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SMALL BUSINESS AND THE AMERICAN WORKER

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BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

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ONE HUNDRED SIXTEENTH CONGRESS

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SMALL BUSINESS AND THE AMERICAN WORKER

WEDNESDAY, MARCH 6, 2019

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 2:33 p.m., in Room 428A, Russell Senate Office Building, Hon. Marco Rubio, Chairman of the Committee, presiding.

Present: Senators Rubio, Risch, Scott, Ernst, Young, Romney, Hawley, Cardin, Cantwell, Shaheen, and Rosen.

OPENING STATEMENT OF HON. MARCO RUBIO, CHAIRMAN, A U.S. SENATOR FROM FLORIDA

Chairman RUBIO. Today's hearing of the Committee on Small Business and Entrepreneurship will come to order.

I want thank all of you for being here. I extend a welcome to our witnesses. We will introduce them in a moment.

I am very happy that we are holding today's hearing titled "Small Business and the American Worker," and the hope is to explore the ties between the health and dynamism of small business and the well-being of American workers.

For far too long, in my opinion, policymakers have focused almost exclusively on consumer welfare. We pay very little attention in public policy to the welfare of workers. The idea that any type of economic efficiency is beneficial, so long as those left behind can rely on some sort of government safety net, overlooks the fundamental role of the dignity of work. It is through dignified labor and dignified pay for that labor that American workers create the stability and the vitality of families, communities, and country.

Yes, of course, we want to see strong economic growth, but we want strong economic growth that creates good and dignified jobs, not just good statistics. You need both.

It is instructive to note that as GDP has risen from roughly $2.6 trillion in 1979 to almost $21 trillion in the last quarter of last year, the percentage of means-tested government transfers to middle-income recipients has more than doubled according to a study by the Brookings Institution. It tells us that a broad swath of Americans, despite all this growth, have been left behind.

This is evident in our stagnant labor force participation rates and falling annual incomes of high school-educated workers. It is evident in the precipitous decline in community life and engagement with the institutions that are critical to a thriving society.

Americans now find themselves feeling more disconnected and alone than ever before. We are not powerless to act. It is incumbent upon us to find innovative policy solutions that empower a broad range of American workers and place the vitality of the labor market at the forefront of our decision-making. In doing so, we must not disregard the power of free markets and competition as an engine of economic growth. It is the most powerful engine of economic growth man has ever known.

But as this Committee heard from a panel of witnesses last week, our failure to respond to Made in China 2025 and other foreign industrial policies diminishes our core productive capabilities and eliminated the livelihoods of thousands of small business manufacturers and millions of American workers.

There was once a notion in this country that if you work hard and you put your mind to it, you could support a family, buy a car and a home, and live the American dream. It is unrealistic to believe that this social contract can be replaced by a check from the government. Our country cannot have the sustained benefits of economic growth without a strong productive sector which increases social mobility, advances small business dynamism, and strengthens our Nation's overall productive capacity.

At the core of this reorientation must be a policy framework that encourages businesses to invest in physical capital, as well as their workers' skills and their workers' productivity.

Long-term growth also requires investment from government in infrastructure, education, and research and development as well as a commitment to aligning regulation with labor market needs.

Such investment should take the form of a national innovation strategy, which will enable small businesses to modernize and compete on a global scale, as the Committee discussed last week.

In working toward this strategy, this Committee will focus on orienting the programs within the Small Business Administration to foster greater innovation and small business growth.

Strengthening America's labor markets also entails a focused effort to improve the conditions under which this market operates.

Harmful artificial restrictions, such as burdensome occupational licensing and one-sided non-compete agreements for low-skill and entry-level employment, those things impede worker mobility and choice. These obstructions to work are most acutely felt by Americans with fewer job opportunities, and they must be removed.

In addition, policymakers have often overlooked the fundamental role of the family and nongovernmental social institutions in the vitality of our labor market and country as a whole.

I fought personally to reduce the tax burden on middle-income families and foster an economic environment conducive to family formation and prosperity through efforts such as increasing the Child Tax Credit.

We need to consider policies which allow for flexibility in training and work. One such idea is a Federal program to enable parental leave, such as the one I have introduced last Congress and ideas that others, including members of this Committee, are working on separate bills that would do the same.

Under this plan, workers would be empowered to engage in family life without sacrificing their ability to make ends meet in a way that balances fiscal priorities and the needs of employers.

Ultimately, for the sake of our Nation's long-term success, it is the responsibility of our government to emphasize dignified work in a production-focused economy.

And so I look forward to today's discussion that will explore policy solutions to America's labor market challenges, in particular, as it relates to small businesses in this country.

And now I turn it over to Ranking Member Cardin.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, RANKING MEMBER, A U.S. SENATOR FROM MARYLAND

Senator CARDIN. Well, thank you, Mr. Chairman, and thank you very much for convening this hearing dealing with small business and the American worker. To me, it is a critically important topic. I listened very carefully to your opening statements, and I am very encouraged that I think we will be able to work together to advance the interests of our workforce as it relates to small business and helping our economy.

As we begin the new Congress, wages and employment will once again be center stage, and rightly so. The story of the American worker over the past three decades has been bleak. Between 1980 and 2014, the top 1 percent saw their pretax incomes grow 204 percent, while incomes for the bottom 50 percent remained virtually flat. And the gap between those at the top and everyone else is widening. The top 1 percent takes home more than a fifth of all income in the United States, about double their share in 1980.

If we do not take swift action in Washington to address income inequality, we run the risk losing the promise of upward mobility at the heart of the American dream.

Small businesses play a vital role in keeping that dream alive. We all know the numbers. Small businesses employ nearly half of our Nation's workforce and create two out of every three new jobs. They incubate breakthrough innovations, contribute to the health and dynamism of local communities, and provide the economic foundation for millions of American families.

But we know that small businesses cannot survive without high-quality talent. Small firms face a unique set of workforce challenges. During the periods of low unemployment, they struggle to compete with larger businesses that have more resources to attract talent. We know that they cannot provide small businesses the same type of complete benefit package. We know they do not have a human resources department. They start with a disadvantage.

The National Federation of Independent Businesses in an April study of last year showed that 88 percent of small businesses on job openings have few or no qualified applicants. The number of unfilled positions have more than doubled since 2012. We need the right workforce development system, and that, I hope, will be part of the work of this Committee.

In my own State of Maryland, we are taking our industry-driven approach to workforce issues. I think that can help us a great deal. The governor has established a Skilled Immigrant Task Force. I think that is a step in the right direction, and we will hear from

Caryn York about the Job Opportunity Task Force that advocates on behalf of low-wage workers.

We have opportunities in this Congress. We will be considering the Workforce Innovation and Opportunity Act. It will not come through this Committee, but it will come through the United States Senate, and I hope this Committee will be active in how that bill is tailored. We want to have strong small business input into workforce plans.

We also can look at innovative approaches to help small businesses; for example, ensuring apprenticeship programs are tailored for small businesses, recognizing that there is a source of opportunity here and returning citizens and how can we help small businesses in dealing with a larger labor pool.

Workforce issues give us an opportunity to close the gap that I referred to in the opening of my statement. We will have opportunities during this Congress to deal with related issues—the Higher Education Authorization Act, which we will take up in this Congress. Education to me is the great equalizer. The Chairman mentioned it in his opening comments. Higher education is key because those who participated in higher education have a wage premium. We all know that. They make more money. We should be doubling down to make access to higher education available to more of our citizens who today cannot afford it because of tuition costs.

We need a balance between those that go on to higher education and those that need career and technical education for vocational pathways, but that has to be done in a balanced way because if you come from a disadvantaged community, you should have equal opportunity as to what is best in your future, and I would suggest that is not necessarily the case today.

We should not ignore the immigrant population. The immigrant population is critically important to small businesses; 27.5 percent of our Nation's entrepreneurs are immigrants. One out of every four tech and engineering companies has at least one immigrant as a cofounder.

We also need, as the Chairman pointed out, to look at the tools within the Small Business Administration to see if they are fine-tuned in order to meet these needs. I hope as we do that, we recognize that one way to close this gap is to make sure that these tools are focused and helping minority- and woman-owned businesses because they have not gotten a fair share of these tools in the past. I think these are all ways that we can help deal with these critical problems.

So I welcome our panel. We have four distinguished witnesses that can help us through this to better serve small businesses, to raise wages, to narrow the opportunity gaps in our community, and meet the challenges of the 21st century.

Chairman RUBIO. Thank you.

I want to welcome our panel of witnesses. Oren Cass is a Senior Fellow at the Manhattan Institute, where he focuses on strengthening the labor market. He previously served as domestic policy director for Mitt Romney's presidential campaign in 2012, as an editor of the Harvard Law Review, and as management consultant at Bain & Company.

John Lettieri is the president and CEO of the Economic Innovation Group, a bipartisan public policy organization focused on fostering economic dynamism throughout the country. He has testified before this Committee a number of times, most recently on opportunity zones in the tax reform bill. Before joining the Economic Innovation Group, he was the vice president of Public Policy and Government Affairs for the Organization for International Investment, and he served as foreign policy aide to former U.S. Senator Chuck Hagel.

Betsey Stevenson is an associate professor of Public Policy at the University of Michigan, Ford School of Public Policy. Previously, she served as a member of the White House Council of Economic Advisers and as the chief economist at the U.S. Department of Labor.

Caryn York is the executive director of the Job Opportunities Task Force, a statewide nonprofit organization in Maryland that promotes policies and programs to help low-wage workers advance to high-wage jobs.

We thank all four of you for being here today, and let us just begin from left to right. Mr. Cass, thank you for being here.

STATEMENT OF OREN CASS, SENIOR FELLOW, MANHATTAN INSTITUTE

Mr. CASS. Well, good afternoon, Chairman Rubio, Ranking Member Cardin, and members of the Committee. Thank you very much for the opportunity to testify today.

My name is Oren Cass. I am a senior fellow at the Manhattan Institute, where my work focuses on strengthening the labor market.

My written testimony focused on three topics. The first was the limitations of consumer welfare as the relevant measure of economic policy and the importance of focusing instead on production and people's capacity as workers as we understand the effects of policy; second, a concept that I call "productive pluralism," which is the idea that the conditions we should be striving for in this society are ones where people of all aptitudes in all places have the opportunity to find work that will allow them to support their families and their communities; and then, third, the central role of labor markets and particularly as it pertains to small businesses and entrepreneurs in creating those conditions.

My central message for the Committee is that a labor market that facilitates those conditions and allows people to work in ways that support their families and communities is the central determinant of long-term prosperity for this country and so should be the central focus of our public policy.

I will summarize these points briefly here with an emphasis on the implication for policymakers.

So, first and foremost, why do we care so much about labor markets? In my view, the answer is because work matters. We understand that on an intuitive level, but we do not actually credit it very much in our economic policy. We do not appreciate the extent to which work is critical to individuals, their self-esteem, their mental health, their life satisfaction, and their own economic opportunity over time.

I think even more importantly, work is incredibly important to families and communities, the foundation of our society. Work is incredibly important, and here, especially for men, work is an incredibly important driver of family formation and family stability. Work is an incredibly important driver of outcomes for children. Children have better outcomes in households where adults are working and even just in communities where adults are working.

And thinking more broadly about these communities, work is a nexus of community, and conversely, where people lack work, we see incredible erosion in community, higher levels of crime, higher levels of addiction, far less investment in social capital.

So if we want a flourishing society and the dynamic economy that it produces, it is not sufficient to simply grow GDP to do what we call "growing the economic pie" by whatever means necessary and then giving everybody a big enough slice. We actually need everyone to be involved in the process of producing that pie and, importantly, to be able to be involved in that from the places they are with the aptitudes that they have.

This is not something that will happen on its own. It is incredibly important to recognize that nothing in economic theory says that just allowing the markets to run, just achieving the efficient outcome, just maximizing how much cheap stuff we can buy is going to leave us with a labor market that gives these opportunities to everybody.

And so I think this is a challenge for policymakers across the political spectrum. It is a challenge for those on the right whose tendency is to trust markets because, in fact, the market outcome is not necessarily going to be the socially desirable one, but it is also a challenge for policy makers on the left whose tendency is more often to command an outcome where the market is not producing the desired one.

As Senator Cardin noted in his opening statement, small businesses in particular are limited in many cases in the types of wages and benefits and so forth they can provide to workers, and so if we want better jobs and a healthier labor market, it is not sufficient to mandate one. We actually need to create the economic conditions in which small businesses, in which entrepreneurs can create attractive jobs and greater economic value throughout the economy.

I would like to highlight a few ways in which the standard policy responses that we have been emphasizing I think are insufficient.

One is that almost by definition, redistribution is not a solution. We cannot redistribute productive capacity and good jobs from winners to losers in our economy.

Second, education and training I think are wonderful goals and things we should continue to invest in, but we also need to recognize that we have made very limited progress in decades now in, for instance, increasing the share of the population that achieves a bachelor's degree. And it is going to be important to build a labor market that meets people where they are and supports them in the jobs they are prepared to take rather than simply hoping they achieve something better.

And then, third, relocation is not a response. We need to meet people where they are literally as well as figuratively. We need to pursue a national economy with broad-based prosperity in which people in wherever they live in the country have these opportunities. So I think small business and firm formation are especially important in this respect in ensuring the economy is not one that flourishes only in isolated coastal hubs.

There are a number of policy responses we should consider. I will mention them briefly here, and I hope we can speak about them more. I think we need to focus on a regulatory environment that encourages job creation. I think we need to build an education system and focus much more heavily on those not pursuing college.

I think we need a trade policy that focuses on balance and ensuring that we are exporting and creating opportunities for workers as much as we are importing and providing cheap stuff to consumers.

I think we need a labor policy appropriate to the 21st century that allows workers to collaborate amongst themselves and with employers.

And I think we need a safety net that includes a wage subsidy and encourages workers to work and supports them in doing so instead of just supporting them, regardless of work and in their conditions of poverty.

Thank you very much.

[The prepared statement of Mr. Cass follows:]

Testimony of Oren M. Cass
Senior Fellow, Manhattan Institute for Policy Research
before the U.S. Senate Committee on Small Business and Entrepreneurship

March 6, 2019

Good afternoon Chairman Rubio, Ranking Member Cardin, and Members of the Committee. Thank you for inviting me to participate in today's hearing.

My name is Oren Cass. I am a senior fellow at the Manhattan Institute for Policy Research where my work on strengthening the labor market addresses issues ranging from the social safety net and environmental regulation to trade and immigration to education and organized labor.[1]

My primary message to the committee is this: A labor market in which workers can support strong families and communities is the central determinant of long-term prosperity and should be the central focus of public policy. Alongside stable political institutions that protect basic freedoms, family and community provide the social structures necessary to a thriving society and a growing economy. Those institutions in turn rely on a foundation of productive work through which people find purpose and satisfaction in providing for themselves and helping others. The durable growth that produces long-term prosperity is the emergent property of a virtuous cycle in which people who are able to support their families and communities improve their own productivity and raise a subsequent generation able to accomplish even more. Conversely, without access to work that can support them, families struggle to remain intact or to form in the first place, and communities cannot help but dissolve; without stable families and communities, economic opportunity vanishes.

American policymakers have erred in their single-minded focus on maximizing consumer welfare, which they pursue by growing and redistributing the so-called "economic pie." Economic growth and rising material living standards are laudable goals, but they by no means guarantee the health of a labor market that will meet society's long-term needs. If we pursue growth in ways that erode the labor market's health, and then redistribute income from the winners to the losers, we can produce impressive-looking economic statistics—for a while. But we will not generate the genuine and sustainable prosperity that we want. Growth that consumes its own prerequisites leads inevitably to stagnation.

My testimony proceeds in three parts: First, I explain the limitations of consumer welfare as the organizing principle for our economic policy and the reasons why an emphasis on work—that is, people's role as productive contributors to society—offers a better formula for long-term prosperity. Second, I describe the goal of "productive pluralism," rather than economic growth for its own sake, as the appropriate target for policymakers and emphasize the importance of small business and entrepreneurship in pursuing this goal. Third, I highlight the central role that labor markets play in *productive pluralism* and suggest opportunities for policy reforms to strengthen those markets.

A recurrent theme will be the need to acknowledge trade-offs. Much pessimism about the future of work for the typical American begins from the assumption that we cannot possibly make concessions on any of our other priorities. And yes, if the preferences of the typical urban professional are always the most valid and important, if the maximization of economic efficiency and material consumption is inviolable, if businesses retain the incentive to find the cheapest possible workers anywhere in the world, then the future of the American labor market indeed looks grim. But all this merely begs the question, what should our priorities be? In the past, our society was much less affluent, and yet the typical worker could support a family. How could it be that, as we have grown wealthier as a society, we have lost the ability to make that kind of arrangement work? Or do we just not want to?

1. Production vs. Consumption

That GDP offers a reliable proxy for prosperity and that each individual's satisfaction depends on the share of GDP she can consume are the key components in the concept of the *economic pie*. When serving a pie, each portion's size depends on both the size of the dish and the share allocated to each slice. Likewise, the thinking goes, each person's consumption depends on the size of the overall economy and the share he receives. Fighting over shares is a zero-sum game, but if we concentrate on baking an ever-larger pie, then everyone's slice can grow. And who doesn't like pie?

Enthusiasm for the tenets of this "economic piety" is near universal. The phrase *economic pie* first appeared in the presidential lexicon in 1952, when Harry Truman quoted from a *Business Week* article that used the term. John F. Kennedy used it when addressing the U.S. Chamber of Commerce. Presidents Lyndon Johnson, Gerald Ford, Ronald Reagan, George H. W. Bush, Bill Clinton, and Barack Obama used it too.[2] The media and think tanks across the political spectrum bandy it about with ease. Republicans tend to promote free markets that will grow the pie rapidly, while grudgingly accepting a role for government in apportionment. Democrats focus more on the role of government in guaranteeing big enough portions for all but generally recognize that more growth will mean more to go around.

On its own terms, this approach has delivered. The overall economy has grown enormously: from 1975 to 2015, the nation's GDP increased threefold.[3] Redistribution has widened the smaller slices: during the same period, spending on programs targeting lower-income households increased fourfold.[4] Federal regulators' budgets expanded faster still,[5] yet the American economy remained the dynamic and innovative envy of the world. For Americans of all socioeconomic strata, material living standards, access to technology, and consumer variety all marched steadily higher.

The problem is not so much that public policy has failed as that it has succeeded at the wrong things. America is like the classic romantic-comedy heroine who, as the trailer intones, "had it all, or so she thought." She has the prestigious job and the elegant apartment, yet she is not happy. She has pursued the wrong goals, she discovers, and to reach them, she sacrificed the things that mattered most. We got exactly what we thought we wanted: strong overall economic growth and a large GDP, rising material living standards, a generous safety net, rapid improvements in environmental quality, extraordinarily affordable flat-screen televisions and landscaping services. Yet we gave up something we took for granted: a labor market in which the nation's diverse array of families and communities could support themselves.

In making GDP growth and rising consumption the central objectives of public policy, *economic piety* represents a truncated and ultimately self-undermining concept of prosperity. Workers have no standing, in this view of the economy; neither do their families or communities. Households that see their economic prospects plummet or their livelihoods vanish should ask for a government check and be placated when they get one. Towns that can no longer sustain themselves become places that people should just leave. Politicians will pay lip service to the importance of education and retraining, but they will not hold themselves accountable for such programs actually working. The *economic pie*'s expansion, regardless of what or who gets left behind, is the goal; maintaining a healthy, inclusive society is a hoped-for by-product, not an end in itself.

This isn't to say that economic growth isn't important; of course it is. Growth is a prerequisite to improved living standards, which we should want to achieve. But while growth is necessary to a prosperous society, it is not sufficient. Not all growth is equally beneficial, and the policy choices that yield the most immediate short-term growth don't necessarily prepare the ground for sustained economic and social progress. To the contrary, policies that target growth without concern for the economy's longer-term trajectory, or for the well-being of the society within which that economy operates, will tend to erode the capacity for growth. Politicians who equate GDP growth and rising consumption with prosperity pursue agendas that often bear little resemblance to what their constituents want or need.

Superficially, consumption seems a sensible focus. In popular culture, consumption is an obvious good. The toil of production, by contrast, is only a necessary means to that end—and if one manages to consume more while producing less, all the better. "The interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer," as Adam Smith put it.[6] But allowing the consumption tail to wag the production dog distorts our understanding of prosperity. Only through production does the ability to consume exist. Production without consumption creates options; consumption without production creates dependence and debt. As Senator Sasse has written: "There is almost nothing more important we can do for our young than convince them that production is more satisfying than consumption."[7]

Most of the activities and achievements that give life purpose and meaning are, whether in the economic sphere or not, fundamentally acts of production. Yes, material living standards contribute to prosperity, but accomplishments like fulfilling traditional obligations, building strong personal relationships, succeeding at work, supporting a family, and raising children capable of doing all these things themselves are far more important to life satisfaction. What these things have in common is their productive nature not as boosts to GDP but as ways that people invest effort on behalf of others. Our social norms recognize productive activities as essential to a functioning and prosperous society, and so we award respect, dignity, and gratitude to those who perform them.

The Importance of Work for the Individual

For the individual, work imposes structure on each day and on life in general. It offers the mundane but essential disciplines of timeliness and reliability and hygiene as well as the more complex socialization of collaboration and paying attention to others. It requires people to interact and forges shared experiences and bonds. It promotes goal setting and long-term planning. True, other pursuits can provide these kinds of benefits—for example, raising children, keeping a home, or volunteering in the community. But sleeping, couch surfing, or playing video games does not. And for out-of-work men in particular, such idle activities tend to fill up their time.[8]

Without work—the quintessential productive activity—self-esteem declines and a sense of helplessness increases.[9] People become depressed—unemployed Americans are twice as likely as full-time workers to receive treatment for depression; the long-term unemployed are three times as likely.[10] In empirical "happiness" studies, life satisfaction drops ten times more from unemployment than from a substantial loss of income.[11] And while people return to their previously self-reported levels of happiness several years after marrying, divorcing, becoming widowed, or welcoming a first child into the world, they never get used to joblessness.[12]

The Importance of Work for Families

Work (especially for men) helps establish and preserve families. Where fewer men work, fewer marriages form.[13] Unemployment doubles the risk of divorce, and male joblessness appears the primary culprit.[14] These outcomes likely result from the damage to both economic prospects and individual well-being associated with being out of work, which strain existing marriages and make men less attractive as marriage partners. The so-called marriageable-men hypothesis associated with sociologist William Julius Wilson, which suggests that a lack of job opportunities contributed to the collapse of two-parent families in the African American community, remains controversial.[15] But that debate is largely about whether lack of economic opportunity was the underlying cause of male idleness. Few would question that such idleness would tend to reduce the likelihood and the stability of marriage.

Current economic conditions do appear to play a role in harming marriage formation. MIT professor David Autor and his colleagues found that U.S. regions facing greater competition from China experience lower rates of marriage and higher shares of children born to single mothers and that this effect appeared only when the economic disruption affected male employment.[16] Johns Hopkins professor Andrew Cherlin and his colleagues sought to study the "relationship between economic inequality and sociodemographic outcomes such as family formation," for which they noted a lack of "satisfactory evidence on the mechanisms by which inequality may have an effect."[17] When they accounted for a region's availability of "middle-skilled jobs," accessible to high school graduates and paying above-poverty wages, they found that the labor market, not the inequality, was influencing family formation. The issue was less who earns how much more than whom and more who has a chance to earn a living at all.

The Importance of Work for Communities

Work is both a nexus of community and a prerequisite for it. Work relationships represent a crucial source of social capital, establishing a base from which people can engage in the broader community—whether it's playing on a softball team, organizing a fund-raising drive, or hosting a field trip for the local preschool. This dimension of employment is especially relevant outside of urban centers; in such settings, the workplace can become a central meeting point. Community, in turn, provides the social foundation on which the economy is built. Measures of social trust, for instance, are highly correlated with GDP across countries and entrepreneurship across individuals.[18] Communities that lack work, meanwhile, suffer maladies that degrade social capital and lead to persistent poverty. Crime and addiction increase, their participants in turn becoming ever less employable;[19] investments in housing and communal assets decline; a downward spiral is set in motion.

The role of family and community in transmitting opportunity to the next generation also depends on work. When parents lose their jobs, their children tend to do worse in school, graduate at lower rates, and have less success as adults.[20] While productive activity provides direct benefits to workers, its worth also derives from the dignity and respect that society confers on self-reliance and productive contributions. In a community where dependency is widespread, illegality a viable career path, and idleness an acceptable lifestyle, the full-time worker begins to look less admirable—and more like a chump.

This is consistent with what our intuitions tell us. Former Senator John Edwards, in his famous "Two Americas" speech at the 2004 Democratic National Convention, described the "dignity and honor in a hard day's work" as among the most important values instilled by his parents.[21] "I still remember vividly the men and women who worked in that mill with [my father]," Edwards observed. "I can see them. Some of them had lint in their hair; some of them had grease on their faces. They worked hard, and they tried to put a little money away so that their kids and their grand-kids could have a better life." No one should be surprised if children raised in households and communities that lack the dignity and honor of work show less inclination or ability to climb onto the economic ladder themselves.

The Importance of Work for the Economy

Economic piety trusts GDP growth to produce widely shared prosperity and the thriving society that is our ultimate objective. But this places the cart in front of the horse. It is the healthy society that produces the requisite human and social capital from which true economic prosperity emerges—and toward which policy should orient itself. Conversely, when opportunity declines, a downward spiral is set in motion, in which the next generation, beginning from a worse point, can likely offer even less to the one that follows. When ways of life vanish or towns crumble or industries flee overseas, they are not easily replaced. When self-sufficiency gives way to dependence, cultural norms shatter. Families that fail to form leave both adults and children adrift. It should not be shocking if, under these conditions, growth stalls.

At the national level, whereas traditional economic theory suggests that specialization is key to prosperity, MIT professor César Hidalgo and Harvard professor Ricardo Hausmann have shown the opposite to be true. The more diverse is the array of knowledge and capabilities within an economy, the stronger is its long-term health.[22] This would suggest that when economic growth undermines pluralism, it may eventually undermine itself as well. Emphasizing consumption allows productive capacity to atrophy, but that capacity is not something that we can scale down and back up at will. Experience must accumulate; supply chains must develop; productivity must grow percentage point by percentage point, year by year. Where capacity and know-how are lost or not built, it becomes necessary to start over from behind those who moved more steadily forward. Where poor investments—or no investments—are made at one point, negative effects ripple outward for years.

The Failure of Economic Piety

The data that describe the worsening condition of American workers and their families are by now well known: decades of wage stagnation;[23] shrinking shares of prime-age males working full-time,[24] of households with even one full-time worker,[25] and of children raised in stable, two-parent families;[26] skyrocketing rates of substance abuse[27] and suicide,[28] culminating in a stunning three straight years of declining life expectancy—which last occurred a century ago in the face of a global pandemic and a world war.[29]

It bears mentioning, too, that our pursuit of growth is now failing even on its own terms. Without the stable foundation of a labor market that allowed for self-sufficiency, social structures buckled, social capital drained away, and the national economy struggled. Broken families and collapsing communities are not, it turns out, effective incubators of a productive workforce. Economic growth during 2000–2016 averaged 1.8 percent, half the rate recorded during 1950–2000. The best growth rate of the past decade, 2.9 percent in 2015, fell below two-thirds of the years in the prior century's second half.[30]

Underlying this trend is a collapse in the genuine economic dynamism that produces prosperity. Productivity growth turned in a seventh straight year below 1.5 percent in 2017 (since 1948, the nation had never experienced more than a three-year run so anemic).[31] As the Economic Innovation Group has shown, both the rate of new firm formation and the share of employment in new firms has been declining for decades and has become concentrated in an ever narrower geography. Just five metro areas accounted for half the net increase in businesses during recovery from the Great Recession; two-thirds of metros saw a net decline.[32]

Having forsaken the healthy society that makes economic growth possible, Americans now find that they have neither.

2. Productive Pluralism

As an alternative to *economic piety* and its GDP-based definition of prosperity, I suggest what I call *productive pluralism*: the economic and social conditions in which people of diverse abilities, priorities, and geographies, pursuing varied life paths, can form self-sufficient families and become contributors to their communities. This definition begins from the insight that productive pursuits—whether in the market, the community, or the family—give people purpose, enable meaningful and fulfilling lives, and provide the basis for the strong families and communities that foster economic success too.

As the term *productive pluralism* suggests, a critical corollary of a focus on production is a recognition that different people will build productive lives in different ways, so for this prosperity to be inclusive, it will also need to accommodate numerous pathways, even at the expense of some efficiency. Measures like GDP create the convenient illusion of a homogenous population benefiting (or suffering) in lockstep. Money being fungible, everyone is presumed to have access to whatever she might choose to buy. Production is not so simple.

People have different priorities, excel in different ways, and find meaning in different places, so a production-oriented prosperity that extends across society must offer numerous paths to its achievement. Cities may be more economically productive, for example, but not everyone wants to live in a city. A traditional college degree may correlate with higher earnings, but most people will not attain one. Having two parents work while the children attend daycare may be more efficient, understood in a narrowly economic sense, but a community consisting entirely of such households is one that many families would rather not live in. Growth may be fastest if we channel everyone to wherever his economic output is greatest, but pluralism will improve real prosperity if the options it leaves available more closely match people's abilities and the range of life choices they wish to make.

A goal of *productive pluralism* demands that policymakers move beyond the standard policy prescriptions of redistribution, retraining, and relocation. It rejects monetary redistribution as a solution. An emphasis on consumption offers what looks like a get-out-of-jail-free card: government spending. Connecting people to productive activity is a complex challenge that requires a healthy civil society and labor market. Public policies can support or hinder that process in myriad ways, but if preserving it is a priority, then sacrifices will inevitably be required elsewhere. When the goal is consumption, conversely, those challenges and trade-offs vanish. Like a medieval indulgence, a promise of redistribution cures all. And if replacing lost income with a government benefit solves little or makes a bad problem worse, this merely drives the indulgence's price higher next time around. Emphasizing consumption leads policymakers to ignore the actual experience of society's struggling segments and point to statistics that depict an alternate reality.

Productive pluralism also rejects the possibility of waiting for rescue to arrive from an education system or training program that can transform those left behind into those getting ahead. If this were readily available, it would indeed help ease the growing crisis—and, for that matter, solve any number of society's problems—but no such miracle appears imminent. Despite the nation doubling per-pupil spending and attempting countless education reforms,[33] test scores look no better than they did forty years ago.[34] Most young Americans still do not achieve even a community college degree.[35] Participants in training programs often achieve worse results than those in control groups left to their own devices.[36] We should of course continue to strive for better outcomes, but we can no longer pretend that reshaping people to fit our economy offers a plausible substitute for ensuring that our economy's shape fits our people.

Of particular importance to this Committee, *productive pluralism* demands that we meet people where they are not only conceptually, but also literally—in the communities where they live.

Residential mobility is the issue that best captures policymakers' misunderstanding of prosperity, the social endowments that foster it, and thus what should be their own objectives. The willingness to pack up and move in pursuit of opportunity is part and parcel of the American Dream and a key element of the nation's economic vitality. Yet, as hardship has increased in recent decades, the share of the population that relocates has declined.[37] If things are so terrible, some economists grumble, why won't anyone move? They have built elaborate models to show how much higher GDP would be if only people lived where their productivity would be highest.[38]

This gets things backward. Strong families and communities launch people into the world to seek their fortune. Relocation requires deep stores of social capital. Without the skills and habits to access opportunity, failure is likely. Lacking a strong support base, it can be hard to get started. If someone is already dependent on government benefits and a move places those benefits at risk, staying put can seem the better bet. Geographic mobility can't rescue America from the consequences of its socially unsustainable growth—because lower geographic mobility is one of those consequences.

Certainly genuine pluralism requires the opportunity to relocate. But in most circumstances, it should also include the opportunity to stay, a choice that has always been and remains the norm—and one we should applaud, not lament. The median American adult lives only 18 miles from his mother and 37 percent of Americans have never left their hometown.[39] Even when mobility was much higher, it rarely amounted to the abandonment of existing communities. The migration of "Okies" from the "Dust Bowl" of the 1930s may be the iconic American image of relocation in search of opportunity, but Oklahoma's population declined only 2 percent during that decade. In Kansas and Nebraska, the declines were less than 5 percent. As technology obliterated agricultural employment, the population of Iowa held steady or increased in every decade from 1880 to 1980.[40]

Relocation tears people away from their communities. If a critical mass relocates, it can decimate the community left behind. The idea that struggling communities should disband themselves is not a return to "how things used to be"; it is an admission of catastrophic failure and a prescription for further disaster. To be sure, the track record is not good for "place-based policies" seeking to revitalize particular industries in particular cities. But a commitment to returning restoring broad-based prosperity that reaches across the nation must be the non-negotiable starting point for debates about economic reform.

Small business and entrepreneurship will be central to meaningful progress. *Economic piety* has led economists to celebrate the idea of large multinational corporations centering their "knowledge" operations in coastal American cities while offshoring their "lower value-add" operations, including manufacturing. This model may generate economic growth and yield cheap consumer goods, but it is not a sustainable one. Every local market must have the opportunity to engage meaningfully in the broader national economy; this will require much higher levels of firm formation and a business environmental in which small- and medium-sized businesses can thrive.

Manufacturing ecosystems are of particular importance, for two reasons. First, manufacturing remains among the most productive economic activities for less-skilled workers. As a share of overall employment, manufacturing has fallen below 10 percent, but in 2016, the industry still accounted for more than 20 percent of private-sector jobs in traditionally blue-collar occupations with a median wage of more than $15 per hour. The manufacturing, construction, and resource-extraction industries combined to provide almost 40 percent of such well-paying, blue-collar jobs.[41] For men, that share is far higher.

Take Pittsburgh, sometimes cited as a poster child for postindustrial transformation from heavy industry to health care. From 1990 to 2016, the Pittsburgh area lost forty-six thousand manufacturing jobs while gaining sixty-seven thousand health care and social assistance jobs. But while "production" jobs in the area paid a median hourly wage of $18 in 2016, in line with the area's median for all occupations, "health care support workers" earn $14 and "personal care and service workers" earn $11.[42] Over the period, the area's median household income rose at an annual rate of only 0.3 percent.[43]

Second, "tradeables"—goods and services that can be consumed far from where they're produced—are the keystones of local economies. Americans take for granted that they can buy what products they want from around the world. But how can someone whose work consists entirely of serving others in his community expect a firm halfway around the world to make something for him?

Consider the local physician who provides care only to those in his town. He may be well compensated, but he can't sell his work to the makers of cars or phones halfway around the world or even to the medical equipment supplier in the next state. He must trust instead that some of his patients produce goods or services that can be sent to those places and, in purchasing his medical services, give him the resources to acquire the goods that he needs. Or consider the plight of a local economy as a whole. It wishes to receive from elsewhere almost all of its food, medicine, vehicles, electronics, energy, and more. It must send tradeables of equal value. Not every individual must do so; most may work in the local services economy—but they cannot all cut one another's hair.

Tradeables can take many forms. Wall Street provides its financial services around the country and the world, Hollywood exports its movies, and Orlando sells the Disney World experience to tourists. Call-center workers are exporters too. But manufactured products represent by far the largest category of tradeables and are, along with agriculture and natural resources, the ones in which less-skilled workers and less urban locations are best suited to excel. The strength of the industrial economy dictates the fortunes of workers with a comparative advantage in physical activity and regions with a comparative advantage in open spaces and raw materials.

The importance of tradeables to a local community also helps to illuminate the vast difference between the often-equated phenomena of automation and globalization. For the worker dislocated by trade, the facility in which he once worked is likely gone, and the production now occurs somewhere else. But for the worker laid off or never hired because of automation, the facility is still operating in town, likely producing more output than before. Total demand for labor from the firm and its surrounding ecosystem is likely larger, and if capital has replaced labor, the remaining workers are likely earning more—and some other highly paid professionals may be arriving in the area with new demand for services of their own. Furthermore, while productivity gains occur bit by bit, year by year, a plant that shuts down and moves overseas is here today and gone tomorrow. In which situation might it be easier to find a new, well-paying job?

A reporter telling the story of automation speaks to a laid-off worker at a lunch counter; one telling the story of trade reports from the empty parking lot of an abandoned building. There is no one left to talk to.

What happens to a community whose economy does not produce anything that the world wants? It has one export that it can always fall back on: need. Every resident enrolled in a program of government benefits entitles the community to more goods and services from the outside world. For instance, a prominent criticism of recent proposals to cut food stamp benefits has been that it would harm not just the individual recipients but also the local economies reliant on the outside income. The U.S. Department of Agriculture promotes food stamp enrollment as a "win-win for local retailers and communities. Each $5 in new SNAP benefits generates almost twice that amount in economic activity for the community."[44] Food stamp recipients, in effect, are the community's "exporters."

Some speak of local health care systems as bright spots in depressed regions, but these industries usually indicate the government's commitment to health care as the surest way to generate hard currency for these economies. When the retiree on the front porch laments to a reporter, "When I was young we had dances at the community centers. Now they have nothing. No work around here unless you are a nurse, or a doctor, or lawyer,"[45] the list is not of especially productive professions, just those for which some government will pay. A common sight in the most dilapidated town is a sparkling occupational therapy office. The people working there are selling to the nation's taxpayers their care of the local residents on disability.

3. The Labor Market

How do we ensure that our economy creates jobs throughout the country and for people of all aptitudes? In an agrarian economy, most people worked on the land, producing directly the things their families needed. Capitalism has the labor market, which can seem like an abstraction, disconnected from everyday life. In the stock market, people bid on shares, their fluctuating prices scrolling across the electronic ticker. The supermarket overflows with produce bins and cereal boxes, each displaying a price that the potential buyer can take or leave. But finding a job or showing up for work seems different, somehow. After all, what is being bought and sold—a person, or his time, or some set of services? And who is doing the buying and the selling? We speak colloquially of workers needing jobs and of employers providing them, but workers are really the labor market's producers and the employers its customers.

In fact, like any market, the labor market is a tool for connecting people who wish to exchange one thing for another. A "job" is the relationship formed by someone who can perform work and someone who wants that work performed. The labor market's conditions—who can perform what kind of work and who needs what kind of work performed, what wages will be offered and accepted, and which rules govern work relationships—determine how many jobs exist, of what types, located where, and at what pay scale. The result aligns buyers and sellers engaged in mutually beneficial transactions.

It's tempting to conclude, then, that the labor market largely should be left alone to do its thing. Let it find equilibrium, just like other markets, and the result will be an efficient allocation of resources that maximizes the economy's output. If we're unhappy with the distribution of benefits captured by the labor market's winners and losers, then we can equip people to do better next time, or we can redistribute after the fact.

The problem with this conclusion is that, in one critical respect, the labor market is not like other markets: people are not products. This is obviously true with respect to the intrinsic worth of human beings. But the observation also has two concrete economic implications.

First, people are not created for the purpose of selling their labor, so the potential supply of prospective workers does not always respond to market signals. Perhaps under conditions of subsistence agriculture, when resources governed population growth, the available supply of labor was directly a function of the work to be done. But one triumph of modern civilization is that this relationship no longer holds. The decision to have children depends little on their economic value, for instance, and the survival of those children throughout their lives depends little on their own productive capacity.

Not only the quantities of available workers but also the characteristics of workers are determined to some degree independent of market demand. This is entirely the case with respect to natural endowments, and it is often true with respect to the familial and social environments in which children grow up. Among those showing a particular set of physical and mental skills, yes, we may have some success in tailoring training—encouraging more computer programmers and fewer accountants among analytically inclined college graduates, say, or more plumbers and fewer carpenters among tradesmen—but as the market's persistent wage differentials make clear, even screamingly loud signals don't automatically induce families to switch their "production lines" from cashiers to chemists. When the labor supply does adjust, it does so gradually—typically over the course of a generation. Job switching is common, but career switching, especially as people get older, is much harder. Retraining has met with limited success. In sum, the nation's population is generally less flexible than the market would optimally desire.

This becomes a problem when it collides with the second economic implication of people not being products: society can't be indifferent to where the price and quantity of work settle. Among a typical market's core functions is to discover the price that brings supply and demand into alignment and to send that information to other potential buyers and sellers. Whether oil costs $50 or $100 per barrel, whether a new car costs $10,000 or $20,000, society wants to know. People may drive more or less and companies invest more or less in searching for new oil fields; consumers may upgrade to the latest model sooner or later and firms expand or contract assembly lines. In each situation, the market translates external conditions and individuals' preferences into an efficient result.

Typical markets can cope with oversupply—but the solutions they reach aren't of the kind that we can tolerate if applied to society's members. When a business finds it has overproduced, it takes a loss. When economy-wide demand for oil declines, producers provide less. A widget will gladly sit on the clearance shelf until it is sold. That's not how people work. An insolvent family can't be acquired and restructured; an oversupply of workers can't be written off like obsolete inventory.

That is what our current policy framework too often does: it writes people off. Labor becomes one economic input among many. If capitalists have the ability and the incentive to make the most productive use of all the resources available to them, in whatever combinations they see fit, they will create the greatest amount of output for consumption. And that output can then be shared (redistributed), even among those who did not participate. If the economically efficient solution is one that sidelines a sizable segment of the population, so be it.

This dynamic—society needing the labor market to absorb the available supply of workers at a sufficiently high wage, even though that supply remains imperfectly responsive to market signals—is at the heart of America's economic challenges. *Productive pluralism* is not satisfied with an efficient labor-market outcome per se. It requires a particular outcome: the provision of sufficient meaningful work to sustain families and communities. If the labor market settles on an efficient outcome in which large segments of the population lack meaningful work, our response can't be to say "thanks, understood" and then to wait for those displaced people suddenly to transform themselves into something else, or simply to give them government aid. Our response must be "that needs to change."

The path to strengthening the labor market can start with the observation of Harvard professor Edward Glaeser: "Every underemployed American represents a failure of entrepreneurial imagination. . . . Joblessness is not foreordained, because entrepreneurs can always dream up new ways of making labor productive."[46] Yet saying that entrepreneurs can always dream up new ways of making labor productive does not mean that they will. Only so many entrepreneurs put their time—and investors their capital—into so many businesses each year. If their most attractive opportunities involve the deployment of American workers, they will pursue that course. If investing in continual improvement of each American worker's productivity is critical to their success, they will do that too. But if other workers are more profitable to employ than Americans are, or if business models that rely less on labor present them with lower risks and higher rewards, then those entrepreneurs—and the economy—will respond accordingly.

The answer is not to blame the labor market for acting like a market. Again, a market is a tool that translates underlying conditions into the most efficient outcome. Even when conditions bring a bad outcome, the market mechanism itself remains hugely valuable. It preserves liberty and fosters choice for individuals, creates incentives via competition for innovation and investment, and helps resources flow toward the most productive uses. To observe an inadequate result at the macro level, that is, is not to imply that we know the correct result at the micro level. *Productive pluralism* says nothing about who should work for whom or at what wage, and trying to outperform a free market in answering such questions would be foolhardy. Instead, public policy should focus on those underlying conditions: why is the market settling where it does, and under what circumstances would it settle somewhere better?

The labor market's conditions dictate its behavior along five dimensions—and it can be improved along all five, depending on the trade-offs that society chooses to make:

Demand

What work does the economy need done? Consumer preferences and industry economics dictate much of the answer, but, at the margin, the rules that government puts in place can alter the balance. For instance, heavily regulating industrial activity and imposing stringent environmental regulation on physical infrastructure, while leaving the digital economy mostly free from regulation, will tend to constrict the demand for manufacturing workers, while expanding it for software engineers. Targeting taxes at energy-intensive activities, while aggressively subsidizing health care and higher education, will have profound effects on which industries stall and which thrive.

Over time, these kinds of choices can begin to affect consumer preferences and industry economics. Innovation will start to shift to those areas where entrepreneurs anticipate building the most successful businesses—whether that's in manufactured goods or high-end services, housing renovations or artistic performances. And where greater investment accumulates, the efficiencies of scale and expertise and supply chains develop too. A country consistently seen as the second-best location for a new factory watches as factories get built in other places, and the researchers and suppliers and distributors follow—and soon it isn't even the fifth best location.

Supply

What work are people prepared to do? The employer bears significant responsibility for training workers to meet its needs and improving their productivity over time. But for this investment to make sense, the worker must demonstrate basic capabilities at the outset. The better prepared the prospective workforce, the faster an employer can bring workers on board and the higher their wages will be.

The students to whom the education system tailors its efforts will experience the greatest boost in their work prospects. This emphasis will also influence demand, as entrepreneurs build businesses where they expect to find well-prepared workers. If public schools offer a wide range of programs and lavish attention on those connected to the weakest segments of the labor market, they can push outcomes in a positive direction. If they adopt an attitude of "college or bust," we shouldn't be surprised to find a workforce consisting primarily of college graduates and busts.

Boundaries

Who gets to perform work and who gets to purchase it? When trade and immigration policies expand the pool of employers and consumers demanding various types of work, the workers able to provide it will likely see more opportunities—and higher wages. But when policies dramatically expand the supply of workers able to meet existing demand, domestic workers will suffer. In establishing a labor market's boundaries, balance is therefore crucial.

Unfortunately, in a wealthy country like the United States, balance will rarely be achieved for less-skilled workers if residents of poorer countries can participate without limit in the same labor market. Entrepreneurs gain access to a vastly larger and cheaper supply of labor, while imperatives vanish to build businesses that use the existing domestic labor supply or make investments in improving domestic workers' capabilities. This effect swamps the smaller uptick in demand for less-skilled American labor that those workers might see from poorer countries.

Transactions

How do workers and employers establish and manage their relationships? The set of negotiable terms and conditions and the rules of negotiation have a significant influence on the nature of transactions in any market. This is triply true in the labor market, where overlapping regimes of contract law, employment law, and labor law govern the efforts of workers and employers to reach mutually beneficial agreements. Any contract they wish to sign must grapple with the myriad rules that government imposes about hours, wages, conditions, benefits, and much more. On top of those rules, the presence of a union may introduce an additional layer of collective bargaining, itself controlled by government rules.

In principle, allowing workers to bargain collectively should give them an opportunity to secure better terms than they might each achieve individually. Furthermore, by placing workers and employers on equal footing, concerns of unequal power and unfair agreements fall by the wayside, reducing the need for government dictates. Why does the Department of Labor need to set the standard for overtime pay when the parties can be reasonably expected to work out this issue for themselves? But done poorly, a system of organized labor can have the opposite effect, creating industry-wide cartels that negotiate agreements in the long-term interest of no one.

Taxes

How do the employer's total cost and the worker's take-home pay differ from the agreed-upon wage? The term tax is meant here in the broadest sense. Obviously, the direct taxes imposed on both employers and workers represent a large wedge inserted between the bargain that the parties might like to strike and the costs and benefits that they ultimately experience. But many other factors play a similar role, adding to the cost of becoming a worker or hiring one.

Conversely, government can offer subsidies that offset tax burdens or even raise the transaction's value to one or both parties beyond what the market offers. If society wants more from the labor market, it must consider paying for it. This can take forms ranging from tax credits for the employer or worker to direct subsidies that boost wages to better infrastructure that lowers transportation costs. Such policies are more expensive than other reforms, though.

Conclusion

In each of these areas, America's choices have been misguided. We overtax and underinvest in less-skilled workers, make them costly and risky to employers, and discourage investment in the industries where they could work most productively. At the same time, we free employers from the constraints of using the existing domestic workforce, offering them instead an option of using much cheaper foreign workers overseas or bringing the cheaper workers here. The immediate effects of these policy choices have often appeared beneficial, even to the workers who now find themselves disadvantaged. But those policies have, over time, reshaped the economy's contours in ways that have left too many people out.

Endnotes

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Chairman RUBIO. Thank you.
Mr. Lettieri.

STATEMENT OF JOHN LETTIERI, PRESIDENT AND CEO, ECONOMIC INNOVATION GROUP

Mr. LETTIERI. Chairman Rubio, Ranking Member Cardin, and members of the Committee, thank you for inviting me to testify today.

The well-being of American workers depends upon entrepreneurs, and entrepreneurs are facing serious challenges.

Chairman RUBIO. I am sorry. I think your microphone may have come off.

There you go.

Mr. LETTIERI. Sorry about that.

Unless policymakers take action, the future of American entrepreneurship will remain under threat from structural and policy forces that have already combined to diminish the dynamism of the U.S. economy across every sector and every region.

So how does entrepreneurship benefit the American worker? New businesses unleash chain reactions throughout the economy that help ensure the labor market works for working people. First, new businesses are a critical source of new demand for workers and a driving force behind net job creation.

New forms also enhance competition, driving unproductive firms out of business and clearing the way for more innovative and productive ones to thrive. Through this process, workers reallocate to companies that enable them to be more productive and earn higher wages too.

Before going further, I want to address a common misconception about the labor market, and that is the notion that workers today experience greater job churn than ever before. This is simply not the case.

Even today, after a long economic expansion, turnover rates today only barely match those from the depths of the prior recession, the early 2000s. This matters because job churn is vital to workers' interest in the labor market.

Studies show that one-third of early career wage growth comes from job hopping, and that those early gains are critical to establishing a lifetime of employment trajectory.

Research also shows that a reduction of labor market churn has a three and a half times stronger negative impact on young men with only a high school diploma than it does on those with a college degree. Young people, those with fewer skills, the currently unemployed, and the formerly incarcerated are the first to lose out when job churn slows down.

So we know that workers benefit from the economic effects of entrepreneurship, but what is the state of entrepreneurship today?

The state is troubled. Over the past several decades, the startup rate has declined across virtually all regions and all sectors of the economy before collapsing with the Great Recession. This collapse is reflected across every sector, and unfortunately, the national economic recovery has done little to improve the rate of business formation nationwide.

Even the post-recession high reached in 2016 left the startup rate a full 2 percentage points below its long-run average.

How does that translate for workers? For workers, that means that each and every year on record since the Great Recession, roughly 100,000 fewer new companies have come online to compete for their labor.

Furthermore, the U.S. economy is less dynamic across all regions today than even a short while ago. At EIG, we evaluated State-level dynamism across even different metrics from 1992 to 2014. What we found was the most dynamic State today scores like one of the least dynamic states of the early 2000s—or early 1990s. This is a trend that leaves no corner of the country untouched.

Another reason for concern is the strong relationship between demographics and dynamism. The rate of U.S. population growth now stands at its lowest level in the last 80 years. EIG will soon release new research finding that 86 percent of counties are now growing even more slowly than the country as a whole, and half of counties are losing population each year. Worse, two-thirds of counties are losing prime-age adults. Absent an aggressive policy response, small businesses, new businesses, and the American worker will find themselves navigating unfriendly terrain in the years ahead.

So how should policymakers respond? I offered several policy recommendations in my testimony, but I want to emphasize two of those in particular now.

First, there is a simple way to boost wages, to boost innovation, and to increase entrepreneurship without enacting any new program or incurring any cost to the Federal Government, and that is by banning the use of non-compete agreements.

Roughly one in five workers is covered by a non-compete. These clauses are almost never negotiated, and they rarely come with any added benefits to the worker. Why should policymakers care? It is because non-competes are both unnecessary to protect trade secrets and are proven to stifle the very forces of healthy churn that are desperately needed in our economy today.

Enforcement of non-competes leads to significantly lower rates of business entry. The new businesses that do form tend to be weaker, smaller, and more likely to fail within their first 3 years.

Workers in states that enforce non-competes earn less, they stay longer in their jobs, and they are less satisfied with their jobs.

These provisions almost certainly diminish overall levels of innovation by restricting the mobility of the economy's most productive workers and lowering rates of entrepreneurship. Banning them would have an immediately favorable impact on entrepreneurship, innovation, and wages. I encourage Congress to do so.

Second, we must enact a coherent immigration strategy. An effective immigration policy would help us boost entrepreneurship, spur innovation, and tackle all the demographic challenges I mentioned, all at once. And I would emphasize two ideas that get to the heart of the issues I have covered in my testimony.

First, like a long list of other advanced nations, the United States should have a startup visa. Any entrepreneur who can pass a national security check and demonstrates the ability to fund-raise against a sound business plan should be welcome to start their business in our country.

Second, we should open new pathways for immigrants, particularly high-skilled immigrants to connect with communities facing chronically slow or negative population growth, enacting a place-based visa. One tied to certain geographies rather than a single employer would help declining communities make better use of excess capacity, improve their fiscal stability, and boost local dynamism to the benefit of all workers.

Policymakers should move quickly to enact bipartisan solutions, like the ones I have mentioned in my testimony. It would help American workers and entrepreneurs and communities thrive.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Lettieri follows:]

TESTIMONY BEFORE THE U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

JOHN W. LETTIERI
PRESIDENT & CHIEF EXECUTIVE OFFICER
ECONOMIC INNOVATION GROUP

"Small Business and the American Worker"

March 6, 2019

Chairman Rubio, Ranking Member Cardin, and members of the committee, thank you for inviting me to testify today.

My name is John Lettieri. I am the President and Chief Executive Officer of the Economic Innovation Group (EIG). EIG is a research and advocacy organization focused on the decline of economic dynamism and the geography of economic growth and opportunity.

My testimony today will focus on one simple message: the well-being of American workers depends upon entrepreneurs, and entrepreneurs are facing serious challenges in today's economy. Unless policymakers take action, the future of American entrepreneurship will remain under threat from structural and policy forces that have already combined to diminish the dynamism of the U.S. economy across every sector and region.

How does entrepreneurship benefit American workers?

The creation of new businesses unleashes chain reactions throughout the U.S. economy that help ensure the labor market works for working people. New businesses are a critical source of demand for workers and a driving force behind net job creation. Startups reliably add 2.5 million to 3.5 million jobs to the national economy that either offset the losses or build upon the gains of older firms each and every year.[1]

The entry of new firms also enhances competition, driving unproductive firms out of business and clearing the way for more innovative, efficient, and productive ones to

[1] EIG analysis of U.S. Census Bureau's Business Dynamics Statistics data.

thrive.[2] Through this process, American workers reallocate to companies that enable them to be more productive and earn higher wages, too.[3] Thus, in a dynamic economy, American workers benefit from churn among companies.

Before going further, let's address a common misconception about the labor market. The idea that, until somewhat recently, workers stayed attached to one job or one company throughout their careers is simply incorrect. Likewise, the idea that workers today experience greater churn in the labor market than ever before is also incorrect. Even after a long economic expansion, turnover rates only barely now match those from the depths of the prior recession.[4]

Figure 1. Workforce turnover rates

Far from a threat to workers, churn is in fact vital to their labor market success. Canonical studies show that one-third of early career wage growth for American workers comes from job-hopping, and that those early gains are critical to establishing

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[2] Ryan Decker, John Haltiwanger, Ron Jarmin, and Javier Miranda, "The Role of Entrepreneurship in US Job Creation and Economic Dynamism," *Journal of Economic Perspectives* 28 (3) (2014): 3-24.
[3] Michael Strain, "The Link Between Wages and Productivity Is Strong," *Expanding Economic Opportunity for More Americans*, Aspen Institute Economic Strategy Group, February 2019.
[4] U.S. Census Bureau Quarterly Workforce Indicators, data through Q4 2016.

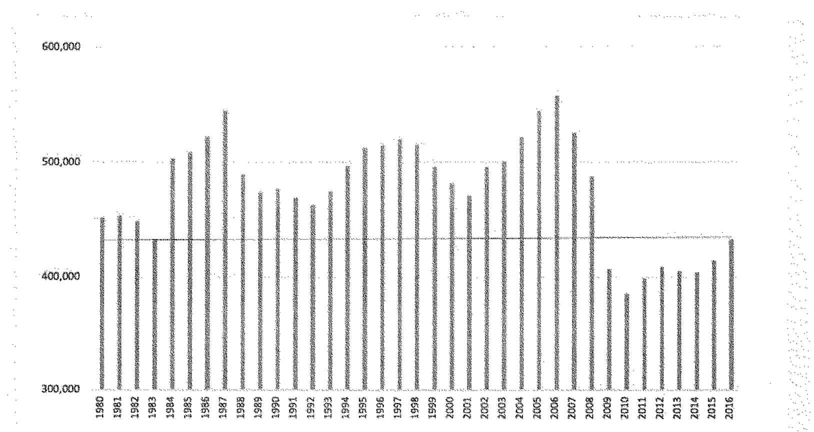
stable lifetime employment trajectories.[5] The latest data from the Atlanta Fed showed that job switchers enjoyed at least one full percentage point higher wage growth through 2017 and 2018 than job stayers.[6] Slowing churn is therefore likely permanently impacting the labor market trajectories of American workers.

What is the state of American entrepreneurship today?

Over the past several decades, the startup rate, defined as the percent of all firms in the economy that started in the past year, has declined across virtually all regions and sectors of the economy. It fell steadily through the 1980s and 1990s before collapsing with the Great Recession.[7] Troublingly, the national economic recovery has done little to improve the rate of business formation. Startup activity finally picked up in 2016, as the rate of new business creation improved to 8.4 percent. Yet even that post-recession high left the startup rate 2 percentage points below its long-run average.

How does this translate for American workers? It means that each and every year since the Great Recession, 100,000 fewer new companies have come online to compete for their labor.

Figure 2. Total number of startups

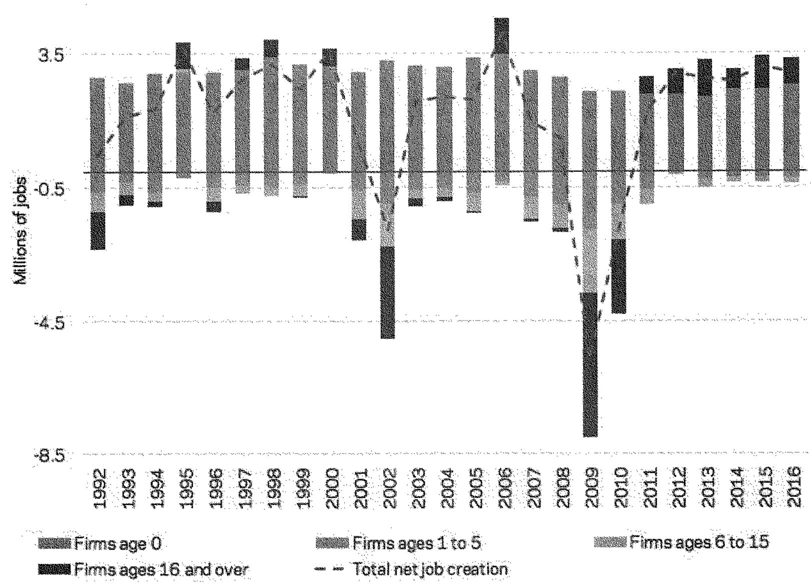


[5] Robert Topel and Michael Ward, "Job Mobility and the Careers of Young Men," *Quarterly Journal of Economics* 107 (2) (1992): 439-479. The study defines early career as the first 10 years in the labor market.
[6] Federal Reserve Bank of Atlanta's Wage Growth Tracker.
[7] This and all startup and small business related statistics in this section comes from our analysis of U.S. Census Bureau's Business Dynamics Statistics data.

This deficit helps explain why, since 2010, new firms have created only 2.4 million jobs each year on average -- 600,000 short of their 3.0 million average in the 1990s and 800,000 short of their 3.2 million average in the 2000s (through 2007).

Even in 2016, the post-recession era's high-point, 125,000 fewer firms launched than in 2006, creating 1 million fewer jobs. Small businesses, for their part, have struggled similarly and relinquished their traditional role as the driving force behind national rebounds. Large, old companies have grown to dominate the U.S. economy at the expense of small, new ones. The unsatisfying nature, pace, and geography of the protracted recovery from the Great Recession may be directly related to these business dynamics of recovery.

Figure 3. Net annual job creation by firm age



Older incumbent companies have stepped into the void left by missing startups and now consistently account for a greater share of net job creation than in the past. Yet, while American workers are clearly better off being hired by an established company than not being hired at all, this development raises a red flag. To generalize, incumbent firms have a fundamentally different relationship vis-a-vis labor than do entrepreneurs. The former, with mature business models, technologies, and market shares, generally prioritize reducing labor costs. Entrepreneurs, on the other hand, deploy workers in new and creative ways in order to unlock value where there was none before. American entrepreneurs find new ways for American workers to thrive. As we've seen, a recovery unfriendly to one is unfriendly to both.

The Shrinking Geography of Economic Dynamism

We are understandably fixated on national aggregates when it comes to understanding the economy. However, this can lead us to overlook how component parts of the economy -- communities -- are faring. The diminished rate of business formation is related to and driving a deeply uneven, and shrinking, geography of economic dynamism.

First, let me be clear: The U.S. economy is less dynamic across all regions today than even a short while ago. At EIG, we evaluated state-level dynamism across seven different metrics from 1992 to 2014 and found that the most dynamic state today (Nevada) scores like one of the least dynamic states two decades ago.[8] This is a trend that leaves no corner of the country untouched.

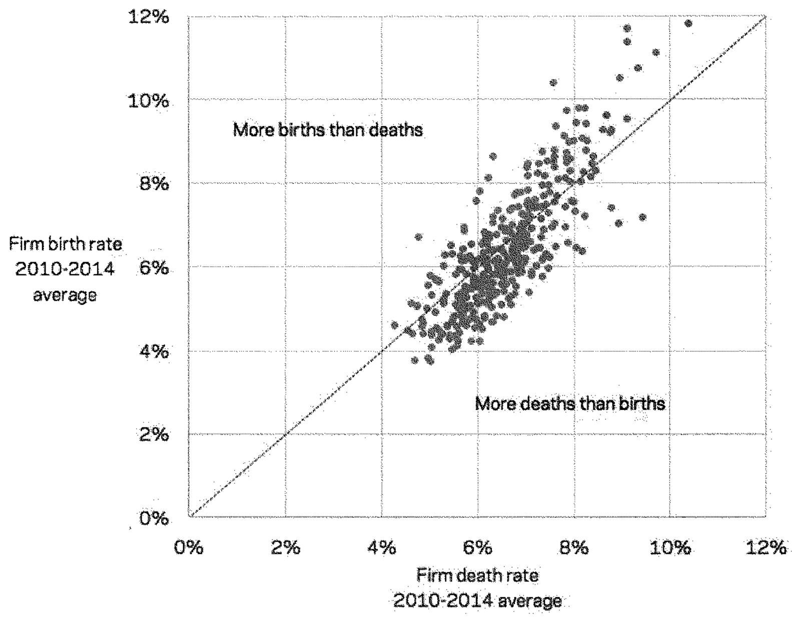
The startup rate is the signal indicator of economic dynamism, given the chain reactions it unleashes. A metro-scaled analysis illustrates the implications of the startup slowdown for people and places. As the national startup rate collapsed, the number of metro areas in which the firm closure rate (relatively constant over time) eclipsed the firm birth rate (which has been falling over time) spiked to unprecedented highs, where it has remained. Thus, even as the number of firms populating the U.S. economy continues to modestly increase, a majority of metro areas are home to a declining stock of firms. Put differently, they are contending with a shrinking number of employers competing for local workers' labor.

The United States now relies on a relatively narrow base of regional economies to drive net firm creation. In the 1970s, more than one-third of metro areas met or exceeded the national startup rate. By the late 1990s, only one in five did. Come the 2010s, that number was only one in seven. The combination of a declining national startup rate and

[8] The seven metrics are: Business churn, change in firms, jobs in new companies, jobs in incumbent companies, labor market churn, labor force participation,and net domestic migration. Economic Innovation Group, "Index of State Dynamism," May 2017.

a contracting startup geography left five major metro areas alone responsible for half the net increase in firms in the U.S. economy from 2010 to 2014. As recently as the 1990s, it took 30 metro areas to achieve a similar benchmark.

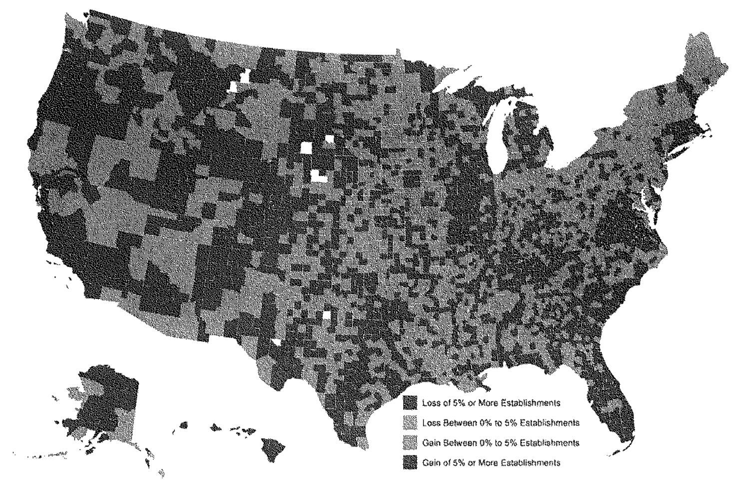
Figure 4. Metro area firm birth and death rates over the initial recovery years



County-level findings reinforce the unevenness of modern growth. From 2012 to 2018, 37 percent of counties lost establishments and 34 percent lost employees.[9] On the other end of the spectrum, one-third of counties accounted for 98 percent of new establishments and jobs. Large metro areas claim an outsized proportion of the gains: 96 percent of 2012 to 2018 establishment and job growth occurred in a metro area and around a fifth of job and establishment growth occurred in the 10 with the largest increases. Rural counties, for their part, only accounted for 1 percent of establishment and job growth among all U.S. counties—by this measure barely improving after six years of national recovery.

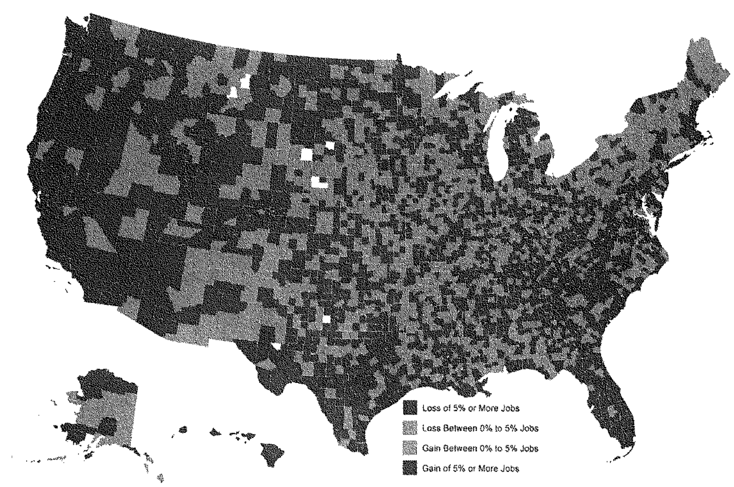
[9] EIG analysis of Bureau of Labor Statistics' Quarterly Census of Employment and Wages data.

Figure 5. Change in establishments from Q2 2012 to Q2 2018



Source: Bureau of Labor Statistics, QCEW

Figure 6. Change in employment from June 2012 to June 2018



Source: Bureau of Labor Statistics, QCEW

EIG's Distressed Communities Index goes further to explore down to the zip code level where the fruits of recovery have concentrated. It finds that prosperous communities -- those that rank in the top fifth of all zip codes nationwide on a comprehensive assessment of well-being -- dominated job and business growth over the past several years. In other words, jobs and businesses have grown increasingly concentrated in the places where incomes are already high and where housing vacancies, poverty rates, and worklessness are all low.

The defining characteristic of such places? They are also the communities where the country's college-educated and advanced degree-holding populations congregate. Highly educated American workers and many of their communities have, so far, proven reasonably able to prosper despite the national decline in dynamism. Indeed, prosperous zip codes have produced more jobs and businesses over the recovery than the bottom four-fifths of American communities combined. Communities without such critical masses of human capital are much more clearly vulnerable to the downsides of the trends discussed here.

Demographics and dynamism

Up until very recently, high rates of population growth put wind in the sails of the U.S. economy and bolstered our entrepreneurs. Population growth not only provided a steady stream of new business owners, but it also stoked demand, provided new and fast growing firms with needed labor, and eased the piloting of new business models. Not long ago, we consistently pointed to demographic tailwinds as reasons to be optimistic about the future health of the U.S. economy.

No longer. At 0.6 percent, the rate of U.S. population growth now stands at its lowest level in over 80 years and half the level of the early 1990s.[10] Population growth is projected to remain muted as net international migration stagnates and birth rates fall. EIG will soon release new research that unpacks these trends as they play out across the map. This research finds that 86 percent of counties are now growing even more slowly than the country as a whole.[11] Half of counties are losing population each year, and two-thirds are losing prime age adults. And two out of every five U.S. counties have already reached Japan-level demographic stagnation.

[10] William Frey, "U.S. Population Growth Hits 80-Year Low," *Brookings Institution*, December 21, 2018.
[11] Forthcoming research with Adam Ozimek of Moody's Analytics.

In recent years, a burgeoning academic literature has explored the relationship between demographics and dynamism, and the findings are sobering.[12] Two prominent studies demonstrate how the slowing growth and aging of the population leads to fewer new firm starts.[13] Another compellingly shows how the aging of the large baby boom generation may be contributing to multiple related phenomena: fewer firm starts, an aging firm distribution, a growing concentration of employment into larger firms, and a falling share of national income going to workers.[14] These structural transformations suggest that small businesses, new businesses, and American workers will find themselves navigating uncharted and unfriendly terrain in the years ahead without aggressive new policy efforts to reverse current trends.

How should policymakers respond?

In spite of the headwinds, there is no need to accept a future in which entrepreneurs and innovation play increasingly diminished roles. Public policy can make a difference if geared towards the right fundamental goals. We need a labor market that allows workers to move fluidly and deploy their skills where they can best be of use. We need to encourage stronger attachments to the labor force, especially for lower-skilled workers. We should do far more to welcome highly-skilled workers and entrepreneurs from around the world into our economy and ensure they spread to more communities. And we should encourage higher rates and a broader geographic distribution of entrepreneurship using all the policy and regulatory tools at our disposal.

These are achievable goals. Accordingly, I would like to offer the following recommendations.

Remove harmful barriers to labor market churn. There is a simple way to boost wages, innovation, and entrepreneurship without enacting any new programs or incurring any cost to the federal government: ban the use of non-compete agreements in all but the most narrow of circumstances. While commonly believed to apply only to top executives, roughly one in five American workers are covered by a non-compete agreement that places time and geographic restrictions on their ability to pursue

[12] For one of the first kicking off the recent round of inquiry, see Ian Hathaway and Robert E. Litan, "What's Driving the Decline in the Firm Formation Rate? A Partial Explanation," Brookings Institute, November 2014.
[13] Fatih Karahan, Benjamin Pugsley, and Aysegul Sahin, "Demographic Origins of the Startup Deficit," Working paper, May 2018.; Joseph Kopecky, "An Aging Dynamo: demographic change and the decline of entrepreneurial activity in the United States," Working paper, 2017.
[14] Hugo Hopenhayn, Julian Neira, and Rish Singhania, "From Population Growth to Firm Demographics: Implications for Concentration, Entrepreneurship and the Labor Share," Working paper, December 2018.

alternative employment in the same industry as their current employer. These clauses are almost never negotiated and rarely come with any added benefits for the employee. An estimated 38 percent of workers have signed at least one non-compete agreement in the past.

Why should policymakers care? Because they are both unnecessary to protect trade secrets and proven to stifle the very forces of healthy churn that are desperately needed in our economy. They clog the arteries of our labor markets and mute the productive potential of workers and entrepreneurs.

Consider what the current literature tells us about the effect of non-competes.[15] States in which non-competes are aggressively enforced see significantly lower firm entry rates. The new businesses that do form tend to be weaker, smaller, and more likely to fail within their first three years. Enforcement of non-competes also seems particularly bad for female entrepreneurs.[16] Worse still, enforcement of non-competes hurts wages and job satisfaction. Workers in states that enforce non-competes earn less than equivalent workers in states that do not enforce them. Those bound by a non-compete stay in their jobs 11 percent longer with no offsetting increase in pay or satisfaction. There is even evidence that merely signing a non-compete -- even in states where they are unenforceable -- has a chilling effect on worker mobility. And these provisions likely diminish overall levels of innovation in the economy by restricting the mobility of the economy's most productive workers and lowering rates of firm formation.

Banning or greatly curtailing the use of non-competes would have an immediately favorable effect on entrepreneurship, innovation, and wages. I urge Congress to do so.

Improve incentives to work. It is critical to get marginally attached workers into the labor market and keep them there. Strong demand from employers is key, but so too are work-oriented incentives, such as the Earned Income Tax Credit (EITC). Unfortunately, the *Tax Cuts and Jobs Act* was a missed opportunity to reform and expand the EITC, or augment it with something more robust. Oren Cass of the Manhattan Institute has proposed a wage subsidy that would operate as a sort of reverse payroll tax, providing a more immediate and efficient boost to low-income workers than the EITC, and thus, in

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[15] For a thorough review of the findings, see Evan Starr, "The Use, Abuse, and Enforceability of Non-Compete and No-Poach Agreements: A Brief Review of the Theory, Evidence, and Recent Reform Efforts," Economic Innovation Group, February 2019.
[16] Matt Marx, "Employee Non-compete Agreements, Gender, and the Timing of Entrepreneurship," Working paper, May 2018.

theory, an even stronger incentive to find work. This idea deserves thorough consideration.

Support and renew effective place-based policies. It is necessary to consider creative place-based policy approaches in light of the deeply uneven map of post-recession economic growth. Previous place-based programs have a mixed and somewhat underwhelming track record, but it is easy to see why: they are often absurdly complicated, lacking in scale, and rigidly inflexible in structure.

The recently-enacted Opportunity Zones incentive is a sharp departure from many of the design limitations of previous programs. For this reason, it has generated enormous interest among local leaders, investors, philanthropic organizations, and economic development practitioners. EIG was a leading advocate for Opportunity Zones, and I believe it holds great potential to provide a new capital lifeline to entrepreneurs and small businesses in struggling communities nationwide -- but only if implemented properly. The rulemaking process is still underway, but significant questions and concerns are holding back market activity among investors who wish to deploy capital into operating businesses (as opposed to real estate projects). It is crucial these issues are addressed by Treasury in the next round of proposed rulemaking.

Even as we seek new tools to address declining entrepreneurship and regional inequality, we should also look to build upon past successes. The State Small Business Credit Initiative (SSBCI) was a resoundingly successful and relatively unheralded component of the *Small Business Jobs Act of 2010* that seeded entrepreneurial activity in parts of the country desperately in need of it. Its novel design not only provided $1.5 billion in flexible financing to entrepreneurial ventures throughout the country (nearly one-third in low- and moderate-income census tracts), but it also leveraged impressive state and private sector follow-on capital as it strengthened the capacity of local organizations to deliver for the future. The initiative lapsed in 2017; Congress should reauthorize it.

Enact a coherent immigration strategy. In his last speech as president, Ronald Reagan said: "We lead the world because, unique among nations, we draw our people -- our strength -- from every country and every corner of the world. And by doing so we continuously renew and enrich our nation."[17] President Reagan well understood how immigrants add to the vitality of the U.S. economy. Research finds they are roughly

[17] Ronald Reagan, "Remarks at the Presentation Ceremony for the Presidential Medal of Freedom," January 19, 1989.

twice as likely as native-born Americans to start new businesses.[18] The Center for American Entrepreneurship found that 43% of the 2017 Fortune 500 companies were founded or co-founded by an immigrant or the child of an immigrant.[19]

An effective immigration policy could help us boost entrepreneurship, spur innovation, and tackle demographic challenges all at once, which makes it all the more frustrating to see us squander such a key advantage. While comprehensive immigration reform is a much broader topic than the scope of this hearing, I would emphasize two ideas that get to the heart of the issues I have covered in my testimony. First, like a long list of other advanced nations, the United States should have a startup visa. Any entrepreneur who can pass a national security check and demonstrate the ability to fundraise against a sound business plan should be welcome to start his or her business in this country. Second, in addition to existing programs, we should open new pathways for immigrants -- particularly high-skilled immigrants -- to connect with communities facing chronically slow or negative population growth. Enacting a *place-based* visa -- one tied to certain geographies rather than a single employer -- would help declining communities make better use of their excess capacity (e.g., housing stock, schools, and infrastructure), improve their fiscal stability, and boost local dynamism to the benefit of all residents.

Conclusion

Even in the best of times, the share of workers starting a business, switching jobs, or relocating to a different part of the country at any given moment will be relatively small. Nevertheless, the economy depends on them to stay vibrant. Thus, the decline of entrepreneurship and the geographic concentration of economic dynamism pose significant threats to this country's long-term economic well-being. Policymakers should move quickly to enact bipartisan solutions, like the ones noted above, that help American workers, entrepreneurs, and communities thrive.

[18] Robert Fairlie, Sameeksha Desai, and A.J. Herrmann, "2017 National Report on Early-Stage Entrepreneurship," Ewing Marion Kauffman Foundation, February 2019.
[19] "Immigrant Founders of the 2017 Fortune 500," Center for American Entrepreneurship, December 2017.

Chairman RUBIO. Thank you.
Dr. Stevenson.

STATEMENT OF BETSEY STEVENSON, Ph.D., ASSOCIATE PROFESSOR OF ECONOMICS AND PUBLIC POLICY, GERALD R. FORD SCHOOL OF PUBLIC POLICY

Ms. STEVENSON. Chairman Rubio, Ranking Member Cardin, and members of the Committee, thank you so much for the invitation to be here today.

You have heard about the importance of entrepreneurship and jobs. I want to address the fact that technology is changing both entrepreneurship and jobs.

Rather than eliminating many types of jobs, as is often reported in the press or feared, what technological change is likely to do is change the tasks that workers do in jobs. MIT researchers have gone occupation by occupation looking at the multiple tasks that are done and shown that most jobs will have tasks that are eliminated by technological change, by artificial intelligence and machine learning, but very few, if any, jobs will be completely eliminated by that.

So the future holds a world in which jobs, almost all of them, need to be redesigned, and they need to be redesigned in a way to take advantage of the comparative advantage of human workers.

Preparing people for the jobs, the way jobs will change, requires greater investment in education and worker training. Today's workers get only a few hours of training from their employers, while workers generations ago received much greater training from their employers.

Apprenticeship programs that I know Ms. York will speak about that receive public funding, provide compensation to workers, and encourage employers to take a chance on new workers are essential to this change, but these programs must adapt to the changing jobs of the U.S. economy. The U.S. economy is a service-based economy. Eighty-four percent of workers employed in the private sector are in the services. A third of our exports is services, and these are where the good jobs are and the good exports are and where we are growing our exports.

Internationally, our comparative advantages are a highly skilled workforce, but we are losing ground to other countries. To preserve our place in the global labor market, we must make sure more Americans successfully complete college.

In the last century, we made it possible for nearly all Americans to get a high school degree, even though other developed countries told us it was impossible. They said some people were simply not suited for higher education, "higher" meaning high school.

Today, we are making the same arguments about our own citizens, while other developed countries succeed with a much higher percent of their citizens completing college.

In the U.S., nearly two-thirds of young people start a college degree, but inadequate financial support, the challenges of raising a family while in school for some, and insufficient education prior to college—in other words, the failure of our school system before you get to college—mean that only 36 percent of people in their late 20s and early 30s have actually completed a college degree. We can, and should, have the majority of our young people successfully completing college.

Let me address a second aspect of redesigning work. Total work hours may decline. The challenge is not about making sure that work does not decline. It is making sure that it declines only in a desired way and that it does not create the marginalization of communities without work.

Historically, technological change has reduced work. We no longer send children into factories. We now enjoy retirement, and some people choose to stay home and raise their children, focus on their families and their communities rather than work. This is not a bad thing. We have thought that this was a good choice.

So what can we do to make sure that any change in hours is done in a positive way? We need to provide an infrastructure that supports working families and allows some importantly, broadly shared declines in work, a decline in working while sick, a decline in working while dealing with a medical crisis of a loved one, while having a newborn in the home, people being able to afford to take time out of work and then get back to work once these crises have passed or once a newborn is ready to be left in child care.

Too often, people are completely pushed out of the labor force when they are forced to choose between family obligations and work. Roughly half of parents say that they have turned down a job because they could not make it work with their family needs. That is a lot of parents who are forced to make very difficult choices.

Paid sick leave encourages workers to stay home when they are sick. With contagious diseases, this benefits businesses and improves overall productivity, but sick leave policies that allow workers to stay home to care for a loved one may not directly benefit their employer. But they do directly benefit society, and that is why government has a role in ensuring that all people have access to that kind of leave.

Similarly, parental leave policies generate benefits for society providing health and development benefits to children.

The one last thing I want to mention is the importance of Congress and this Committee to ensure that we are building trust in society. There has been a large decline in trust, and some of that decline in trust is connected to not having that infrastructure that supports working families.

People who do not trust other people are not themselves trustworthy, and that is something that impedes our entrepreneurship. It impedes our economic growth because we divert resources toward monitoring people rather than being more productive in our day-to-day world.

I will end there. Thank you.

[The prepared statement of Ms. Stevenson follows:]

Small Business and the American Worker

March 6, 2019

Betsey Stevenson

Associate Professor of Economics and Public Policy

The Gerald R. Ford School of Public Policy, University of Michigan

Chairman Rubio, Ranking Member Cardin, thank you for the invitation to testify today. I want to start with the crucial role that small businesses plays in the economy.

New businesses are typically small businesses and new businesses fuel our growth. Start-ups and young businesses are responsible for most of our growth in new net jobs. New companies are at the forefront of innovation, both in terms of introducing new products and services and showing us how to use technology to do things better. New businesses rely on a high-skilled U.S. labor force to be able to hire the people they need to bring their ideas successfully to the market.

Many new businesses will thrive because the productivity gains allowed by technological change create the opportunity to offer better, faster, or cheaper goods and services. So I applaud the Small Business and Entrepreneurship Committee for recognizing that the promises and challenges of artificial intelligence, and other forms of technological change, are the promises and challenges of our future small businesses. And their success, or lack of success, will determine the future path of U.S. economic growth.

Let me address the primary concern that most people have for American workers: that technology will eliminate jobs.

Rather than eliminating many types of jobs, technological change will change the tasks that workers do in jobs. MIT researchers have shown that most jobs have some tasks that are suitable for machine learning and few, if any, jobs are composed of tasks in which a machine could effectively do the tasks typically done by workers. What this means is that employers and workers will need to redesign most jobs to take advantage of the comparative advantage of human workers.

Jobs will change due to technology, but the fundamental question that remains is whether we will have enough jobs.

In the past, technological change has not led to increased unemployment, but it has led to declines in work effort. We no longer send children into factories, but allow them to concentrate on the joys of childhood and investing in the skills that will help them succeed as adults. We no longer expect to die on the job, but hope for a period of retirement free from poverty. These declines in work effort have not been catastrophic—rather, they have been choices to live a better life. In other words, historically we have had as much work as we have wanted, which has been a declining amount.

The most important thing I want the committee to keep in mind is that the purpose of economic progress, of technological advancements, is to allow Americans to lead a better life, even if that means that people are working less. The important issue is whether people can work as much as they want to or need to in order to live a fulfilling life.

Many people want to be able to stay home from work when they are sick or when they need to care for a sick child, parent, or spouse. Many want to be able to stay home and spend time with a new child. And some people want to be able to take a vacation or work a shorter work-week.

These choices are plausible in a wealthy society, but they are only feasible if the gains from economic growth are widely shared. Our recent experience on this front explains why people are concerned. The share of income held by the top 1% of the population has risen to nearly 20 percent, from around 10 percent in 1980, while the share going to the bottom 50 percent of the population has fallen to 12 percent from 20 percent in 1980. This has occurred as labor's share of national income has declined from around 63 percent at the end of the 1990s to around 56 percent currently.

Real GDP per capita grew to $56,717 in 2018, from $46,497 in 2000. Yet, almost none of this growth is seen in median household income, which has largely stagnated (over the same period it grew by 2 percent).

In recent decades, we have failed to ensure that the benefits of technological advances are broadly shared. Therefore, the concerns that continued technological progress will yield gains that are not fairly distributed is a realistic fear.

How can we help businesses recruit the workers that they need and also ensure that we share the gains from technology are broadly shared? I want to offer three answers for you today. First, increase education. Second, pass a Federal policy that gives all workers access to paid sick and family leave. And third, build greater trust.

1. Education

New businesses need skilled workers and workers need the opportunity to build the skills that increase their productivity and allow them to earn higher wages. In the 21st century we are hearing the same arguments about college that we heard about primary school in the 19th century and high school in the 20th century—that not all kids can or should get additional education. Yet bolstering the skills of American workers has long been the foundation upon which American growth has been built.

The rate of return for investing in a college education is at an historically high level. College graduates earn 65 percent more than high school graduates and are roughly half as likely to experience unemployment.

In order to continue to have a successful and innovative economy, we need to make college more affordable and accessible to more people. Young people are enrolling in college at increasing rates, a positive trend that we should facilitate. We need to ensure that college is affordable and that students can complete the programs that they begin. The challenges of financing higher education lead too many students to lose momentum and fail to graduate. In addition, there has been an increase in older adults returning to school in order to bolster their career prospects. Older students often have other barriers to successfully completing college or other training programs such as affordable childcare and housing for a family. Our programs to help students must adapt to consider the growing share of students who are not supported by parents, but are themselves parents supporting children.

Apprenticeships and other on-the-job training during school hold the possibility of preparing students for the world of work, while keeping them engaged, motivated, and confident enough to complete their studies. Many people learn better through situated learning by actively participating in the learning experience, such as that which occurs during apprenticeships. The United States faces two pressing challenges in developing apprenticeship programs. The first is that there are far too few apprenticeship slots. The second problem is that apprenticeships need to move beyond the trade occupations, which is a shrinking share of the economy, into services which are growing.

The U.S. economy is a service-based economy. Construction and manufacturing jobs, a focus for many apprenticeship programs, are a mere 13 percent of all jobs in the economy. 84 percent of workers employed in the private sector in the United States work in the service-producing sector. A third of our exports are services, such as business and professional services like consulting, computer services, and financial services. In order for apprenticeships to succeed in training workers for the jobs of the future, our apprenticeship programs need to expand into the types of jobs workers are more likely to be hired into.

2. Paid Sick and Family Leave

Let me turn to the topic of paid sick and family leave. As a wealthy society, it is clear that we can afford to have people stay home when they or a loved one is sick or to care for a new child. Moreover, these policies are not as costly as many falsely believe.

Paid sick leave encourages workers to stay home when they are sick. With contagious illnesses, a paid sick leave policy can create a healthier workforce, improving overall productivity. Studies have shown that paid sick days do not lower business profits.

Sick leave policies that allow workers to stay home to care for a loved one may not directly benefit their employer, but such policies do yield gains to society. Children are less likely to attend school while ill, reducing the spread of illness to others affecting teachers, children, and their parents. Older people who are cared for may be less likely to be hospitalized, reducing the need for costly medical care. These benefits are what economists call positive externalities and the only clear way to get the benefits of these externalities is through government action.

Similarly, parental leave policies generate benefits for society by providing health and development benefits to children that last throughout their lives. Moreover, research shows that paid parental leave policies keep women attached to the labor force, resulting in higher wages and employment in the long run. Additionally, research shows that nearly a third of the gap between US women's labor force participation and that of other countries is due to the lack of family friendly policies like paid parental leave in the United States.

Many businesses have discovered the cost of losing women when paid maternity leave is unavailable and have voluntarily expanded their parental leave policies. However, paid family leave cannot be left for businesses to voluntarily choose. Like paid sick leave, the benefits of access to paid family leave are bigger for the economy and society as a whole than for any one business. All children should have access to the benefits of paid parental leave in order to ensure equality of opportunity in the United States. Ensuring equal access to paid parental leave requires a Federal policy.

3. Trust

The last thing that I want to touch on is the importance of trust to the economy and to our lives. While the rule of law is essential to a well-functioning economy, so is basic trust. Trust in our government, trust in our businesses, and trust in our fellow citizens. Trust facilitates cooperation; it allows us to take a chance on a new worker, a new product, an unknown business. Yet trust is in steep decline in the United States.

Trust in government is at a historic low for all age groups. But it is not just government that people are no longer trusting. Interpersonal trust has also declined substantially. That lack of trust is one reason people oppose paid sick leave—after all how can you trust an employee to only take a paid sick day when they are truly ill? But a similar question can be asked about trusting your worker to put in their best effort. And that latter question goes more directly to the heart of business success and the future of economic growth.

Employers must trust their employees. Without trust, costly monitoring is required. Technology has enabled some increase in monitoring, through programs that block employees using accessing certain websites and ones that monitor their keystrokes. However, technology on net is likely to make it more difficult to monitor workers. The challenge for employers is that technological change is making more of the tasks that are most suitable for humans, also tasks that are less easily monitored. How can businesses solve this problem? By building loyalty, by building trust with their employees.

When workers trust their employers will be honest and fair, when they believe that their employer is doing the right thing by them, they do the right thing by their employer. For example, research shows that workers who trust their employer report other workers for stealing or slacking off on the job, providing a form of group monitoring. More generally, research has shown that intrinsic motivation can be more powerful that extrinsic motivation and intrinsic motivation thrives in an environment of trust.

Policies like paid sick leave and paid parental leave, access to training and education, all help build a society with higher levels of trust. You can help build trust today by showing the American people a government that they can trust to work hard to find solutions for American families. The policies you choose can build trust by creating an infrastructure that ensures that our prosperity is broadly shared.

Chairman RUBIO. Thank you.
And, finally, Ms. York.

STATEMENT OF CARYN YORK, EXECUTIVE DIRECTOR, JOB OPPORTUNITIES TASK FORCE

Ms. YORK. Greetings, Chairman Rubio, Ranking Member Cardin from the great State of Maryland, and an alum, as I, of the best high school in the country, the Baltimore City College High School. I just had to flag that, ladies and gentlemen.

And, members of the Committee, my name is Caryn York. I am executive director of the Job Opportunities Task Force, and I am thrilled to join you today to discuss the realities of the American worker in 2019.

Job Opportunities Task Force, JOTF because it is a mouthful, is an independent statewide 501(c)(3) nonprofit organization. Our mission is to help low-wage workers advance to high-wage jobs. Our mission, again, is to eliminate educational and employment barriers and is achieved via three strategies.

Number one, program development. For the past 12 years, JOTF has partnered with Associated Builders and Contractors, Baltimore Metro, to run Project JumpStart, a 14-week pre-apprenticeship construction training program that helps Baltimore City residents obtain entry-level construction skills necessary to enter jobs in the building trades with a direct link to apprenticeships. Approximately 75 percent of city residents enrolled in Project Jumpstart are unemployed or under-employed. Many have limited work experience, and most have a significant history of criminal justice involvement. Thus, Project JumpStart was designed to address these barriers by providing a basic set of entry-level construction skills in carpentry, electrical, and plumbing, a strong focus on construction math and measurement, and certifications in safety, OSHA 10, first aid, and CPR.

Associated Builders and Contractors, they cover the instructional training. JOTF, we provide the critical, intensive, customized case management services. Each student is provided with a $25 stipend per class to help mitigate costs like transportation, and JOTF pays for students to attend driver's education for $250 to start them on the path toward securing a driver's license, which we know is crucial to employment.

Students also receive case management services that include assistance with housing, benefits screening, legal challenges, and financial education. Upon completion, graduates receive, because we also work with them after they have left the program, job placement support, a set of brand-new industry-approved starter tools, certifications related to construction and construction safety, and access to a JOTF-secured low-interest bank loan for up to $2,500.

But Project JumpStart cannot fix everything. Many times, our Project JumpStart team will find that there are public policies that are preventing graduates who are employed from moving ahead and now risk falling back. This is where JOTF's second strategy comes in, public policy advocacy.

Our policy priorities generally fall into the following categories: adult education, postsecondary access, and affordability; skills training; wages, benefits, and supports; reducing the impact of incarceration on workers; and transportation.

Over the years, we have been instrumental and continue to be a leading voice in successfully educating State and local policymakers and business leaders about some of the most critical workforce issues, including but not limited to investment, investments in adult education and skills training.

JOTF was the original architect of the Maryland EARN program, Employment Advancement Right Now, sector-based partnerships, paid leave, unemployment insurance for part-time workers and new labor force entrants, and the impact on incarceration that includes ban the box on both job and college applications, expungement reform, bail reform, occupational licensing reform, and accessible and affordable transportation options.

These policies are crucial to ensuring the success of our folks like Project JumpStart graduates, but to round out our mission, we also provide research in public education. Our reports like "Overpriced and Underserved," which highlight the cost of being poor, housing, transportation, and food; "Priced Out," which focuses on access and affordability for postsecondary education; and "The Criminalization of Poverty," which highlights the laws and policies that unnecessarily penalize and criminalize our poor workers have helped to educate the public, which includes policymakers and business leaders and the general public on the barriers that impact an individual's ability to secure and maintain employment.

Mr. Chairman and members of the Committee, I provide this lengthy background to illustrate JOTF's deep understanding of the barriers that are impacting not just the worker, but employers and ultimately cities, states, and our country as a whole.

According to the Georgetown Center on Education and Workforce, by 2020, about 65 percent of all jobs will require some form of postsecondary education, and at our current rate of production, the United States will fall short by 5 million workers. This is a problem for us all.

We hear that there are no jobs. Nonsense. The jobs are here, and they are coming. The problem is that our workers cannot access these jobs.

And so, because I know I only have a little bit of time left, when we talk about how to ensure that workers can access these jobs and we talk about it within the context of things like opportunity zones that have been designated according to low-income zones, if we want to incentivize businesses moving into these zones, then we need to make sure that businesses have access to an educated, skilled workforce.

In my neighborhood in Baltimore City, 40 percent in Southwest Baltimore, 40 percent of residents lack a high school diploma, and the median household income is $10,500. And so there are a number of recommendations that I have highlighted in my written testimony, but I just want to make sure that I bring to your attention this afternoon, as we talk about things like apprenticeships and skills gaps and reentry and what to do about the excitement surrounding opportunity zones.

I ask the Committee to consider the following: providing additional funding for work-based training programs, including pre-apprenticeship programs and apprenticeship opportunities, career technical education and job training, expanding Pell grants to people seeking short-term training programs that lead to in-demand jobs, funding for issues that apprentices may need additional support to address, such as transportation and day care; ease restrictions for workers seeking occupational licensing, particularly workers with a criminal background—Senator Cardin, Maryland leads the Nation in the most burdensome restrictions for prospective licensees; we need to do something about that—reducing the impact of incarceration on workers via banning the box on both job and college applications; expanding criminal record expungement, eliminating criminal justice fines and fees that lead to criminal justice debt; reform of child support enforcement laws that are sensible, family supporting, but punitively apply to noncustodial parents; and create tiered incentives to ensure low-income residents access to high-income job opportunities, particularly local hiring, local job creation, community engagement, and job training within opportunity zones.

This can be done by aligning workforce development with economic development, investing in skills training, increasing access and affordability of postsecondary education, reducing the impact of incarceration on the workforce, and supporting public policy efforts that ensure workers and families are able to live, survive, and thrive in today's economy.

Thank you for your time, and I look forward to answering any—well, it depends on the question.

[Laughter.]

But I look forward to answering questions from the Committee. Thank you.

[The prepared statement of Ms. York follows:]

Caryn York
Executive Director
Job Opportunities Task Force (JOTF)

JOTF JOB OPPORTUNITIES TASK FORCE

Advocating better skills, jobs, and incomes

Chairman Rubio and Members of the Committee, it is my honor to appear before you today to discuss the skills gap, the impact of incarceration on the worker, and career and technical education (CTE) and apprenticeship in Maryland.

About JOTF

The Job Opportunities Task Force (JOTF) is an independent, 501(c)(3) nonprofit organization that develops and advocates policies and programs to increase the skills, job opportunities, and incomes of low-wage workers and job seekers in Maryland. We transform obstacles into opportunities for Maryland's workforce by integrating workforce, economic, and community development and to respond to the workforce needs of both employers and job seekers.

Each day, JOTF works to eliminate obstacles to meaningful and stable employment through educational opportunities, job skills training, effective policy reform, and systems change. By doing so, we are able to help low-wage workers advance to high-paying jobs and create employment paths for workers from every background. JOTF takes a comprehensive approach to increasing economic opportunity for Maryland workers by combining targeted skills training, workforce supports, educating policymakers on workforce obstacles, advancing policies to mitigate those challenges, and using high-quality research to support our advocacy agenda while educating and engaging the community.

Program Development

JOTF values effective program development and management as a means of increasing job skills and incomes for low-wage, low-skill workers. JOTF maintains an active role as a workforce intermediary in high growth industries, particularly the construction industry, that help low-wage workers enter the workforce and advance into high wage careers. For the past 12 years, JOTF has partnered with Associated Builders and Contractors - Baltimore to run Project JumpStart, a pre-apprenticeship construction training program that helps low-income workers obtain entry-level construction skills necessary to enter jobs in the building trades with a direct link to apprenticeships. Approximately 75% of residents enrolled in Project JumpStart are unemployed; many have limited work experience and most have a history of significant criminal justice involvement. Thus, Project JumpStart was designed to address these barriers by providing a basic set of entry-level construction skills in carpentry, electrical and plumbing, a strong focus on construction math and measurement, and certifications in safety- OSHA 10, First Aid, and CPR, while simultaneously providing concentrated case management services. We provide each student with a $25/class stipend to help mitigate costs like transportation, and JOTF pays for students to attend driver's education ($250) to start them on the path to securing a driver's license, which is crucial for employment. Students receive case management services that include assistance with housing, benefits screening, legal challenges, and financial education. Upon completion, graduates receive job placement support, a set of brand-new industry-approved starter tools, certifications relating to construction and construction safety, and access to JOTF-secured low interest bank loans up to $2500.

Public Policy Development and Reform
JOTF recognizes the impact of barriers on low-wage workers and promotes policies and programs to eliminate educational and employment barriers to increase the skills, job opportunities and incomes for low-wage workers and job seekers. Our policy priorities generally fall into the following categories:

- adult education, post-secondary access and affordability;
- skills training;
- wages, benefits, and supports;
- reducing the impact of criminal justice involvement and incarceration; and
- transportation.

The development of our annual policy agenda results from hosting and participating in a series of meetings and informational sessions with advocacy partners, businesses, government officials, policymakers and community members. Over the years, JOTF has been instrumental and continues to be a leading voice in educating state and local policymakers and business leaders about some of the most critical workforce issues including: flexible leave, unemployment insurance for part-time workers and new labor force entrants, the impact of a criminal record on workers, sensible child support enforcement policies that promote financial stability for families, and viable transportation options.

Research and Public Education
JOTF performs research projects to deepen our own understanding of the issues impacting our communities and lay the groundwork for future policy recommendations. We use our research to educate the public – businesses, policymakers, government officials, workers and job seekers – on these issues and provide for robust discussion and actionable analysis. Our research continues to drive policy reform efforts and inform and influence effective program development and evaluation.

In February 2018, after a two-year investigation, JOTF released our report, "The Criminalization of Poverty: How to break the cycle through policy reform in Maryland" which examines the ways in which Maryland's most impoverished individuals are further targeted and criminalized due to inability to pay.

The Criminalization of Poverty report highlights three key themes and related policy recommendations:

- **Common pathways through which the poor are criminalized** – there are several key pathways in which poor individuals, particularly individuals of color, are put at risk of entering the criminal justice system that include racial profiling, civil asset forfeiture, motor vehicle laws, and the collection of civil debts. JOTF makes several recommendations to end common practices that criminalize the poor in these areas, such as eliminating driver's license suspension as a penalty for nonpayment of fines, creating low-cost auto insurance options for low-income drivers, and enforcing laws that protect against racial profiling.
- **The criminal justice system's disparate impact on the poor** – after an arrest, certain groups, particularly poor communities of color, face disparate treatment due to inability to afford fines, fees, and the resulting increased debt. JOTF highlights the need to limit the use of cash bail and implementing more robust pre-trial services while eliminating most criminal justice fees.
- **The collateral consequences of a criminal record** – several key collateral consequences present major barriers to economic success for individuals with a criminal background. JOTF's policy recommendations include expanding "ban the box" laws, expanding and simplifying expungement, expanding correctional education and job training, and opting out of the felony drug ban on TANF and SNAP.

With nearly 25 years of experience in workforce, JOTF is honored to share our expertise with the members of United States Senate Committee on Small Business and Entrepreneurship as a panelist during the Committee's "Small Business and the American Worker" hearing. We hope that the issues we share and recommendations we present will encourage a nuanced discussion and lead to systemic policy changes that will abolish the barriers to employment and skills attainment for marginalized communities, particularly the 1 in 3 Americans with a criminal record, low-income and low-wage workers and jobseekers, and our nation's opportunity youth, all of which disproportionately consist of Black and Hispanic or Latinx populations.

The Workforce Landscape

According to the Georgetown Center on Education and the Workforce, by 2020 about 65% of all jobs will require some form of postsecondary education, and at the current rate of production, the United States will fall short by about 5 million workers.[1] Though new research suggests that previous assessments of the skills gap may have been overstated, there certainly remains gaps in access to the skills training that has the potential to provide opportunities for upward economic mobility and meaningful, stable employment.[2] This gap in access is particularly true for workers and job-seekers that are low-income, low-wage, have a criminal record, or identify as Black or Hispanic/Latinx.

At the conclusion of the final quarter of 2018, the overall unemployment rate for individuals age 16 and older was 3.6 percent. However, there are significant disparities in unemployment rates based on race and ethnicity. For White and Asian individuals, the rate was slightly lower, at 3.2 and 3.0 percent, respectively. Comparatively, for Black Americans, we see that percentage jump to 6.1 percent, with Hispanic/Latinx Americans experiencing a slightly lower rare at 4.3 percent.[3] Additionally, more than 25% of Black or African American individuals were estimated to be less than 100 percent of the poverty level, with individuals identifying as having Hispanic or Latino origin at 22%, compared to 12% of White individuals.[4]

Additionally, a criminal record has collateral consequences for the person, the family and the larger community. Those collateral consequences include penalties, restrictions and sanctions that are imposed outside of the criminal justice system once an individual returns to society. They are imposed as a result of laws, policies and practices and are often shaped by social stigma as well as public safety concerns. And they function to restrict the participation of individuals with criminal records in society. Simply put, the criminal record can serve as both the cause and consequence of poverty.

There are many ways in which a criminal record can become a roadblock for individuals. The three key areas are employment, higher education and public assistance. Numerous studies have found that employment is one of the strongest factors in supporting the successful reentry of individuals with

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[1] Carnevale, A. P., Smith,N. &Strohl, J., (2013). Recovery: Job growth and education requirements through 2020. Retrieved from https://cew.georgetown.edu/wp-content/uploads/2014/11/Recovery2020.ES_.Web_.pdf

[2] Modestino, A.S., Shoag, D., & Ballance, J. Upskilling: Do employers demand greater skill when workers are plentiful?[PDF document]. Retrieved from https://www.aeaweb.org/conference/2019/preliminary/paper/yySyK7fd

[3] United States Department of Labor Bureau of Labor Statistics. (2019). *Unemployment rates by age, sex, race, and Hispanic or Latino ethnicity*. https://www.bls.gov/web/empsit/cpsee_e16.htm

[4] United States Census Bureau American FactFinder. (2017). Available from https://factfinder.census.gov/faces/nav/jsf/pages/community_facts.xhtml

criminal records and in preventing recidivism. However, individuals with criminal records – including arrest records without any charges or finding of guilt – face major obstacles in finding employment. Limited access to correctional education and job training opportunities in jails and prisons and time out of the job market erode job skills and employability for workers and job-seekers that have experienced incarceration. Likewise, individuals who did not experience incarceration but possess a criminal record that results from interaction with law enforcement face many of the same challenges. The criminal record is the biggest barrier to securing and maintaining stable employment and other critical resources. Consequently, even if individuals are able to find jobs, they are likely low-wage, with few, if any, benefits, and little opportunity for advancement or wage growth.

Further, research has established that education, particularly post-secondary education, is a key factor in increasing upward mobility and earning capacity for all individuals, particularly for individuals with a criminal background. However, there are limited opportunities for education while incarcerated. Individuals seeking to improve their employment prospects through education can find themselves unable to either secure admission to post-secondary institutions or take out student loans due to their criminal history. Currently, while some states, including Maryland, and the Common App have banned questions about criminal history, there is no federal outlawing post-secondary institution from asking about criminal history on the admissions application and use this information to deny admission to individuals with criminal records. These inquiries function to prevent individuals, disproportionately those with low incomes and minorities, from accessing higher education, which can be a key source for skills training attainment. Additionally, there are restrictions on federal financial aid for individuals convicted of drug crimes while receiving federal financial aid, and individuals who are subject to an involuntary civil commitment for a sexual offense. It is likely that individuals who are ineligible for federal aid are also unduly denied state aid because many states adhere to federal guidelines for determining state aid.

Today, nearly 1 in 3 Americans have a criminal record – and despite significant research to indicate that those with a non-violent misdemeanor from many years ago, with no other infractions, pose no additional risk in the workplace – they still face challenges in accessing employment and education. Jobs are the key to economic security and crucial to the successful reentry of those returning to society from incarceration.

Workforce in Maryland

Career and Technology Education (CTE)

Maryland's Career Technology Education (CTE) model was designed to provide high school students the opportunity to simultaneously pursue technical and academic programs of study, leading to advancement in a selected career field. The Maryland State Department of Education (MSDE) partnered with statewide industry partners to establish career clusters, including:

- Arts, Media, and Communication
- Business Management and Finance
- Construction and Development
- Consumer Services, Hospitality, and Tourism
- Environmental, Agricultural, and Natural Resources
- Health and Biosciences
- Human Resource Services

- Information Technology
- Manufacturing, Engineering, and Technology
- Transportation Technologies

Maryland CTE programming is aligned to establish both academic and technical skill standards, to ensure student success in both college and careers. The programs include work-based learning opportunities, such as internships and industry-mentored projects, as well as academic/classroom study[5]. Students have the option to earn college credits and/or industry-recognized credentials in their selected area of study, depending upon jurisdiction.

Prince George's County Public Schools (PGCPS), one of the nation's largest school districts, has recently revamped its CTE and Youth Apprenticeship programming to ensure that students pursuing courses in CTE receive hands-on and experiential learning opportunities, integrated academic and technical education, and connection to local industry partners. PGCPS is enhancing their CTE curriculum to reach more students to provide comprehensive exploration of high-skill, high-demand career pathways while also engaging with local industry professionals to inform the content of CTE programs for the region. Most recently, PGCPS has offered the opportunity to 11th and 12th grade students to enroll in a CTE Construction Trade Program that combines paid work experience, a structured learning environment, and the opportunity to earn a credential. Students who select this field of study work full-time with the PGCPS Maintenance Department during the summer and during their 12th grade year[6].

Employment Advancement Right Now (EARN)
The Maryland Employment Advancement Right Now (EARN) program established much-needed state funding for job training, employment advancement, and sector strategy opportunities for low-income Marylanders. EARN Maryland invests in strategic industry partnerships from key economic sectors in every region of the state. These partnerships use the power of coordination across education, workforce and economic development initiatives to address the multiple needs of companies, starting with the training of skilled workers. Once formed, the partnerships develop plans to train and educate workers - and place them in meaningful employment. The ultimate aim of EARN Maryland is three-fold:

- Address the demands of businesses by focusing intensively on the workforce needs of a specific industry sector over a sustained period.

- Address the needs of workers by creating formal career paths to good jobs, reducing barriers to employment, and sustaining or growing middle-class jobs.

- Encourage mobility for Maryland's most hard-to-serve jobseekers through job readiness training which may include GED® preparation, occupational skills development, literacy advancement, and transportation and child care components.

Since EARN was established, over 2,900 unemployed/underemployed participants have completed entry-level skills training and over 5,600 workers have participated in incumbent worker training,

[5] Maryland State Department of Education. (2017). Maryland high school career and technology education programs of study [PDF file]. Retrieved from http://www.marylandpublicschools.org/programs/Documents/CTE/CTEBlueBook2017.pdf

[6] Prince George's County Public Schools. Career and technical education task force report. (2017). Retrieved from https://www.pgcps.org/career-technical-education/cards/CTE-Task-Force-Report-and-Survey/

obtaining additional credentials, certifications and/or skills. The analysis of training funds invested in FY18 demonstrated that for each dollar the State invested in EARN, an additional $18.50 is created in economic impact for the state.[7]

Apprenticeship

The More Jobs for Maryland Act, effective beginning June 2017, provides tax incentives for new and existing manufacturers to create thousands of jobs, along with additional workforce development initiatives that the governor supports, including the registered apprenticeship program. In Maryland, registered apprenticeships are jobs where workers "earn and learn." While working on the job, employees receive one-on-one full-time training from a skilled craftsperson as well as related classroom instruction. An apprentice is "sponsored" by an employer or association and is paid according to a progressive pay scale. A registered apprenticeship sponsor is a business or association that manages a registered apprenticeship program that has been approved by the Maryland Apprenticeship and Training Council. A sponsor can also be the apprentice employer. Eligible registered apprenticeship sponsors and participating/signatory employers who hired a registered apprentice beginning in January 2017 may qualify for a $1000 tax credit for each eligible registered apprentice.

Opportunity Zones

In December 2017, Congress passed the Tax Cuts and Jobs Act (TCJA) establishing Opportunity Zones in low-income census tracts to spur investments in distressed and underserved communities through the provision of tax incentives. In Maryland, there are 149 tracks approved as opportunity zones across the state, with large concentrations in Baltimore City (42) and Prince George's County (25). In addition to the federal tax benefits, Maryland Governor Larry Hogan has proposed offering state tax incentives for opportunity zone investors in Maryland that include: temporary deferral of taxable income for capital gains reinvested in an Opportunity Fund; additional temporary tax exclusion for investors with properties held up to seven (7) years; and permanent exclusion from taxable income of capital gains accrued after an Opportunity Fund investment if the investment is held for at least 10 years.

According to the Maryland Department of Housing and Community Development, there are nearly 589 census tracts eligible to be "opportunity zones" in Maryland. That is nearly 600 communities with a 20 percent individual poverty and a median family income 80 percent or less of the area's median across the state. And while only about 150, or 25 percent, were approved due to program restrictions, it is clear that there is a dire need for investment in under-resourced, distressed communities across the state. Coupled with a statewide unemployment rate of 3.9 percent with significantly higher rates for Black (6.5) and Hispanic/Latinx (4.7) populations, additional jobs, particularly those that are meaningful, stable, and provide living wages, are a necessity to ensure that Maryland's families are able to thrive and strengthen our economy. Incentivizing companies - particularly those in the growing fields of biotechnology and cybersecurity - to bring additional development to these communities, hire locally, and meaningfully engage community members in the decision-making process is a great step towards community-driven revitalization and development.

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[7] State of Maryland Department of Labor, Licensing, and Regulation. (2018). EARN Maryland 2018 Annual Report. Retrieved from https://www.dllr.state.md.us/earn/earnannrep2018.pdf

Recommendations

Given the vast number of Americans experiencing poverty and living in distressed communities, it is necessary that we work to narrow the gap in access to skills training and meaningful, sustainable employment in order to produce a healthy economy and increase economic upward mobility, particularly for marginalized communities. We suggest that the following policy recommendations:

- **Increase Funding Levels**
    - Provide additional funding for work-based training programs, including, pre-apprenticeships, apprenticeships, CTE, and job training. Current policy that can be considered:
        - The JOBS Act: Expands Pell grants to people seeking short-term training programs that lead to in-demand jobs.
        - Increase WIOA funding for pre-apprenticeships and apprenticeships, including funding for issues that apprentices may need additional support to address, such as transportation and day-care.
- **Diminution Credit Incentives**
    - Research shows that correctional educational accomplishment reduces recidivism and creates pathways to employment. In order to encourage inmates to complete classes, establish a 30-day diminution credit bonus to be awarded to those who earn their GED or high school diploma, complete a literacy skills program, post-secondary certificate or degree, or 2- or 4-year college degree.
- **Occupational licensing**
    - Limit criminal history consideration to a "look-back" period of no more than 5 years as data shows that after 3-4 years without recidivating, a nonviolent offender is no more likely to reoffend than someone with no record; limit consideration of a criminal history to crimes that are "directly related to" the occupation or will "directly impact the public safety" of those served by the occupation.
- **Ban the box on college and job applications**
    - Ban post-secondary institutions from inquiring about criminal history on the admissions application and use this information to deny admission to individuals with criminal records. These inquiries function to prevent individuals, disproportionately those with low incomes and minorities, from accessing higher education, which can be a key source for skills training attainment. The same case can be made for employment.
- **Criminal Record Expungement**
    - Limit public access to criminal background information; allow for automatic expungement of non-convictions; and, increase access to expungement and shielding for certain misdemeanor and felony convictions
- **Opportunity Zones**
    - Create tiered incentives, such as tax credits and wage rebates for Opportunity Zone businesses that choose to pursue local hiring, local job creation, community engagement and providing job training.

For more information, please contact:
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Chairman RUBIO. Great disclaimer. Perfect disclaimer.

Before we get into questions, he was not here at the outset, but I wanted to give Senator Romney just a second because I know Mr. Cass has worked with you for many years, and he wanted the opportunity to introduce him.

Senator ROMNEY. Has Mr. Cass spoken yet?

Chairman RUBIO. Well, he gave his opening statement.

Senator ROMNEY. Oh, he gave his statement. So I get to ask him a question, then, or do you just want to—first, I want to say hello.

For those that do not know, Oren Cass was kind enough to be my domestic policy advisor, and he was responsible for all the good things I came out with. I am responsible for the mistakes.

[Laughter.]

And, as you all know, he has taken his experience and perspective and brain power to extraordinary heights in being an author of a very interesting reevaluation of how we think about success in this country and how we create not just a growing economy, but growing happiness and stability and satisfaction on the part of the American worker and the American family. And it is an approach which obviously has garnered great attention from some of the columnists of the leading papers in the country, but also policymakers and thinkers. And I appreciate his help in the past and his help in the future.

Thank you, Mr. Chairman.

Chairman RUBIO. And I am going to generally waive my time, other than the first question to you, Mr. Cass, because I know there will be a vote here at 4:00, and I want to make sure everybody here gets to go and do that. I am going to be here to the end.

Both in your opening statement and in the book that has gotten a lot of attention, you make the fundamental argument that American policymakers have been hyper-focused on consumer prices, raising standards of living, and redistributing income when in fact—and I will just focus on just growing the economy at any cost, but that that focus is the wrong one. That, instead, our focus should be on creating dignified work that supports strong families and communities, and that that, ultimately, is what leads not just to sustainable growth that is positive and raising standards of living and the like, but it also leads to long-term prosperity.

So I just want to give you a chance to outline that. To a lot of people, that is a different construct than they perhaps heard, certainly from my side of the aisle in many cases.

Mr. CASS. Sure. Thank you, Senator, and thank you, Senator Romney, for that.

You know, I have likened our situation to the romantic comedy heroine in the kind of generic trailer who has it all or so she thought, dot-dot-dot. You know, she has the car and the apartment, and yet something is missing.

What we found, I think, if you look at our economic data, is that on the terms we have set of growing the economic pie of raising material living standards, we have succeeded. The economy has grown enormously. We redistribute more than ever to the lowest-income households, and everyone's material living standards have risen. And yet, in conjunction with that, we see all of these very serious maladies, whether you are talking about collapsing families and communities, declining personal health, declining life expectancy, exit from the labor force, and so on and so forth.

And I think what we have lost is the recognition that what is ultimately most important to individuals and what provides the basis for our communities, our families, and for the economy ultimately is not how much you can consume. It is your opportunity to engage as a productive contributor in society.

I think in our single-minded focus on just consumption, we have actually managed to erode, to a significant degree, the health of the labor market that provides the real foundation for a healthy society.

So it comes down to a lot of choices we make on a whole bunch of different dimensions and tradeoffs that we face and that we need to take a hard look at if we want to really make sure that, first and foremost, we are giving everybody the opportunity to, I would say, achieve what truly is the American dream, which is not in terms of how big your television is. It is about being able to, a lot of times, grow up in the community that you grew up in, to stay there, to build a family, to support it, to contribute, to save for your kids, to set them on a path to success as well. And I think we are going to have to make some sacrifices elsewhere on the consumption front if we really want to put that front and center.

Chairman RUBIO. Thank you.

Ranking Member.

Senator CARDIN. Well, I thank all four of you. You have all pointed out that one of the problems we have in getting qualified workers is the fact that we do not have enough people who are educated and trained at the level we need, and we have discriminated against a large segment of our population who have criminal records. If you are a small business with a limited pool, you have a hard time competing with the qualified applicants that are available.

So, Ms. York, I want to just follow up on the point that you mentioned quickly about Maryland and the problems on licensure.

It has been estimated as many as 600,000 people return from prison every year in the United States, and that as much as 64 million Americans, adult Americans, have a criminal record. That is 25 percent of our adult population.

So this is a huge number, and we talk about opportunities of returning citizens, and yet we know it is extremely difficult.

You mentioned in my own State of Maryland, we have restrictions in regards to licensing. Could you just briefly tell us what you have been able to do to try to provide opportunities for those who have served a prison term, who are returning to our community, who have not only an opportunity, but the skills necessary in order to compete?

Ms. YORK. Thank you.

You are absolutely right in terms of the stats that were articulated around the numbers of individuals who are returning back to our communities from incarceration because we should all know that if you were not sentenced to life, you are coming home. And so if they are coming home, it is incumbent upon all of us to think about how we want them to return and how we can ensure that they do not return back.

And so, when you take these large numbers of individuals who are returning back to our communities with a criminal background, with a criminal record that is used in hiring decisions and even housing decisions, and then you juxtapose that against the number that shows us that the majority of jobs nowadays requires some type of occupational license and the policies that actually prohibit individuals or that allow boards to deny licenses to these individuals, then you begin to see how these criminal justice challenges actually become workforce challenges.

And that is why an entity like the Job Opportunities Task Force is actually involved in this work. We found that there is a significant segment of the working population that is effectively unemployable as a result of a criminal record.

There are a number of job opportunities, but yet folks were unable to access them because of their criminal record or because of the communities that they were raised in, which made it really difficult for them to access the educational opportunities that would allow them to access high-wage employment opportunities.

So whether it is through Project JumpStart, where we are taking city residents and training them in the trades and then helping to deal with all of these wraparound case management services that, quite honestly, business owners and employers do not have the time to deal with but understand how important they are, as it is related to someone's ability to actually secure and maintain employment.

So pre-apprenticeship—we talk about apprenticeship. Pre-apprenticeship is so important to ensuring that the individual is actually successful in the apprenticeship program, and then ensuring that we are supporting those policies that successfully facilitate the individuals once they are matriculating through the programs and then afterwards because, in today's market, you will hear from employers that, you know, the workforce has changed, and so the workforce is aging. They are now looking for workers, and that includes workers with criminal backgrounds, and so how can we fix this disconnect so that employers have access to qualified workers and workers get jobs?

Senator CARDIN. I am going to look forward to looking at some of those specific recommendations.

I think we have an opportunity here. This past Congress passed the FIRST STEP Act, which I thought we came together in a sensible way on sentencing. Now I think it is important for us to come together on dealing with the realities of the population of our country.

All of you have mentioned the importance of higher education and the availability and access to higher education. You have all talked about the appropriateness for technical education. Not everyone should go to college, and the importance of that.

My concern is that if you look at those that are going to be on track for higher education and those that may be on track for technical education, there is a disconnect between the communities you come from.

So how do we provide equal opportunity so that those who should be going to college can have a better opportunity for income are not denied that opportunity because of the community they happen to come from?

Mr. Cass, do you have an idea on that? You talked a little bit about equalizing through wage, directly through wages. But would not it be better that someone who should be in college has that opportunity rather than saying that we are going to get you into a technical program, which is important? I am for technical education, but it should be based upon aptitude and need and talent.

Mr. CASS. Well, I certainly agree with that.

I think the first step in any system that has multiple tracks should be to ensure that the choices the students and their families, which track that they move on to.

Senator CARDIN. Would you acknowledge that today that is not necessarily the case in America?

Mr. CASS. Well, we do not have a multitrack system today in America. We have a system that attempts, I would say, to push everybody into a college pipeline and essentially abandons those who do not reach it.

Senator CARDIN. Not if you come from certain neighborhoods.

Mr. CASS. No, not for every neighborhood. But, certainly, if you look, for instance, with respect to funding at what we spend money on or if you look at where Federal attention is, it is almost entirely on trying to increase the share of people attending college.

So I think it is very important to recognize that while we want to make sure we have two robust tracks, the imbalance we have today is the total lack of a vital non-college track, and that when we lack that, it is those who would perform best on that track who we hurt most.

I think a lot of folks look at, for instance, your observation that we might have a disparity in terms of people from which communities move on to which tracks and say, well, therefore, that is a reason not to have tracks. I think that is the wrong way to think about it.

I think, essentially, we have a track, and it is a college track, and it is not the appropriate one for many people. Creating an additional track and giving people the option of accessing it would be a tremendous benefit to a tremendous number of people who do not have access to it today and would bring our system much closer to one where as many people as possible are on a track that is appropriate for them.

Senator CARDIN. Thank you.

Thank you, Mr. Chairman.

Chairman RUBIO. Senator Hawley.

Senator HAWLEY. Thank you, Mr. Chairman, Ranking Member. Thank you for calling this very important hearing.

I just want to pick up right there. It seems to me something you just said, Mr. Cass, is very important, which is that we essentially have at this point in this country an educational system, job system that pushes folks toward going to college, which is great, but if you do not come from the right background where you have advantages that get you there, then you are essentially left on your own.

Too often, I think we have an economy where increasingly we say to folks who have not gotten a 4-year degree, “Good luck to you.

We cannot promise you a good-paying job. We cannot promise you will be able to find any good work," and we talk endlessly about getting better jobs for folks who have college degrees. What about those who do not have college degrees?

I come from a State in which most folks have not gotten a 4-year college degree, but they still want good work, and they still deserve good work. And our communities and families still depend on the availability of good work.

I think my question is—and I will just pose it to the panel, but I will start with you, Mr. Cass, and go down the line—what should we be doing in order to ensure that we have a labor market that can provide good, honest-paying jobs for folks who do not have a 4-year college degree and who do not live in one of these metropolitan hubs on the coast, but who maybe come from a State like mine that is majority rural or majority ex-urban, who still want to have communities that are prosperous, who want to be able to support and raise a family, but who want to do that without having to move to someplace else, and who have not gone to college? A 4-year college was either not available to them or not for them, but yet they still want to have access to good-quality, meaningful work.

Mr. CASS. Well, I think it is an excellent question.

I would mention a few things. I think education certainly has to be at the top of the list, and I like how you described it, which is people get to age 17 or 18, from whatever background they come from, with the aptitudes and preparation that they have, and absolutely, we should be talking about how to do better reform in society as a whole to make sure that we get people to that level as prepared for success as possible.

But to the extent that we are not, I think it is a mistake to just wish that we were and proceed from there.

Given where people arrive at age 17 or 18 today, providing them with more of the apprenticeship-type pathway that we have heard I think is critically important. Frankly, investing Federal money that would otherwise go to the kids who are in college, I would rather see us investing in the kids who are not headed for college in a sense. So I think that is very important.

Then one other thing I would mention is just our regulatory infrastructure right now wildly undervalues work and physical economy, whether it is farming, whether it is infrastructure, construction, resource extraction, manufacturing, and favors finance and technology. And we should not be surprised that that is where all the investment goes, and I think we need to recognize and put a much higher premium on the value of the work that people do in the physical economy.

Senator HAWLEY. Thank you.

Mr. Lettieri.

Mr. LETTIERI. I agree with much of that, so I will just add on the demand side.

A tight labor market, strong demand pulls people into the labor market and boosts wages for lower-skilled employees, lower-paid employees. So I think that is very important to overall labor market stability and the health of people who have less of an education or less skills entering the workforce.

I would also say, as I mentioned in my testimony, a healthy churn in the labor market is important for everybody, particularly marginally attached workers, and so the more—I will connect this back to entrepreneurship. The more firm entry you have in the business market, the more that chain reaction flows to the benefit of marginally attached workers, many of whom we have talked about here, who face a number of challenges entering the labor market.

One of those is demand, and one of those is a static economy. So, when we have static economies, many of those regions you talk about are very static. They are not suffering from business decline. They are suffering from lack of business entry, and they are missing that chain reaction that business entry sets off.

And so, to the extent that we can focus on entrepreneurship as well, that does create more labor market opportunities up and down the chain and more demand for work of all different types.

Senator HAWLEY. Dr. Stevenson.

Ms. STEVENSON. So let me also focus on the demand side, putting this in a little bit in perspective.

So, among people in their 20s, their late 20s, 64 percent do not have a college degree. Sixteen percent of our private-sector jobs are in the goods-producing sector. So there is nothing that this Committee or this Congress can do that is going to be able to take most of the people who are not going to college and get them into some sorts of goods-producing job.

So we need to be thinking about technical training in a way that is very different from the way we used to think about it, so things like computer coding, other types of service jobs are going to be an important place for good jobs. So do we have the training programs to make sure people can do those kind of jobs? That is an important question.

And then the spillover effects for things like are we providing subsidies for high-quality child care, if we provide subsidies for high-quality child care, it makes it easier for families to work, and it also pushes up wages in the child care industry, which is an important industry. And we can make that a better paying job, a better job for people to feel that both men and women can enter their jobs of taking care of early childhood education.

So we need to be both building the skills of the workers who are able and can thrive by having more skills. We need to be rethinking what we mean when we say technical training, and we need to be investing in the parts of our economy like health care and education services, where there is huge demand, but right now, those are seen as undesirable jobs. They are undesirable because they are low paid, and a lot of that pay interacts with public policy in terms of what is the reimbursement rate for an elder care worker, for example. So there are things we can do on that end that will both support families and work.

Senator HAWLEY. Ms. York.

Ms. YORK. Thank you. Great question.

I listed a number of recommendations in my written testimony, which is five that I want to highlight.

Number one, just understanding and making sure that we are clear about the fact that the worker is not monolithic, and so workers are going to be subjected to different barriers and challenges, depending on where they are from, but also maybe their race and their ethnicity and their gender, all dealing with different barriers.

Also, redefining college. A lot of times when we talk about college and higher education, we are just thinking 4-year college degrees. Training programs should also be included when we talk about postsecondary education, and we cannot forget community college, which leads me to my third point.

Many times, individuals are not able to access additional credentialing because of access or affordability, and sometimes community college can even be expensive for our low-wage workers who are seeking to obtain maybe evening classes or additional credentialing so that they can access high wages, and so redefining how we talk about college and then making sure that we are talking about the affordability of all levels of college.

And then, lastly, aligning workforce with economic development. It is so frustrating to me and many other stakeholders when we talk about economic development and what businesses are looking for over here and then we talk about what it takes to actually move workers from A, B, to Z here. It is important that when we are talking about crafting training programs that we are listening to employers. What is it that you need so that we can craft the curriculum that will ensure that you can draw from these trainees, and then you can hire them and employ them? So that we are killing a bunch of birds with one stone.

And so those in addition to all the many recommendations I have listed in my written testimony, I believe would help ensure that we are able to get to the labor workforce that we are looking for.

Senator HAWLEY. Thank you.

Thank you, Mr. Chairman.

Chairman RUBIO. Thank you.

Before I turn it over to Senator Young, yesterday I had a meeting with NIFB, which represents a lot of small, mid-sized business. And for the first time in years, the number one concern in their survey of business owners is the lack. They cannot find trained workforce to fill the jobs that they need at the small——

Ms. YORK. Absolutely.

Chairman RUBIO. And they are willing to train people, but obviously, that is an additional burden that they are facing. So I think that is a very important question.

Senator Young.

Senator YOUNG. Thank you, Chairman, for holding this hearing. I appreciate all of our witnesses for being here.

Mr. Lettieri, you place great emphasis in your testimony on indicating that we should, at the Federal level, consider banning the enforcement of non-compete agreements, except for perhaps under narrow circumstances. It is a bold proposal and one that, in many ways, I find attractive.

Could you please explain what exceptions might exist to that ban and enforcement, though?

Mr. LETTIERI. Yeah. Thank you, Senator.

The most obvious exception is probably when a business owner sells his or her business to an acquirer. In that case, in many cases, the transaction itself would depend on there being a non-compete. So I think that is the kind of thing that makes a lot of sense.

In California, the most restrictive State in the country, when it comes to non-competes, they allow for that exception. I think that makes sense as a national rule as well.

Senator YOUNG. Okay.

There is another concern that I anticipate, should we go this route, and it is the states—this has traditionally been the prerogative of the states to determine whether or not to ban the enforcement of non-competes, and if so, whether they banned broadly or more narrowly.

So what would be your response to someone who had these sort of federalist concerns?

Mr. LETTIERI. Sure. I think it is an important question to address.

It has been the purview of the states because the Federal Government has chosen not to have a say in the matter, but non-competes are properly understood as part of employment law, and employment law certainly is an area where the Federal Government has a strong interest and set a national baseline against which states can modify and do other types of their own prescriptions that are unique to their states.

I think this is clearly a case in which both falling within employment law jurisdiction and being a matter of such importance to the overall health of the national labor market, there is both a compelling economic rationale and certainly a clear legal rationale as well I think for the Federal Government to have a say, as it does on many, many other employment law matters.

Senator YOUNG. Sure.

I can anticipate a number of businesses. I grew up in a family business, and we would have sales lists, customer lists. And those were very important to our business model. So there is certain information that is important to certain types of businesses. Are there steps that companies can take without the use of a non-compete agreement under the law that can be used to protect those legitimate interests?

Mr. LETTIERI. I think that is one of the—this is one of the questions that gets to the heart of why non-competes are so problematic. It is for the very reasons that employers often use to justify their use. They are not necessary.

Employers have access to trade secrets protection, to other protections of intellectual property. They have the use of nondisclosure agreements and non-solicitation agreements. When you look at the reasons that employers give for the use of a non-compete, they often fall into one of those other, more finely scoped categories. And those categories, those tools do not carry the same type of broad harm that non-competes carry throughout the labor market and throughout the economy.

So if you have alternatives that are more finely scoped to the concerns that employers have, over legitimate concerns, frankly, for intellectual property and trade secrets, those are the best tools to apply to those challenges and leave aside the broad prohibition on the very thing that our economy is based on, which is competition.

And for workers, their knowledge, their skills, that is the only thing they have to trade on. So this is the kind of thing that I would say, going further, really harms individual liberty and makes it very hard for us to get the kind of outcomes we all say we want, which is a boost in wages, more entrepreneur dynamism, more innovation in our economy. So we have to look upstream from that and say if this is a tool that is being misapplied, what are the alternatives? And when we ask that question, we find that there are many that employers have to reach to.

Senator YOUNG. So you mentioned dynamism, and I know that is something that you are intently focused on at Economic Innovation Group. You and I have discussed it at some length. Do we have economic literature? Is there some good evidence out there about the impact of non-competes on the marketplace, and if so, what conclusions can we draw?

Mr. LETTIERI. Very clearly, the literature agrees on a few fundamental things. One, that the enforcement of non-competes greatly harms new business entry and markets, in some cases, up to 20 percent. That it harms the overall wage environment for workers, even those not covered by a non-compete. But in states that enforce them, it has a depressing effect on everybody's wages in certain fields and on and on.

I mentioned in my testimony job satisfaction, the amount of time that a worker stays in a job. All of them are harmed. So it is very hard to find an issue that unites the academic literature the way that non-competes does.

It is not really a disagreement among academics as to whether they are harmful; it is just to what extent they are harmful. And the more literature we have, the more ways we are finding that they are harming both workers and entrepreneurs.

Senator YOUNG. Thank you all for being here.

Mr. Lettieri, thank you for answering my questions.

Mr. Chairman, I know it is very un-senatorial, but I yield back the balance of my time.

Chairman RUBIO. You had 2 minutes left.

Senator Shaheen.

Senator SHAHEEN. Oh, goody. Can I take it?

Chairman RUBIO. Yes.

Senator SHAHEEN. Well, thank you all very much for being here. I apologize for missing your testimony.

I want to begin with you, Dr. Stevenson, because I sort of heard the end of the question about child care, but in New Hampshire, child care, next to mortgage, is the highest expense that families face. For an average family with a newborn up to 1 year old in New Hampshire, it is over $12,000 a year just for child care for that one child.

So can you talk about the challenges that presents for families as they are trying to get in and out of the workforce? That is often coupled with the fact that most people do not have access to family medical leave or family leave around the birth of a child and what challenges that also presents. Where, on the one hand, they want to go back to work. The costs of child care are very high. They do not have leave to stay home with the child, and what kind of conundrum do families face?

Ms. STEVENSON. Thank you very much for that question.

I think one of the real surprises in recent years is that we have been in this long boom, and yet fertility continues to decline.

Why is it that millennials are finding it so hard to have children? Well, you touched on part of the reason, which is that they are graduating from college with enormous amounts of college debt, and then they are facing down child care costs that are—that is itself actually equal to the cost of going to college or even greater.

So those costs combined with many of them having graduated in a recession, so not having the job changes what they needed to have to get the wage gains they needed early in their career, then they face unsustainable costs of child care, they are in jobs where they may not have access to paid leave, maternity leave, paternity leave, or flexibility or parental leave. All of these things are leading some people to say, "I cannot afford to have children." So we are seeing fertility decline.

What we see with the challenges from child care and not having access to what I think of as an infrastructure that supports families is some people choose not to have children, but other people get sidelined from the labor force.

We see in the data very clearly that people who have access to paid leave, women who have access to paid leave are more likely to stay attached to the labor force, will be in the labor force for longer, and will have greater wage growth over the course of their lives.

We see quite clearly in the data that women who feel that they need to take time out of the labor force have a really hard time getting back in.

One of the problems with our labor force and with the lack of dynamism is that we are failing to provide the on ramps when people take an off ramp out of the labor force. So we get people who exit for some reason or another, and they cannot get themselves back in.

For many women and many families, if you sit down—if you have a 1-year-old child and you sit down and you look at what is the cost of the woman going to work, what they are going to pay in child care, the marginal tax rates on the woman's additional work, the cost of her commute to work, they find at the end of the day, they are not netting very much.

So many families then put themselves in a situation where they say, "Well, maybe we cannot afford to have you stay in the labor force," but when you step out, you come in at much higher wages or maybe not at all.

As I mentioned before, if we have greater support for child care, there are a couple things that happen. We invest more in children, and those children have better outcomes and earn higher wages. We have a large, large body of literature——

Senator SHAHEEN. Right.

Ms. STEVENSON [continuing]. That shows that early childhood education reaps benefits for taxpayers over the course of that kid's life, but it also reaps benefits for families as women are able to get back to work, as they are able to support their families. Those kids, particularly lower-income kids, will grow up in a household with higher income, which generates its own second set of benefits.

So this issue is very, very crucial to the success of American families.

Senator SHAHEEN. I certainly agree, and I hope that we can find ways in which we provide more support for families around child care and early childhood education.

My next question is really for any or all of you because one of the biggest challenges we have in New Hampshire right now is affordable housing.

We have an economy that is generally doing pretty well, very well. We have a very low unemployment rate, one of the lowest in the country. We have a lot of jobs that are going unfilled, and we have companies that cannot get workers because they cannot afford housing in the communities that they are in.

So does anybody have any suggestions about how we better spur affordable housing?

Ms. YORK. So I will go first.

You know, I am sure that John may have some comments around how there are a number of initiatives to provide for housing opportunities within the context of opportunity zones. However——

Senator SHAHEEN. And we have those in New Hampshire, and we are seeing some benefits from those as well as we also have HUBZones, but they are not providing the incentives——

Ms. YORK. Correct.

Senator SHAHEEN [continuing]. That builders need to actually put in housing that is more affordable.

Ms. YORK. Correct.

So, you know, from a workforce perspective, this is something that the Job Opportunities Task Force has recently started to take on because we are finding that for low-wage workers, about 40 percent of their wages or more is going toward housing cost. And we are talking about renting.

There was recently a study on CNN that showed that in Maryland, we were fifth in the Nation for how much you must make an hour to rent a two-bedroom home. It was somewhere around $29.50. So housing instability is a workforce challenge.

So I think that this also goes toward an earlier comment that I made around aligning economic development with workforce development because you are absolutely right. Employers and businesses, in addition to looking for a pipeline of educated skilled workers to determine where they are going to move, they are also looking for the livelihood and what is it going to take to ensure that our workforce is going to be able to live and thrive, and one of that includes housing. Are there actual options, and are they affordable options?

So I would highlight, of course, or uplift opportunity zones as a way to encourage localities and states to get creative with how to ensure that housing is provided at an affordable rate across income levels.

I think that you are starting to hear creative options for whether they be housing co-ops, for particular populations. For instance, we have individuals that are returning from incarceration, and they need a place to stay as well. So how do we provide those housing opportunities for them so that it is not contributing to the larger homelessness situation?

So that might not necessarily answer your question of what we can do to incentivize builders and others to move into our communities to ensure that we are providing this housing. I would say that the only solution is how can we use opportunity zones as a way to provide incentives to connect some of these dots.

I do not know if John wanted to comment on this.

Senator SHAHEEN. And that may work in 20 years. It is not going to work next year or in the next 3 years.

Do you want to add something, John?

Mr. LETTIERI. I was just going to add that as we look at housing challenges around the country, the most fundamental relates to zoning and land use regs that are local, so that the prohibition on building toward density and scale of housing close to where the jobs are is a fundamental challenge that no matter how effective a subsidy, there is no way to get around that principal challenge, and no subsidy is going to be effective at overcoming that at scale.

So I agree there is tremendous opportunity with opportunity zones to make certain types of deals more affordable and especially I think in workforce housing where there is a huge missing middle in the labor market. I see that as being a perfect match, but that does not compensate or only partially compensates for the fundamental challenge, which is too many places are far too restrictive about allowing for local building and density and their housing policy.

Senator SHAHEEN. I certainly appreciate that. We have a project in downtown Portsmouth that has been held up around concerns by abutters. It is multifamily affordable housing that is right downtown.

Now, I think it is going to go forward, but as you say, there are too many—there is the ability of too many restrictions to be put in the place of going forward with that housing.

Thank you, Mr. Chairman.

Chairman RUBIO. Thank you.

Senator Romney.

Senator ROMNEY. Thank you, Mr. Chairman, and to each of the panelists, thank you for your participation.

It has been a puzzle, I think, for many to see that we are one of the very wealthy countries in the world, perhaps the wealthiest of the major nations in the world if you look at a GDP per capita basis. We have a lot more stuff than we used to have as middle-class families, 30 years ago. The things we have in our homes are extraordinary, and yet the degree of anxiety, unhappiness, anger, anger directed toward our politics and toward elements in our life that we are not happy with is at a very, very high level. And I think it has been instructive to recognize that perhaps some of this is too much focus on, if you will, GDP and GDP per capita and not enough on some of the other elements.

You have described as part of the prescription to bring more family, work-oriented, and more satisfying life experiences, a dual track, if you will, in education. I want to put in a plug and then get to my question.

The plug is that some years ago in the State of Utah, a few of the State colleges decided to make a change and became 4-year colleges, at the same time said there is no admission requirement. Everyone is accepted, and you can come in and you can get certification to go into a job. You can get licenses to do various things. You can get an associate degree, or if you want, you can keep on going to get a 4-year degree.

So, as you come in, you do not have to say which one you are going to do. You take different classes. You find which ones that you find most compelling and most interesting. You pursue that course, and off you go. Some go the 4-year route, some go 2 years, some get certification, but I will put that aside. But it is a very successful effort in providing people a wide range of tracks, if you will, in the same institution.

But what I want to turn to is something which I have seen time and again, which is even with community colleges that talk to the local business community to say what kind of jobs are you looking for, what kind of training do we do. It seems to me that some of the most effective training is done by the business itself, by the company itself.

We give R&D credit when companies are willing to invest in stuff. We do not give an R&D credit when companies are willing to invest in people, and I wonder whether you believe that employer-based education and employer-based training might be a highly efficient way of helping people find a satisfying career and whether we might be wise in providing a credit of some kind to businesses that hire someone who may have been incarcerated, someone who has been out of the workforce for a long time, someone who is just coming in for the first time, and then providing them this credit for training purposes to get them started in their career.

Mr. CASS. Yeah. Thank you. I think that is exactly the right way to think about it, which is that employer-led training is pretty much, as far as we know, the only way to do training.

I mean, when you have government-led programs that try to guess what the employers want, they tend to work out fairly poorly. Partly, it is a function of employers knowing better what they want. Partly, it is a function of just actually getting on the job sooner. So the kind of credit you have described I think is a very good approach.

We actually have, to our detriment, I think, a wide variety of very targeted credits, so a credit if you hire this exact kind of hard-to-employ person in this industry and so on and so forth.

I think a much better model and one that fits with the tracking concept we have discussed and with apprenticeships generally is to really focus the model on saying for folks who are sort of in those late teen years, essentially 17 through 20, that is a period of time when we essentially want to subsidize the employment. That getting that person into a job, even while they are still in high school be on the job part of the time, it is going to be incredibly important to building skills sooner and ultimately saying we can get someone to age 20 for less than we spend on college with earnings in the bank, years of experience, and industry credential and a job.

So targeting more of what we call education spending right now toward supporting that kind of relationship I think is a very important approach.

Senator ROMNEY. Thank you.

Any others that would like to comment?

Yes, Ms. York.

Ms. YORK. Thank you.

So I do think you are on to something; however, I do think there should be multiple options in terms of training.

I mentioned the Maryland program, the Employment Advancement Right Now. This is an employer-led program, where the employers—you have the jobs. You know the curriculum that you are looking for, and so you tell us the curriculum, and we partner, whether it is a nonprofit—for instance, in construction, it is JOTF, and we partner with the training provider, say Associated Builders and Contractors, or it could be a community college. But you are working with that community college to come up with the curriculum that is directly aligned with the jobs that you are looking for.

But I also want to make sure that we are not moving away from community colleges because community colleges also provide an opportunity to access that training so that you can access the jobs, and then we can allow employers to build on top of that.

Regarding your last point, tax incentives for employers who may be interested in hiring individuals with a criminal background, you know, I struggle with this because for the Job Opportunities Task Force, we are always interested in ways to incentivize businesses to hire, to incentivize businesses to ensure that they have a robust workforce.

But the flip side of that is when we talk about individuals with a criminal background and we talk about providing a tax credit as an incentive, these are actually very qualified individuals. They are able-bodied. There is actually nothing wrong with them, aside from the fact that they have a criminal record.

So, in today's market, when we have an aging workforce, when we have all of these challenges where employers are now having to recruit and consider employees, prospective employees, that before they did not necessarily have to, such as individuals with a criminal background, I worry that we may be sending the wrong message by relying too much on tax credits to incentivize employers hiring individuals with a criminal background, when these are probably—would be some of your best employees because they are hungry, they have something to prove, and would be eager to come on your job site and would be eager to be trained by you as an employer and everything that comes with that, outside of having a tax credit or some type of tax incentive.

So, I mean, I struggle with it because I understand that we want to incentivize businesses, but I also want to make sure that for individuals with a criminal background, we are not putting them in a box where we are assigning them some particular handicap because the only handicap is the fact that they have a criminal record. And we as a society have assigned the stigma to that record. But they can work, and they are great workers.

Senator ROMNEY. Thanks.

Ms. STEVENSON. So I think what we have learned in recent years is that when the labor market gets really tight, businesses hire people that they would not have looked at when the labor market is not so tight. It is not a big surprise. It means that incentives matter.

How much of an incentive do they have to hire hard-to-employ people? How much of an incentive do they have to provide training?

One strong incentive is a tight labor market. We are not always going to be blessed with a tight labor market. So I think it is absolutely a good idea to be thinking about what are the other ways in which you can build incentives into the system when there is not a tight labor market.

I do think that it would be very wise for the Committee to think about a set of incentives that might actually move with the state of the labor market. You might not need incentives as strongly today with our 4 percent unemployment, but I would sure like to see those incentives when employment is 6 or 7 percent. And I would rather you debate that right now than waiting until we see unemployment at 6 or 7 percent and start debating it then.

It is possible to have policies that are automatic stabilizers by increasing the kinds of incentives we provide employers to hire people as the unemployment rate rises.

So I personally think that the types of tax incentives that you are talking about are a wise thing for you to be considering, and I would add to that to think about ways in which you could thinking about ramping that up and down as the business cycle changes.

Senator ROMNEY. Thank you.

Chairman RUBIO. Just some questions, now reclaiming my time I did not use at the beginning.

Ms. York, let me ask you. I support—I think we all would—the goal of helping those who have criminal backgrounds, convictions in their background, to finding meaningful work, but we are all aware there is a stigma associated with that. Some employers shy away from it for a lot of different reasons.

Other than just the market need, we need to hire people. We are going to have to hire people that we would not have hired at other times. What have been some of the more successful methods that you have been able to use to convince employers to hire people that have had a previous conviction?

Ms. YORK. So, I mean, one of the methods is actually one that is not led by JOTF. It is one that Dr. Stevenson just articulated, just the fact that we have a tight labor market. So, by default, they are having to consider workers who they would not necessarily consider.

JOTF is also a member of a number of business associations. You would not think we are, but we tend to be because we have to be responsive to both the worker and the employer. We find that within those groups, those employers that for a long time maybe have always hired individuals with a criminal background are now able to anecdotally advise and inform and influence their colleagues and their partners on what it is like to actually have an individual with a criminal background on their job site and how the sky has not fallen, and "Actually, it is one of my best employees."

Outside of that, it is really just getting folks to actually understand, particularly employers to actually understand the dynamics of an individual with a criminal background and add that humanistic approach because a lot of times, we just focus on the fact that you went to jail. You have this record, and that is all I see, and that is all I care about.

These are individuals. These are our neighbors. These are our brothers and sisters. And, again, if they were not sentenced to life, they are coming home. So if they do not have access to employment, then they are going to jeopardize our communities because they will feel that they have to resort to an illegal means.

This then becomes a business challenge for those businesses that are looking not just for a stable, educated, skilled workforce, but also a safe environment.

So how can we talk about the importance of investing in these individuals? Not just for the moral, social, feel-good kind of thing, but making the business case for why this actually will ensure that our communities are safer and you have access to workers. But we are really relying on other anecdotes from other employers. We are relying on the fact that if you train them and provide them with the supports, quite honestly it does not matter that you have a criminal background because if you can get to work on time and if you have the skills and the training that is necessary, all of that is irrelevant outside of any regulatory challenges that are presented with the criminal background.

Chairman RUBIO. Mr. Cass, the strategy of productive pluralism that you describe, I think it could have some interesting implications for small business.

The primary focus of labor market policy is on connection. That is what we made it, connecting workers, especially young workers, to productive employment that is consistent and builds skills. Then it seems like that might entail greater engagement for small business and entrepreneurs.

I wonder if you could just discuss that because it sounds to me like that is tailor-made for connecting workers to the needs of small businesses, startup businesses, and unique industries.

Mr. CASS. Yeah, I think that is right.

There are two things that I would say about the special relevance to small businesses here. One is to recognize the role that small businesses play in the ecosystem of a local economy.

Dr. Stevenson rightly pointed out that a very small share of overall employment is in manufacturer, for instance, but when you step back and look at the ecosystem of a local economy, what you tend to have is a few large employers, some of whom need to actually be sending something out to the rest of the world, and that then supports a much more robust and vibrant service sector around it. So I always say we cannot all serve each other coffee.

So to have a vibrant small business sector, it cannot simply all be, for instance, child care providers providing child care for each other. We need to make sure that the economy is one in which the types of business that small businesses are likely to engage in can still connect to larger multinational, nationwide companies, and that is where a lot of their growth and productivity gains are likely to come from. So small businesses as kind of a key component of local economies in particular is very important.

Then the second thing I would say—and this goes back to what we were speaking about a moment ago with respect to education—is that small businesses are in an especially tough place when it comes to training. A small business might need to hire one person every year or two. They cannot run a gorgeous global training program with three off-sites a year for their one worker per year. So for small businesses in particular, it is really important to have structures at the local level that allow multiple small businesses to come together to collaborate with larger businesses, a little bit like Ms. York was describing, where you design the curriculum. Maybe it is hosted at the community college, and then all the small businesses that need a particular skill set have access to those trainees.

So having small businesses be able to collaborate in that respect is critical to having to be able to take on new workers, where they are not going to be able to invest in a full training program themselves.

Chairman RUBIO. I also wanted to ask you about—it is really impossible to talk about work today without automation, and when people think of automation, they tend to think of a robot or a computer that was going to replace their job entirely.

I guess I can open this up to the entire panel.

I know you, Mr. Cass, have a different view on this. Perhaps those of you have different views on it. But how should workers understand both the challenge and the opportunity embedded in automation and in technology, which does, as always, create the potential of displacement, but it also creates the potential of increased productivity and thereby higher pay and new fields opening up?

You talk to people particularly in the small business world, but even in larger firms, there is just a lot of fear among workers that they are going to get replaced by a robot. So what is the best way for us to focus on that, particularly as it impacts entrepreneurship and startups?

Go ahead. I will just go from left to right.

Mr. CASS. Yeah. I will say one thing about it. I realize the more I talk about this that we have a real problem that we anthropomorphize robots, and so it sounds like it makes sense to say a robot could take your job.

But a robot is just a new form of technology. You would never say electricity took my job. That would sound ridiculous. You would never say many of the sort of technological breakthroughs that have made people more productive over time took your job. It happens that the kinds of robots we are picturing look more like a worker, but at the end of the day, the effect is the same.

As Dr. Stevenson said, rarely do they actually replace the person. They replace some portion of the person's tasks, and so the key is going to be for workers to collaborate with technology and to recognize that the technology is what makes the worker more productive.

I think the one other thing we could focus on as we talk about it and as policymakers talk about it is to realize that workers are actually the constraints on how quickly we can deploy technology.

When we talk about these jobs that we cannot find the worker for the job or we say jobs are going to change in these ways and workers are going to have to catch up, that is not actually true. Jobs can only change as quickly as we have workers to fill them, and one way of understanding the skills gap and these other challenges we have right now is that businesses have designed processes and tried to deploy technologies for which the workforce is not ready.

So one effect of that is that is going to slow down the rate at which automation actually happens, but a second is to reconfirm the fact that this is going to accrue to the benefit of workers and really finding ways to design technology for the workers we have and equip workers to work with that technology is going to be the secret sauce for a labor market that thrives.

Mr. LETTIERI. Count me in as an automation apocalypse skeptic. I do not think there is evidence to back up many of the concerns that we often hear thrown around about the rise of automation as it relates to replacing workers.

To Oren's point, there are very few jobs that can actually be replaced in full by a robot of any form.

I think the key is that we are missing the kind of safety net that robust business dynamism used to provide. We have always had industries and jobs being phased out of our economy. That has always been true. Productivity gains, by definition, are displacing of some future potential worker as we get more efficient at doing certain things.

The difference is we have not felt that in previous eras because we have had a more robust firm entry that has caught more of those being left out of certain jobs or taken out of certain industries and brought them back into productive use.

So areas of the country that are particularly un-dynamic are the ones not with high death rates of firms, but of incredibly low birth rates of firms. That is what is missing.

One of the major things that is missing I think as we think about the worker piece of all this, we need to think about the entrepreneur as well. Incumbent businesses tend to shed jobs on net every year as a whole, of any size, and so where we get net job creation is disproportionately from new businesses. When that fades—that is the engine of job creation—that is the missing safety net for workers.

Ms. STEVENSON. So my testimony focused much on this because this is something that I am thinking a lot about, and as has been repeated, the idea that automation does not take jobs. It takes tasks.

But that creates an enormous opportunity for us to create jobs that are more meaningful, and this is one of the things I am looking at in my research. It is which are the tasks that are being taken, and are they the tasks we like to do or the tasks we do not like to do?

In the past, what has happened with technological changes, our jobs have gotten better. We have seen an increase in job satisfaction. We like the stuff that we are able to do more.

I certainly know that my job being a university professor is something that is much more common today because of all the technological change that has come before, and I like my job a lot more than I would have liked working in an agricultural field.

So there is a lot of promise that comes from this, but I do think it is worth keeping in mind that there is a lot of disruption. When I go to conferences on AI, I will tell you that I am shocked at how fast the technology is moving.

I agree very much with Oren Cass that we can only move as fast as our workers are ready for us to move. So there is a real limit that comes from our workers, but the technology is moving quite rapidly. And we need to make sure that our workers can keep up. It is one of the reasons why I have such concern that in the race between technology and education, technology seems to be racing in front of education, and I think we need to correct that problem, quite rapidly.

I do want to emphasize that these kinds of technological changes, this AI, is going to allow us to produce services that are more tradeable. So the idea that—when we hear services, you think cup of coffee. I think that is not the right way to think about it. The U.S. is really succeeding with a lot of trade and business services that are a really important source of not just international trade for us, but, of course, cross-national boundary trade.

Remote work is allowing people to live in places that they could not have lived having the kind of job that they were having before. So technology will create a lot of opportunities. We need to make the space for it to happen, not try to get in the way of it, and then help make sure that the prosperity that comes from it is shared, so that lots of workers are able to benefit from this change and not just the few owners of—the people who own the technology.

The anecdote I always like to tell people is I had a long conversation once with an Uber driver who told me that he thought self-driving cars were the worst thing in the entire world, and toward the end of 20 minutes of him railing against how terrible self-driving cars are, I asked him, "What if you owned the car? What if you were the one sending it out to do your work and you could stay home?" And, all of a sudden, his attitude toward self-driving cars changed a lot.

So the real question about this technology is not going to be that it replaces workers. It is going to be about who owns it.

Ms. YORK. I have nothing else to add to the remarks of my eloquent panel, besides that absolutely for workforce advocates, we are looking at how we can use these opportunities to turn them into training opportunities for workers, but we are also struggling because we also like self-checkouts at the grocery store but also know that that is taking real jobs away from real people. So how do you balance efficiency and easy access and quickness with ensuring that folks are able to still be employed and have good jobs?

Chairman RUBIO. Do you have something?

Senator CARDIN. Just two quick observations. One, as you point out, innovation is where job growth will take place and good jobs will take place, whereas where we started because innovation occurs much more frequently among small businesses than large businesses. So our tools to preserve a healthy small business community very much is part of having the type of economy we need and the type of jobs that we want. So I would just make that—sort of bring this together.

The second observation is on these tax credits. We recognize that the labor market changes at times. So there are different periods in which employers have different incentives.

But I can tell you as one of the champions of the Work Opportunity Tax Credit and having talked to a lot of employers who have used the Work Opportunity Tax Credit, there is a higher risk factor by those employers, and it has to be compensated somehow.

We can talk about getting good workers, as we all want, but we know that our workforce programs are not equitably distributed, particularly people coming off of welfare, returning citizens, and people who are unemployed. If you are an employer and you have a choice between trying to take someone who currently has a job or somebody who is unemployed, there is a natural bias in favor of someone who is already employed. So long-term unemployed individuals have a much more difficult time in getting the attention. And the Work Opportunity Tax Credit has compensated for that, and it has worked very well over time.

I just really want to put that on the record because there was some conversation about the values of tax credits or compensation issues, and I certainly understand that discussion. And we really need to focus on what is the right policy, but I do believe that our current tool of the Work Opportunity Tax Credit is one that has worked well and is very valuable.

Chairman RUBIO. I want to thank all four of you for being here and all the members that attended. This is really meaningful to us for two reasons. One is the jurisdiction of this Committee, small business and entrepreneurship, and it is important to mention those two because they are not always—the focus of small business, obviously we have oversight responsibility over the Small Business Administration, and we are going to be undertaking the task, I hope, of reauthorizing it because it gives us the chance to help modernize its programs to deal with some of the things we are taking testimony on.

And on the entrepreneurship side, the notion that we want to continue to be an economy in a society in which new business and new idea are being pursued, and in many ways, technology is intimidating to people, but it also has lowered the barrier to entry in a lot of fields.

It used to be that in order to have a business, you had to have a big marketing department. You had to have people you could send out to find customers. Today, a small business is everything from an Uber driver who is an independent contractor to someone selling things online, and they do not have a massive sales force. So technology has empowered entry into the marketplace that would not have been there.

It has actually, in many ways, opened up entrepreneurship, access to markets, but it also has lowered the barriers to entry in a business that you would normally need more traditional constructs around in order to pursue.

So these are the kinds of things that we need to be thinking about as we not just try to reauthorize and modernize SBA, but writ large public policies that help incentivize all of this.

So, again, we are grateful to you for your time, for your forward-thinking ideas across the board on strengthening the Nation's labor markets, which I think go hand in hand with enhancing small business dynamism and entrepreneurship.

The record for this hearing is going to remain open for 2 weeks, and if there are any statements or questions for the record by any of the members, they should be submitted by Wednesday, March 20th, at 5:00 p.m.

With that, thank you again. This hearing is adjourned.

[Whereupon, at 4:09 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Senate Committee on Small Business and Entrepreneurship Hearing
March 6, 2019
Follow-Up Questions for the Record

Questions for Mr. John Lettieri

Questions from Senator Hirono:

Mr. Lettieri, in your testimony you discussed the importance of training a highly skilled and competitive workforce. I have strongly supported career and technical education (CTE) and science, technology, engineering, and math (STEM) programs to make sure we are training the 21st century workforce of the future, and making sure the United States remains competitive abroad.

1. Can you elaborate on the importance of training a high-skilled and competitive workforce, and what that means for small businesses?

Small and new businesses across the country need access to a skilled and talented workforce, and must compete against incumbent firms to procure the best workers to help them form and expand. But it isn't enough for workers to be skilled. They must be mobile as well, and able to move to better work opportunities when they arise. Incumbent firms, however, often use tactics like non-compete agreements that are detrimental to worker mobility and economic dynamism. Nearly 1 in 5 workers are bound by a non-compete agreement, which stifle entrepreneurship. Greater enforceability of non-competes is shown to reduce new firm entry by 18 percent. This is why I urged Congress consider banning or greatly curtailing the use of non-compete agreements.

2. How can broadening participation among women and underrepresented minorities, and expanding the talent pool of workers we can draw upon, improve competitiveness?

Our country is leaving too much of its entrepreneurial talent on the sidelines. The gaps in economic dynamism, workforce participation, and living standards are widening between prosperous communities and the rest of the country. America's most distressed zip codes are still experiencing declines in employment, while prosperous communities overwhelmingly account for the national employment growth since the Great Recession, according to EIG's research. Prosperity and opportunity is increasingly uneven and clustered. Take, for example, access to venture capital: 75 percent of all venture capital goes to three states (Massachusetts, California, and New York), and 98 percent of venture capital in 2017 went to men, the vast majority of whom were white.[1] Expanded education and skills-training of women and minorities

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[1]https://www.inc.com/melanie-curtin/its-tough-to-get-vc-money-if-youre-not-a-white-guy-now-theres-a-game-changing-solution.html

has the potential to spur new business creation and entrepreneurship, create new jobs in distressed or at risk areas, and help revitalize stagnating areas of the country.

3. What role can immigration play in making sure we remain competitive?

An economy needs a vibrant workforce to remain healthy. This week, EIG released a report, "From Managing Decline to Building the Future," which found that 43 percent of U.S. counties are experiencing population decline. By 2037, nearly 67 percent of all counties are projected to have a smaller prime-age work population than they did in 1997. While economists and demographers have long discussed the potential negative economic impacts of population loss and a quickly aging population in Japan and Western Europe, that is increasingly becoming the reality for communities across the United States. Counties across the country are facing not only population loss, but the erosion of housing markets, public finances, and economic dynamism that are a direct effect of these demographic shifts.

Immigration can help address and potentially offset some of these stark trends. EIG's previous research finds that the most prosperous communities - ranked as such across a variety of metrics including rates of poverty, employment and vacancy - have the fastest growing share of minority population thanks in part to an influx of foreign-born residents. Immigrants contribute a great deal to the economic growth of communities and the country as a whole, as well. Research shows that skilled immigrants tend to be highly inventive, productive, and productivity-inducing in others. Immigrants represent 18 percent of all global patent-filers, are inventors or co-inventors of about 25 percent of all technologies developed in the United States, and account for 33 percent of all U.S. Nobel Peace Prizes.[2] Currently, the 20 most populous U.S. counties currently contain 37 percent of the country's skilled immigrants compared to only 19 percent of the country's total population. The inflow of human capital from abroad is another way in which smaller municipalities are struggling to compete. Our latest report suggests a new visa program that could serve as a powerful economic development tool for struggling communities experiencing population decline. The visas would constitute an additive and voluntary pathway for skilled immigrants to come to the United States. Eligible communities would opt-in to hosting visa holders, who would provide a much-needed injection of human capital and entrepreneurial vitality into parts of the country that retain considerable economic potential.

[2] Kerr, William R. The Gift of Global Talent: How Migration Shapes Business, Economy & Society. Stanford University Press, 2018.

Senate Committee on Small Business and Entrepreneurship Hearing
March 6, 2019
Follow-Up Questions for the Record

Questions for Dr. Betsey Stevenson

Questions from:

Senator Hirono

Promoting College Access and Affordability

Dr. Stevenson, in your testimony you highlighted that new businesses need skilled workers and that workers need the opportunity to build the skills that will increase their productivity and allow them to earn higher wages. One of the most effective ways that we can promote these kinds of opportunities for workers is by making sure college is more accessible and more affordable to more people, which is why I have been a strong advocate for strengthening and expanding federal student aid like Pell Grants—the single largest source of federal grant aid supporting postsecondary students.

QUESTION 1:

Can you elaborate on how improving college access and affordability can improve opportunities for workers to build the skills they need to improve productivity and earn higher wages—including for non-traditional students like single parents, working adults, and others?

Response:
Researchers have shown that American workers' skills grew rapidly throughout the 20th century spurring the productivity growth that propelled both GDP growth and shared prosperity. The United States chose to lead the world in educating citizens by providing access to high-quality free high school in the 20th century. Unfortunately, in recent decades the United States lost the lead in education as other countries do more to ensure that a larger share of their population can enroll in, and complete, higher education. In order for the U.S. to have more rapid economic growth, we must have more rapid productivity growth. The way to achieve this is by improving college access and affordability.

To be concrete, college graduates earn 65 percent more than high school graduates and are roughly half as likely to experience unemployment. Additionally, as the US economy shifts to increasingly service and technology-oriented fields, the demand for college-educated workers has grown substantially.[1] College educated workers have the written communication, analytical, and technical capabilities to thrive in these industries and to continue the innovation that drives further growth.[2]

By increasing access to secondary education (through Pell Grants, college preparation resources, GI benefits, etc.) we can provide additional opportunities for traditional and non-traditional students to enroll in post-secondary education programs leading to the skills and credentials needed to access higher wage jobs and create a stronger, more productive labor force.

Many college students are independent, have their own families, or attend classes and work at the same time, with about one in four students being a parent.[3] Schoolwork alongside other responsibilities presents financial challenges for these students.

Non-traditional students are about half as likely to complete their degree program as their 18-22 year old counterparts.[4] This suggests a need for programs that improve access and affordability as well as programs and infrastructure to help older students who may have families and professional obligations complete their degrees.

QUESTION 2:

How does improving access and affordability for these students strengthen the workforce for small businesses?

Response:

Small business owners are reporting that their biggest challenge is the lack of skilled workers they can find to employ. [5] Improving access and affordability for non-traditional students to complete post-secondary programs will lead to a more diverse and highly skilled with the technical expertise and cognitive ability that small businesses are seeking. In sum, more

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[1] David H. Autor, "Skills, education, and the rise of earnings inequality among the "other 99 percent," Science, 344 (6186), May 2016.
Share of hours worked by college graduates appreciated from 35% in 1982 to over 45% in 2012.
Anthony P. Carnevale, Tamara Jayasundera, Artem Gulish, "America's Divided Recovery: College Have and Have Not's," Georgetown University Center on Education and the Workforce, 2016.
Post recovery, 11.5 of the 11.6 million jobs added between 2008-2016 were for people with more than high school education.

[2] David H. Autor, "Skills, education, and the rise of earnings inequality among the "other 99 percent," Science, 344 (6186), May 2016.

[3] https://www.jec.senate.gov/public/_cache/files/5270bffa-c68e-44f0-ac08-693485083747/the-college-affordability-crisis-in-america.pdf

[4] U.S. Department of Education, National Center for Education Statistics, "2012/14 Beginning Postsecondary Students Longitudinal Study" (BPS:12/14). Prepared February 2017.
Shapiro, D., Dundar, A., Huie, F., Wakhungu, P.K., Bhimdiwala, A. & Wilson, S. E., "Completing College: A National View of Student Completion Rates – Fall 2012 Cohort" National Student Clearinghouse Research Center, December 2018.

[5] http://www.nfib.com/surveys/small-business-economic-trends/

students with the skills that small businesses are seeking makes it easier for small business to find and hire the skills they need.

In addition, the rising burden of student debt may prevent small businesses from being created. Student debt may prevent entrepreneurs from securing loans in order to start a business. One study from the Federal Reserve of Philadelphia concluded that business creation for the smallest firms decreased as debt increased.[6] Students who graduate with student loans simply do not have the luxury of considering entrepreneurship. But more problematically, when that debt extends farther into their careers, they are unable to take their skills and the good ideas they are developing to pursue them if they are still struggling to pay their student loans and purchase their first home.

QUESTION 3:

What other kinds of supports should we be providing for these students (i.e. child care, housing benefits)?

Response:

In 2017, student parents accounted for 26 percent of the total college population in the U.S. These students are more likely to encounter financial hardships, work full-time while in school part-time, which creates a greater need for childcare benefits. Their financial aid must consider the costs of childcare and the costs of supporting a child. A parent attending class must find childcare for not only the duration of class, but for enough hours that they can adequately prepare for class. Students with children also spend a significant amount of their time caring for their children – 43 percent of women and 37 percent of men reported that they are likely/very likely to leave college in order to care for these children. Providing student parents with childcare benefits will allow for financial relief as well as encouraging them to spend the time necessary to succeed in their studies and training. The bottom line is that parents simply have fewer hours in the day to devote to studying and work due to their care-giving responsibilities. Yet they face greater costs as students and our current system does little to help them overcome these greater barriers.

Providing childcare benefits will allow more people to enroll and stay enrolled in college.[7] In addition, we should recognize the higher housing costs non-traditional students may face and the challenges of securing health insurance, not only for them, but also for their dependents, particularly if they are facing a decision of whether to leave employment in order to pursue additional training.

There are social benefits that last decades—extending well into the life of the child—from a parent receiving additional education and training. They earn more, which means that they pay more in taxes and are less likely to rely on public benefits. Higher household earnings mean that their children do better in school and grow up to become higher-earning adults. Additionally, by reducing the probability that non-traditional students drop out without a degree, students will be more able to repay their student loans. In short, providing more support ensures greater success, and that success benefits us all.

[6] https://www.cbpp.org/research/state-budget-and-tax/funding-down-tuition-up
[7] https://iwpr.org/wp-content/uploads/2017/02/C451-5.pdf

Finally, it is important that we provide flexibility to parents. That means increasing federal grant and loan programs to better cover part-time enrollment in post-secondary institutions would improve flexibility for students to balance work and parenting with school. Additionally, promoting and certifying online options for post- secondary education would allow further flexibility for non-traditional students and increase access, in terms of mobility and affordability, for all potential students.

Promoting Apprenticeship and Experience Based Learning Opportunities

Dr. Stevenson, in your testimony you discussed the importance of apprenticeship and experience-based learning opportunities to keep students engaged and prepare them with the necessary skills for the real world, and highlighted two challenges for the United States—which are an overall lack of apprenticeship positions, and a lack of positions in the service sector.

QUESTION 4:

How can the federal government better promote apprenticeship opportunities for students?

Response:
Apprenticeships are an important way to provide access to higher paying, more productive jobs. Apprenticeships allow participants to earn a wage while completing their program and overtime learning the skills to grow within the industry or trade. 87 percent of apprentices are hired by their sponsor once completing the program and starting wage is over 50,000 dollars.[8] Apprenticeships can also be beneficial for the hiring firm, a Department of Commerce study found relatively high rates of return on apprenticeship programs, especially compared to hiring lower skilled workers who do not participate in an apprenticeship.[9]

However, access to apprenticeship programs in the United States fall far short of those in many European countries. Apprenticeships in the US often happen later in life and less than 0.2 percent of the workforce participates. In Europe, apprenticeship programs reach about 50% of young people.[10] One element of the apprenticeship shortage is supply of potential apprentices. By

[8] The White House, "FACT SHEET: Investing $90 Million through ApprenticeshipUSA to Expand Proven Pathways into the Middle Class," April 21, 2016.
Numbers updated in October 2016 White house blog suggests 91% hired after program completion and wages over 60,000 dollars.
Robert Lerman, "Expanding Apprenticeship—A Way to Enhance Skills and Careers," Urban Institute, through the Department of Education.
[9] Dr. Susan Helper, Ryan Noonan, Jessica R. Nicholson, David Langdon, "The Benefits and Costs of Apprenticeships: A Business Perspective," Case Western Reserve University and the U.S. Department of Commerce, November 2016.
[10] Robert I. Lerman, "Are Employers Providing Enough Training? Theory, Evidence and Policy Implications," *Prepared for National Academy of Sciences Symposium on the Supply Chain for Middle-Skill Jobs: Education, Training, and Certification Pathways.*

integrating opportunities for apprenticeships into Career and Technical education curriculums, which have increased in popularity and are available in the majority of school districts across the country,[11] there could be an opportunity to reach children at a younger age with an opportunity to try out an apprenticeship and decide if it's a fit.

Apprenticeships can also be made more accessible to older populations who looking into career change. The living wage provided during apprenticeship programs may offer a more affordable option for some students to access higher job potential and wage, compared to returning to post-secondary education. State Apprenticeship Agencies could be incented to promote apprenticeship opportunities to capable, motivated adult-learners in their communities by integrating with community college and certificate programs.

QUESTION 5:

Are there existing programs and activities, either at the U.S. Department of Education or the U.S. Department of Labor, that we should be supporting to promote apprenticeship opportunities?

Response:
The majority of apprenticeship programming is run through the Department of Labor (DOL). The DOL oversees the National Apprenticeship System (NAS) through which they work with State Apprenticeship Agencies who are responsible for registering programs, protecting safety and security of participants, issuing credentials, promoting development of new programs, and ensuring quality of programs participating. Programs entered into the NAS are considered the gold standard. However, there may be opportunities to promote earlier introduction to trades through Career and Technical Education programming.

The Department of Education has recently partnered with the DOL to investigate program alignment between career and technical education and registered apprenticeships to scale pre-apprenticeship and youth apprenticeship programs. This could provide a better link to apprenticeship education earlier on in a student's educational path, which would promote earlier entry into higher skilled profession and additional opportunities for students to find productivity and enjoyment in learning.[12]

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[11] National Center for Education Statistics, "Career and Technical Programs in Public School Districts 2016-2017," 2016-2017.
[12] Office of Career, Technical, and Adult Education, "#ApprenticeshipWorks for High School," U.S. Department of Education, November 18, 2016.

QUESTION 6:

Can you elaborate on the challenges you highlighted, and discuss what it would mean to have more apprenticeship positions in the service sector?

Response:
The Department of Labor National Apprenticeship Program and the National Apprenticeship Program has grown to include almost 600,000 participants in 2018 across 50 states, Guam, Washington DC and Puerto Rico.[13] However, active apprenticeships only account for about 340,000 of these opportunities and the majority of these are in construction, manufacturing, and transportation. Less than 10% of these apprentice roles are in technology or service industries.[14] If we look at job opportunities overall, 84 percent of the United States workforce is employed in the service-producing sector and this share will continue to grow with technological change. There is significant value to increasing the share of apprentice opportunities in service and tech industries to ensure that apprentices have the option to gain experience in a field that will continue to grow throughout their careers.

Apprenticeship programs often face high startup costs, which are often paid back within the first few years from higher returns to skilled workers who continue with the company and increase productivity compared to less skilled hires. [15] One way to spur apprenticeships in emerging industries would be to subsidize some of the startup costs associated with apprenticeship programs and provide additional resources around building these programs. Additionally, more firms will look into starting programs if there is student demand, as discussed in question 4, there are many opportunities to begin expanding awareness and access to apprenticeships to younger students, through strengthening the link between CTE and apprenticeships, and adults seeking career change. By increasing apprenticeships in growing fields, we could create higher paying jobs for more highly skilled workers that would further stimulate the growing service and technology industries.

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[13] U.S. Department of Labor Employment and Training Administration, "Registered Apprenticeship National Results Fiscal Year (FY) 2018," (10/01/2018 to 9/30/2018).
[14] U.S. Department of Labor Employment and Training Administration, "Registered Apprenticeship National Results Fiscal Year (FY) 2018," (10/01/2018 to 9/30/2018).
10% from adding Public Administration (19447), Health Care and Social Assistance (4507), Educational Services (3690), Information (1152), Professional, Scientific, and Technical Services (493), and Finance and Insurance (145) to total 29434 apprenticeships. This is less than 10% of the 343044 active apprenticeships in 2018.
[15] Dr. Susan Helper, Ryan Noonan, Jessica R. Nicholson, David Langdon, "The Benefits and Costs of Apprenticeships: A Business Perspective," Case Western Reserve University and the U.S. Department of Commerce, November 2016.