, of just merely not having a high enough livable wage or is it a matter of the wrong incentives from some of our other public assistance programs where we have a 3.8 unemployment rate which of course as everyone knows doesn't take into account a denominator that drops people off when they no longer work, look for work. And so it doesn't pay to get out from under some sort of dependency.

Mr. MOORE. So there was a very good study that was done by Casey Mulligan who is one of the top economists in the country at the University of Chicago. And he is probably much more of an expert on this than I am so I will quote some of his research on this. He has shown that if you take someone who is receiving welfare benefits, a package of welfare benefits, that because of the various laws, the phaseouts of benefits, the taxes that they would pay, that in visual might be a mother or it might be an unemployed individual, they would lose about 50 cents of benefits for every dollar that they would earn. You know, that's a high marginal tax, right. I mean, we don't even charge wealthy people a 50 percent marginal tax rate. So—

Mr. LEWIS. So we often talk about that marginal rate and that is the key in all of this. The marginal rate, the rate on the next dollar earned at the top end of the spectrum, but what you are saying and what that study says is in fact every one works for after-tax income.

Mr. MOORE. Well, especially people who are on welfare and now are trying to get off of welfare. You know, if you, let's say you are on welfare. If you get a job that say pays you $40,000 a year, but what Casey Mulligan is saying guess what, you know, you are going to lose $20,000 in benefits so you're actual increase in your take home pay is only going to be half of that. That's a high—so we should really investigate the phaseout of all of these benefits and also the work requirement basically because you have to work.

Now look, if you had a situation right now like we had in 2008 and 2009 where the unemployment rate went up to 9 and 10 percent, a work requirement probably wouldn't work because, you know, there weren't jobs for people. But now there are plentiful jobs for people and we just have, I mean, I just think you do a real service not just to the, it's not just about reducing the cost of the programs. It is about getting, improving people's lives by getting them into the workforce. And that is so critical. You can't have a second and third and fourth job, you know, Mr. Lewis, until you have the first job.

Mr. LEWIS. And that is what this is all about and that is what work requirements are all about and that is moving from dependence to independence. We can subsidize dependence all day long but that doesn't move people to a more productive job and a more productive life and I thank you for your testimony and I yield back.

Chairman WALBERG. Thank you. I thank the gentleman for your questions and appreciate the Committee attentive to the issue today. As well as thank you so much for the witnesses for being here. In fact, I wish we had more members here today so we would have heard more from you on this important topic. We want to get things right so thank you for being here.

Ms. Wilson, it is good to have you in the ranking member's chair today. Doing an excellent job, and ask if you have any closing remarks?

Ms. WILSON of Florida. Thank you, Chairman Walberg, for holding today's hearing. I think it is vital that this committee examine the U.S. labor market trends. While strong job growth is important, we cannot neglect the fact that wage stagnation and income inequality are decades long problems that must be addressed.

When we talk about wage stagnation and income inequality, we are talking about more than the line on a graph. Workers across the country are not getting a fair share of the wealth they helped create. This means some workers are struggling to buy groceries every week to feed their families. Struggling to pay rent, and to keep a roof over their heads and it means some workers are finding it almost impossible to save for their children's education so that they may have a better life.

I think we can all agree that we want workers to be able to earn wages that allow them to support themselves and their families. Unfortunately, despite what we have heard today, workers' wages are not better off under this president.

In fact, since President Trump took office, wages have been mostly flat and some workers lost ground over the last year. Workers across the country are feeling the impact of these trends in their daily lives and want us to step up and help fix the problem but rather than pass legislation to help all workers, President Trump and the Congressional Republicans passed a tax scam that only makes historically high levels of income inequality worse.

The tax giveaway to the top 1 percent of American earners and corporations did not lift workers' wages. It just gave wealthy corporations a massive windfall for stock buybacks that benefit shareholders and executives. We know that this is not the right approach. As we heard from Dr. Spriggs, when our policies promote broad wage growth, we are better off. When we strengthen wage protections and workers' rights to collectively bargain for better wages, we combat wage stagnation and the income inequality that leaves workers behind.

That is why Committee Democrats support bills to raise the minimum wage, update overtime protections and strengthen workers' rights to join a union free from retaliation.

I again want to thank our witnesses for joining us here today and I yield back the remainder of my time.

Chairman WALBERG. I thank the gentlelady. In the words of the Northwest Ordinance and Article 8 Section 1 of the Michigan Constitution, that copied from the Northwest Ordinance, it says, "Religion, morality, knowledge, being necessary to good government and the happiness of mankind, schools in the means of education shall forever be encouraged."

And I am glad that in some of the conversation today, Mr. Moore and Mr. Banks touched on it as well. The primacy of preparing people for real world jobs through education opportunities that expanded beyond just the status quo normal of what we have done in the past and we are the Education and Workforce Committee. And I think aptly named that because they have to go together. We don't just educate to educate. We educate to work.

And in order to work today, you have to be educated. I don't care what you are going to do. And I think this committee and this subcommittee it is important that we as we think of health, employment, labor, and pensions, the whole scheme of things that we take due diligence to prepare people to educate them early for jobs in the real world that will provide a certainty—to the best that we can humanly provide a certainty—that they are going to have a background in training experience or educational experience. Forgive me, Virginia, for using that word. But educational experience that prepares them to experience the happiness that we promote in this great country.

So we need to talk more about the career options, the education options to prepare people in apprentice programs in short term educational certification programs, whatever it is necessary to find more opportunity for people to be in that sweet spot that is special to them becomes special to us because it grows our economy. It grows our security. It grows the desire of even other as we talk about immigration to look at America as still the place where all the best happens in the form of opportunity.

And I appreciate the fact that in this committee we are able to pass a new CTE bill out of the House, even the *PROSPER Act* that goes unique directions compared to what we have done in the past by fostering the opportunity for educational experience that meets needs as opposed to meets institutions. And I am looking forward to see benefits of that come in a new approach to post-secondary education that challenges everyone to keep the needs of the future workers in mind.

I as well think that today we had the opportunity to at least hear to some degree what needs to be done in keeping the statistics, putting reports in place that makes sense out of what is happening and what is available to be used in educational opportunities in our workforce experience.

And I know we are going to disagree on approaches. I know we are going to do that. We have two parties here that have different points of view. I think that our approach will ultimately win out. I would like to be proven wrong or at least the opportunity for someone to prove that wrong but we need good statistics. And we need good, good researchers to point out this is what is happening in the workforce, this is where we are at in reality. This is where we need to move toward. These are the opportunities we have.

And so your testimony today along with things that are—have actually happened by law and what the results will be has been very helpful. So with that and seeing that there is no further business to come before this subcommittee I will declare it adjourned.

[Additional submissions by Chairman Walberg follow:]

MERCATUS CENTER
George Mason University

TESTIMONY

BRIDGING THE SKILLS GAP

Michael D. Farren, PE, PhD
Research Fellow, Study of American Capitalism

Hearing, House Small Business Committee, Subcommittee on Economic Growth, Tax, and Capital Access
Examining the Small Business Labor Market

September 7, 2017

Good morning, Chairman Brat, Ranking Member Evans, and distinguished members of the House Small Business Committee's Subcommittee on Economic Growth, Tax, and Capital Access.

My name is Michael Farren, and I am a research fellow at the Mercatus Center at George Mason University. I am grateful for the invitation to discuss issues facing small businesses in the labor market, especially the skills gap that some employers encounter. This issue parallels my forthcoming labor market research, as well as other research published by the Mercatus Center.

There is some disagreement among labor market experts over which skills job applicants are lacking—or if a skills gap even exists—but the discussion of this issue is a useful opportunity to enhance our understanding of the labor market and government policies affecting it.

I offer two suggestions that may help address the skills gap affecting labor markets for small businesses:

1. **Revise the federal tax code to allow tax deductions for all forms of productivity-enhancing investments, including investment in training workers to perform new jobs.**

   The federal tax code encourages businesses to increase productivity by allowing tax deductions for investments in physical capital.[1] It also allows tax deductions for improvements to existing human capital through education or training. However, it does not allow tax deductions for investments that train a worker to do a completely new job.

2. **Revise government aid programs that might be lowering the supply of workers, thereby contributing to the lack of skilled workers available.**

   There is evidence that participation in state and federal disability benefit programs has grown, even as jobs have become safer and the population on average has become healthier. The design of such programs may need to be reevaluated to ensure that they are accomplishing their important mission without creating unintended consequences.

[1] Or stated more properly, such tax deductions lessen the tax burden discouraging capital investments. "Capital" in this case refers to assets or skills that increase the productive potential of an enterprise.

IS THERE A SKILLS GAP?

The first question that needs to be addressed is what is meant by a "skills gap" and whether one actually exists in the first place. This is important because the determination of what skills are missing depends on whom you talk to. The skills gap is often conceived of as being a lack of technical knowledge, such as familiarity with computer software or healthcare training.[2] For example, the National Federation of Independent Business reported that 45 percent of small businesses surveyed in early 2017 were unable to find qualified job applicants.[3] In addition, a 2016 survey released by workplace analytics firm PayScale and executive development firm Future Workplace found that a majority of hiring managers believed that recent college graduates lacked functional skills, such as critical thinking and writing proficiency.[4] Furthermore, much discussion has revolved around a deficit in "soft" skills such as teamwork, communication, and work ethic.[5]

Responding to this, some researchers and commentators have suggested that the skills gap is actually an "awareness gap," because it is difficult for job applicants to communicate their talents and abilities to employers.[6] Similarly, others propose the issue is best understood as a coordination problem between an employer's specific needs and workers' training.[7] Recent academic research supports this idea, finding that the skills gap is confined to a minority of companies needing workers with highly specialized skills, rather than a systematic skill deficiency across the entire workforce.[8]

CAUSES OF THE SKILLS GAP

It's possible that all these different perspectives are accurate. Newly graduated workers may have focused too much on excelling in their individual schoolwork, to the detriment of learning how to work effectively in a team environment. Furthermore, the teen employment rate began a precipitous decline around the year 2000, meaning that workers from the "millennial" generation would tend to have less work experience than workers from previous generations. The shift toward additional schooling and away from early employment could contribute to the observed gap in "soft" skills.[9]

At the same time, schooling might not be teaching students the exact skills necessary for the work that employers need done. This would be especially true if the job requires software expertise that rapidly changes every few years.[10] Some employers' hiring processes may contribute to the problem by being overly focused on applicants' technical skills, thereby screening out job candidates who have strengths in other areas or better-developed soft skills.[11]

Furthermore, because the modern economy tends to reward skill specialization rather than broad-based expertise, workers may seek a narrowly focused mastery rather than an expansive skill set. This would support the argument that manufacturers in particular are having a difficult time finding

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[2] Jon Swartz, "Businesses Say They Just Can't Find the Right Tech Workers," *USA Today*, March 28, 2017.
[3] Rob Kaplan, "America Has to Close the Workforce Skills Gap," *Bloomberg*, April 12, 2017.
[4] Jonathan Berr, "Employers: New College Grads Aren't Ready for Workplace," Moneywatch, *CBS News*, May 17, 2016; Payscale and Future Workplace, "2016 Workforce-Skills Preparedness Report," May 17, 2016, http://www.payscale.com/data-packages/job-skills.
[5] Lydia Dishman, "These Are the Biggest Skills That New Graduates Lack," The Future of Work, *Fast Company*, May 17, 2016; Payscale and Future Workplace, "2016 Workforce-Skills Preparedness Report."
[6] Ryan Craig and Troy Markowitz, "The Skills Gap Is Actually an Awareness Gap -- And It's Easier to Fix," *Forbes*, May 17, 2017.
[7] Andrew Weaver, "The Myth of the Skills Gap," Business Impact, *MIT Technology Review*, August 25, 2017.
[8] Andrew Weaver and Paul Osterman, "Skill Demands and Mismatch in U.S. Manufacturing," *ILR Review* 70, no. 2 (March 1, 2017): 275–307.
[9] In defense of "millennials," however, it should be considered whether every generation of managers might generally view the rising generation of youthful workers as being somewhat deficient compared to their own generation.
[10] James Bessen, "Employers Aren't Just Whining – the 'Skills Gap' Is Real," *Harvard Business Review*, August 25, 2014.
[11] Ryan Craig, "Blame Bad Applicant Tracking for the Soft Skills Shortage at Your Company," *TechCrunch*, March 5, 2017.

workers who have the right combination of skills—practical, tool-using abilities; IT expertise; and teamwork aptitude—needed to be effective in modern manufacturing.[12]

Unfortunately, other problems may also be contributing to the existence of a skills gap. Before workers choose to invest in schooling or training to develop new skills, they need to have a reasonable expectation that the investment will pay off. Essentially, workers face a guessing game wherein they have to forecast what skills will be needed by employers in the future. In this case, guessing wrong can actually be worse than not playing the game at all. It might result in workers' time investment being wasted, squandering the earnings and the skills they could have developed at different jobs. Even worse, they may have financed the education with loans, leaving them with debt in addition to unmarketable skills. As a result, workers will tend to avoid investing in skill acquisition that doesn't have a high likelihood of paying off.

There is some evidence that many younger workers have indeed "guessed wrong." Over the past decades there has been a rise in "underemployment"—highly trained or educated persons working in jobs that do not require the college degrees or training certifications they possess.[13] This suggests that many workers have indeed paid for education investments that, to some degree, were wasted.[14]

A contributing factor to the skills gap could be the declining labor force participation rate (LFPR). The national prime-age male LFPR has declined from around 96 percent in 1970 to 88.5 percent in 2016.[15] Most of the decrease corresponds to more men reporting problems with physical or mental disability and a corresponding inability to work.[16] If the men leaving the workforce are generally older and more experienced, especially in jobs that are increasingly technical-skill intensive like mining, manufacturing, and construction, then their absence might contribute to a skills gap, especially if they would have been responsible for training less experienced workers.

Forthcoming research from the Mercatus Center suggests that increased participation in state and federal disability benefit programs is correlated with the number of prime-age men reporting that disability prevents them from working. The increased participation in disability benefit programs has occurred despite falling mortality and injury rates and general improvements in health status for prime-age men.[17] If government aid programs have contributed to reduced labor force participation, and if those workers leaving the labor force are more likely to be experienced or otherwise higher skilled, then such programs may bear some responsibility for the skills gap that employers face.

[12] Jeffrey J. Selingo, "Wanted: Factory Workers, Degree Required," *New York Times*, January 30, 2017, Education Life.
[13] Alexia Elejalde-Ruiz, "Nearly Half of U.S. Workers Consider Themselves Underemployed, Report Says," *Chicago Tribune*, June 28, 2016.
[14] This situation might simultaneously indicate that employers in general did not need the number of workers with the given degrees or training certifications—that the skills were indeed valuable, but job seekers oversupplied the market. However, this explanation is essentially equivalent to saying that some workers, though not all, made the wrong education investment. On the other hand, it should be noted that advanced education, even if it is not relevant to the job in question, may be a signal to the employer of a generally higher-quality worker, giving those candidates who invested "wrongly" an advantage over other candidates who did not make the "wrong" decision.
[15] Prime-age men—those between the ages of 25 and 54—are generally expected to have the highest LFPR. Women's prime-age LFPR peaked in the late 1990s and has slightly declined since that time. Scott Winship, "What's Behind Declining Male Labor Force Participation: Fewer Good Jobs or Fewer Men Seeking Them?" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, forthcoming).
[16] It should be noted that some decrease in the prime-age male LFPR has been owing to men retiring early or leaving the workforce owing to family responsibilities, but increasing disability by far represents the largest driver of declining LFPR; Winship, "What's Behind Declining Male Labor Force Participation?"
[17] Winship, "What's Behind Declining Male Labor Force Participation?"

SOLUTIONS TO THE SKILLS GAP

What, then, can government do to solve the skills gap in the labor market? The answer might be "Not much." This is because the modern American economy is continuously undergoing "creative destruction" in many industries.[18] The constant development of new technologies and introduction of information technology to established production processes results in a constant churn toward new methods of production. As a result of this process, workers in many industries must regularly update their skills to be able to use the next technological improvement. This kind of economy by its very nature creates an ongoing skills gap as producers need workers trained for the latest iteration of the production process.

However, this kind of skills gap is actually a very good thing. The degree to which innovation and its corresponding technological development are driving the skills gap is an encouraging signal of the strength of the American economy. The last thing we should want is an economy which advances so slowly that most workers can go their entire careers without upgrading their knowledge and skills. This kind of economy would have fewer improvements in healthcare, communications, transportation, and manufacturing, leading to a country that is unhealthy, energy inefficient, and less environmentally sustainable.

Agriculture represents a good example of how the application of increased knowledge and technology has revolutionized an industry and benefited the nation. In 1900, 41 percent of the US workforce worked in agriculture. By 2000 that share had fallen to 1.9 percent, even while productivity more than doubled in just the last 50 years of that time period.[19] And similar to the changes in technology in the modern economy, agriculture shifted from using 22 million work animals in 1900 to using 5 million tractors in 2000.[20] Now farmers are even using information technology to more accurately plant and water crops, as well as apply pesticide and fertilizer in more appropriate amounts, resulting in less waste and more sustainable farming practices.[21] All of this has required farmers to be open to continuous updates to their knowledge and training.

However, there are several areas in which government policy can indeed help solve the skills gap. As I have illustrated, workers face a risky skills investment problem that inhibits them from investing in their "human capital."[22] Reforming existing policy can help reduce the riskiness of this investment in several different ways:

1. Current tax law allows employers and employees to deduct the cost of training and education that makes workers more productive in their current positions. This is similar to the deduction allowed for purchases of physical capital that enable higher productivity. However, this deduction is specifically prohibited for investments in human capital that prepare a person to take on a wholly new type of work.[23] This might help explain the fact that relatively few firms budget for employee training programs.[24]

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[18] The term "creative destruction" was popularized by Joseph Schumpeter: "The opening up of new markets, foreign or domestic, and the organizational development from the craft shop to such concerns as U.S. Steel illustrate the same process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism." *Capitalism, Socialism, and Democracy* (New York, NY: Harper and Brothers, [1942] 1950), 83.
[19] US Department of Agriculture, *The 20th Century Transformation of US Agriculture and Farm Policy*, June 2005.
[20] Ibid.
[21] US Department of Agriculture, *Farm Profits and Adoption of Precision Agriculture*, October 2016.
[22] Human capital is a general term for investments in education or training that make a person more productive, in much the same way that investments in physical capital (e.g., machines) can make a factory more productive.
[23] Internal Revenue Service, *Publication 970, Chapter 12: Tax Benefits for Education*, 2016.
[24] Udemy for Business, *At the Breaking Point: The State of Corporate Training Programs in America*, March 26, 2015.

If tax laws were changed to allow either workers or employers to deduct the cost of training to perform a new job, then employers would have much greater incentive to offer the specific training their firm requires, rather than expecting the employee to start with all of the requisite skills.[25]

2. To the extent that current government aid programs inappropriately reduce the supply of skilled workers, they should be reformed to remove the disincentives they create.[26] Importantly, the goal should be to ensure that those who are truly disabled are appropriately supported while encouraging those who can work to do so.

CONCLUSION

It seems indisputable that a skills gap does exist in the labor market, but importantly, this issue is probably best characterized as being unique to each company. And since each individual firm has the best information on what particular skills it needs, the best path forward from a government policy perspective would be to change tax laws to encourage companies to invest in worker training. Importantly, though, any tax code changes should be broadly based and available to all workers and employers, rather than favoring some industries or skills over others. Additionally, programs and policies that reduce the potential workforce available to employers should be reformed.

Lastly, policymakers should keep firmly in mind that a skills gap may not be entirely a bad thing, if it is a symptom of a robust and innovative economy. Among all economic problems, this is a good one to have.

[25] Importantly, such training programs, if provided using tax deductions, should not have stipulations attached to the training, such as minimum tenure requirements or noncompete contracts. Such conditions would result in a decreased dynamism in the labor force, meaning that workers would be inhibited from moving to the companies where they would be the most productive (and similarly, companies might inadvertently keep less productive employees). This would result in decreased economic growth. Furthermore, disallowing such stipulations for training increases the competitiveness of the labor market by reducing the bargaining power of employers. This means that they would have to focus more on keeping employees voluntarily through wage increases, benefits, and healthy working environments.

Additionally, existing tax law generally requires that deductions for investments in physical capital be taken over time, rather than in the year in which the investment is made. This is reasonable for physical capital, which is property owned by the firm. However, investments in human capital cannot be owned by the firm and contain an inherent risk of loss if the employee leaves the firm, suggesting that human capital investments should be allowed to be fully deducted in the year in which they are made.

[26] Scott Winship, "How to Fix Disability Insurance," *National Affairs*, 2015.

MERCATUS ON POLICY

What's the Truth about Unemployment? Introducing the Comprehensive Jobless Rate (U-5b)

Michael D. Farren

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THE UNEMPLOYMENT RATE IS PROBABLY THE single most quoted statistic that measures the health of the economy. Changes in the gross domestic product (GDP)—which signal the beginning and end of recessions—are also important, but the public understandably seems to care more about how difficult it is to find a job than how much the economy is actually producing.

For this reason, it's critical to have an accurate measure of "true" unemployment. However, many politicians and political pundits have derided the unemployment rate reported by the Bureau of Labor Statistics (BLS), arguing that it doesn't count everyone who actually wants a job.[1] In fact, President Trump, while on the campaign trail, suggested that the actual level of unemployment might be as high as 42 percent.[2] These sentiments represent a lack of confidence in official government statistics, and they're an important challenge to the economics profession. This paper addresses that challenge.

WHAT IS THE "TRUE" UNEMPLOYMENT RATE?

The first problem in measuring unemployment is actually defining unemployment. If simply not having a job were enough to be considered unemployed, then the average unemployment rate in 2017 would have been 52.9 percent. However, this absurdly high statistic counts *everyone* without a job as being unemployed, including children and infants, meaning that it doesn't really tell us anything about the strength of the economy or the difficulty in getting a job. Leaving out anyone below the age of 16 provides a somewhat more convincing number—39.9 percent—but this measurement still counts people who are retired, are staying at home with family, are currently attending school, or have other reasons for not seeking employment.[3]

It seems reasonable to require that someone actually *want* a job in order to be counted as unemployed. Under this condition, the average jobless rate in 2017 would have been 7.5 percent.[4]

This measure of unemployment can be called the *comprehensive jobless rate* (CJR) because it counts every adult or adolescent who (1) does not have a job currently, (2) says that they want a job, and (3) is capable of working. In effect, it's the most *realistic* measurement of the unemployment rate.[5]

WHAT ABOUT THE OTHER OFFICIAL UNEMPLOYMENT RATES?

The CJR is higher than the various unemployment rates calculated by the BLS, and for a good reason. The official BLS measures of unemployment, labeled as U-1 through U-6, provide a more nuanced understanding of the labor market, such as identifying longer-term unemployment (U-1) and discouraged job seekers (U-4) (see table 1).

The CJR adds value to the existing BLS unemployment measures by providing an upper bound on the rate of joblessness. It fits in between U-5, which counts those people who want jobs and who are marginally attached to the workforce,[6] and U-6, which counts those people who are employed part time but desire a full-time job. Following the BLS's naming convention, the CJR could also be referred to as the "U-5b" unemployment rate.

The critical difference between the U-5 rate and the CJR/U-5b is that the U-5b counts everyone who says they want a job, regardless of whether they are currently available to start a job and regardless of the last time they actively searched for employment.[7] In comparison, the U-5 does not count people who have not actively searched for work in the last 12 months or who were not available to start a job when they were surveyed. This means that the U-5 doesn't count people whose frustration has led to a long-term abandonment of their job search, nor does it count students who are near graduation and are actively seeking work

Table 1. Measures of Unemployment

MEASURE OF UNEMPLOYMENT	DESCRIPTION	2017 AVERAGE VALUE
U-1	Persons unemployed 15 weeks or longer, as a percentage of the civilian labor force	1.7%
U-2	Job losers and persons who completed temporary jobs, as a percentage of the civilian labor force	2.1%
U-3	Total unemployed, as a percentage of the civilian labor force (official unemployment rate)	4.4%
U-4	Total unemployed plus discouraged workers, as a percentage of the civilian labor force plus discouraged workers	4.6%
U-5	Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percentage of the civilian labor force plus all persons marginally attached to the labor force	5.3%
U-5b	Total unemployed, plus all other persons who say they want a job and are able to work, as a percentage of the civilian labor force plus all persons who want a job and are able to work	7.5%
U-6	Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percentage of the civilian labor force plus all persons marginally attached to the labor force	8.5%

Note: Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market-related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. Updated population controls are introduced annually with the release of January data.

Source: Author's calculations; Bureau of Labor Statistics, "Employment Situation Summary," news release no. USDL-18-0335, March 9, 2018, https://www.bls.gov/charts/employment-situation/alternative-measures-of-labor-underutilization.htm; Bureau of Labor Statistics, "Alternative Measures of Labor Underutilization for States, 2017 Annual Averages," January 28, 2018, https://www.bls.gov/lau/stalt17q4.htm.

The CJR adds value to the existing BLS unemployment measures by providing an upper bound on the rate of joblessness.

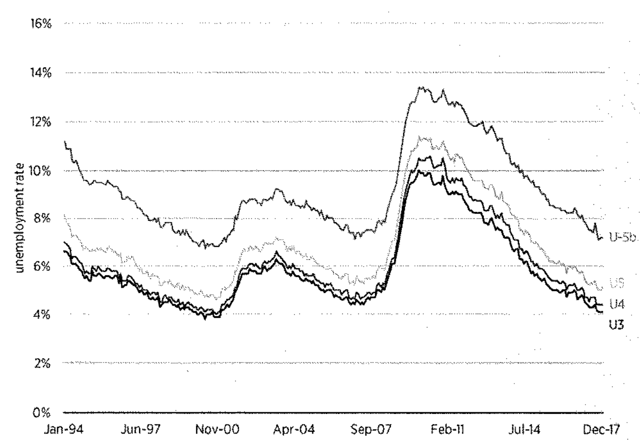
but are not immediately able to begin working. The CJR/U-5b accounts for these groups who slip through the cracks of the other unemployment measures.

Figure 1 compares the historical level of the CJR/U-5b with the primary BLS unemployment rates that focus on joblessness (U-3 through U-5). The CJR follows the same general trends over time as the other unemployment rates and is, on average, around 3.3 percent higher than the U-3, the official unemployment rate that is most often reported (see table 2). The fact that the various unemployment rates show the same trends over time suggests that, while the official unemployment rate doesn't measure the full scope of joblessness, its fluctuations do provide relevant information on the overall health of the labor market.

CONCLUSION

The comprehensive jobless rate, or U-5b, provides the highest possible realistic measurement of joblessness. The only way to achieve a higher measure of unemployment would be to include (1) people who don't actually want a job, (2) people who are physically or mentally unable to work as a result

Figure 1. Historical Performance of Unemployment Measures, January 1994–December 2017



Source: Bureau of Labor Statistics, "Civilian Labor Force Level," accessed March 19, 2018, https://data.bls.gov/timeseries/LNS11000000; Bureau of Labor Statistics, "Unemployment Rate," accessed March 19, 2018, https://data.bls.gov/timeseries/lns14000000; Bureau of Labor Statistics, "Total Unemployed Plus Discouraged Workers, as a Percent of the Civilian Labor Force Plus Discouraged Workers," accessed March 19, 2018, https://data.bls.gov/timeseries/LNS13327707; Bureau of Labor Statistics, "Total Unemployed, Plus Discouraged Workers, Plus All Other Marginally Attached Workers, as a Percent of the Civilian Labor Force Plus All Marginally Attached Workers," accessed March 19, 2018, https://data.bls.gov/timeseries/LNS13327708; Bureau of Labor Statistics, "Not in Labor Force, Want a Job Now," accessed March 19, 2018, https://data.bls.gov/timeseries/LNS15026639.

Table 2. Comparison of Unemployment Measures, 1994–2017

MEASURE OF UNEMPLOYMENT	SMALLEST DIFFERENCE FROM U-3	LARGEST DIFFERENCE FROM U-3	AVERAGE DIFFERENCE FROM U-3
U-4	0.1%	0.8%	0.3%
U-5	0.7%	1.7%	1.1%
U-5b	2.7%	4.6%	3.3%

Source: Bureau of Labor Statistics, "Civilian Labor Force Level"; Bureau of Labor Statistics, "Unemployment Rate"; Bureau of Labor Statistics, "Total Unemployed Plus Discouraged Workers, as a Percent of the Civilian Labor Force Plus Discouraged Workers"; Bureau of Labor Statistics, "Total Unemployed, Plus Discouraged Workers, Plus All Other Marginally Attached Workers, as a Percent of the Civilian Labor Force Plus All Marginally Attached Workers"; Bureau of Labor Statistics, "Not in Labor Force, Want a Job Now."

of an illness or disability, and (3) people who are currently employed part-time but want full-time employment (which is an important issue, but is not the same as joblessness).

The CJR offers a way to cut through partisan bickering and political pundit hand-wringing over not knowing the "true" unemployment rate. As such, it provides a stable metric that can allow for more productive policy discussions and a better understanding of the economy for the general public.

NOTES

1. Ben Casselman, "What Is the Real Unemployment Rate?," *FiveThirtyEight*, February 26, 2016; Rush Limbaugh, "Transcript of the Rush Limbaugh Show: David Stockman Shock Blog: The Real Unemployment Rate Is 42.9%," *The Rush Limbaugh Show*, June 30, 2015; Neil Irwin, "The Real Jobless Rate Is 42 Percent? Donald Trump Has a Point, Sort Of," *New York Times*, February 10, 2016, The Upshot; Edward Lazear, "Ed Lazear: This Is the Real Unemployment Rate," *Wonkblog*, *Washington Post*, November 6, 2015.

2. Philip Bump, "How President Trump's First Jobs Report Looks on the 'Real' Metrics He Touted in 2016," *Washington Post*, March 10, 2017.

3. Economists will note that this estimate of joblessness is simply the complement of the employment-to-population ratio. This appears to be the measure of unemployment that President Trump quoted while on the campaign trail.

4. Adding the caveat that the person actually be physically capable of working makes the unemployment measure more realistic, but this requirement doesn't affect the final estimate of joblessness because people who have long-term illnesses or disabilities that prevent them from working generally don't indicate that they want a job.

5. This is the measure of unemployment suggested by Scott Winship in a recent paper. See Scott Winship, "What's Behind Declining Male Labor Force Participation: Fewer Good Jobs or Fewer Men Seeking Them?" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, 2017).

6. A person is "marginally attached to the workforce" if they want a job, were available to start a job at the time of the survey, and actively searched for employment within the last 12 months (or since leaving their last job). Marginally attached persons are a subset of the larger group of people who want jobs.

7. The Current Population Survey, which is the primary source of US government unemployment data, asks respondents whether they would have been able to start a job during the week in question (generally the second week of the month). The Current Population Survey defines actively seeking employment as taking actions that by themselves could lead to an offer of employment, such as filling out job applications, contacting an employer, registering with an employment agency, et cetera.

About the Author

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[Whereupon, at 11:40 a.m., the Subcommittee was adjourned.]