

**THE SMALL BUSINESS WORKFORCE CHALLENGE:
CAUSES, IMPACTS, AND SOLUTIONS**

HEARING
BEFORE THE
**COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP**
OF THE
UNITED STATES SENATE
ONE HUNDRED SEVENTEENTH CONGRESS
SECOND SESSION

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JUNE 8, 2022
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COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

ONE HUNDRED SEVENTEENTH CONGRESS

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**THE SMALL BUSINESS
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WEDNESDAY, JUNE 8, 2022

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

The Committee met, pursuant to notice, at 2:29 p.m., in Room 428A, Russell Senate Office Building, Hon. Benjamin L. Cardin, Chairman of the Committee, presiding.

Present: Senators Cardin, Cantwell, Booker, Coons, Hirono, Rosen, Hickenlooper, Paul, Ernst, Inhofe, Hawley, and Marshall.

**OPENING STATEMENT OF HON. BENJAMIN L. CARDIN,
CHAIRMAN, A U.S. SENATOR FROM MARYLAND**

Chairman CARDIN. The Senate Small Business and Entrepreneurship Committee will come to order.

I want to welcome our witnesses today and thank you for your participation. As is the custom of our Committee, your entire statements will be made part of the record and when you are recognized you may proceed. We ask that you try to summarize your statements in about five minutes.

Today's hearing will examine the workforce challenge that our Nation is facing, especially with regards to how it is holding back the prosperity and growth of America's small businesses. Small businesses employ nearly half of America's private sector workforce, and they are the driving force of innovation and growth in our economy. However, the deck is stacked against them in the competition for strong workers because they lack the resources and capital to offer wages and benefits that compete with larger companies, they have limited access to training and apprenticeship programs, and they often require in-person work at a time when many workers want flexibility.

These historical challenges have been made worse by what economists are calling the Great Reshuffle. In February of this year, for example, 4.4 million workers quit their jobs, but more than half of those workers went on to find better jobs or an entirely different field of work.

Small businesses are not only facing difficulties in attracting workers, but they also struggle to keep them, which is a further draw on the finite amount of time and capital that small business owners have. A study conducted by the U.S. Chamber Foundation

found that high employee turnover cost small businesses as much as \$3 billion per year. Those are resources that could be put into growth and innovation to boost our economy. If small businesses cannot find the workers they need, they cannot grow. According to Goldman Sachs' 10,000 Small Businesses Voices report, 97 percent of survey respondents reported that the difficulty hiring was affecting their bottom line, a 17-point increase from September 2021.

Congress has a duty to our small businesses to support them as they confront these challenges because our economy can only go as far as our small businesses can take us. So our goal today is to explore the causes of these workforce challenges, the effects of these challenges, and solutions such as investing in workforce training, leveling the playing field between larger companies and small businesses regarding benefits employees receive, and increasing the size of our workforce.

Unlocking the potential of the current workforce through job training is one way to help meet the needs of small businesses. As we know, a four-year degree is not a requirement for every career path and there are many highly skilled occupations that are better served by an apprenticeship or similar model. There is already a model for these kinds of partnerships, and many community colleges in Maryland, including Prince Georges Community College, have earned a national reputation for their apprenticeship programs. However, these programs can be difficult for small businesses to access, so we must take a hard look at how to connect these programs to small businesses.

President Biden's American Rescue Plan also provides a model for how the Federal Government can work with state and local governments to deliver job training resources to the communities that need it the most. In Baltimore, for example, the city will invest \$3.8 million in ARPA funds to provide critical workforce development training to residents, including summer jobs for young people and occupational training in high demand fields.

For a small business to grow, we must level the playing field between larger companies and small businesses regarding benefits offered such as paid leave. In Maryland, Democrats in the Maryland General Assembly recently passed legislation to provide 12 weeks of job-protected paid leave to the employees of any organization with more than 15 employees. The law requires the State to establish an insurance program funded by contributions from employers and employees, including sole proprietors. The program will allow workers to take 12 weeks of paid leave for any family or medical emergency and could help small businesses compete with larger companies for employees.

As a former Speaker of the House in Maryland, I know that our statehouses nationwide are the laboratories of democracy. I will be following the implementation of this law closely, and I am hopeful that it could serve as a model for how the Federal Government can assist small businesses to combat these workforce challenges.

We must also assess how we can increase the overall size of our workforce through innovative policies. Unfortunately, due to the Trump administration's immigration policies, we now have some catching up to do. Between 2016 and 2020, annual immigration to the United States was cut in half, which robbed our economy of

more than 2 million additional workers today had immigration kept pace with the 2016 levels.

The effects of our immigration labor shortages are acutely felt on Maryland's Eastern Shore, which is reliant on workers for the H-2B visa programs during busy crabbing season. The prolonged H-2B visa shortage does not only threaten individual businesses but entire communities in my home state. By evaluating how to empower immigrants to participate in the workforce, Congress can make it easier for small businesses to find workers and easier for workers to immigrate to America.

We can also increase the size of our workforce by investing in returning citizens. Nearly 600,000 Americans are released from prison annually, and despite evidence showing that they make excellent, loyal employees, they are often not included in the workforce development policies and programs that can equip them with the skills they need to succeed in the workforce. Investing in training returning citizens would not only help provide stable employment opportunities for them but also help small businesses looking for workers.

If the COVID-19 pandemic has taught us anything, it is this: The problems that small businesses face are difficult but not intractable. And addressing them will take focused, intentional, and concerted effort, but they are not insurmountable. The pandemic also confirmed that solving these challenges requires a multifaceted approach because there is no single solution.

So I am looking forward to hearing more from our witnesses about steps Congress can take to address all aspects of our Nation's workforce challenges to unleash the growth potential of small businesses and the immediate and long-term needs.

With that, I recognize my distinguished Ranking Member for his opening comments, Senator Paul.

**OPENING STATEMENT OF HON. RAND PAUL,
A U.S. SENATOR FROM KENTUCKY**

Senator PAUL. Small businesses are struggling under the heavy burden of regulation and taxes. For the last several years, government policies at the Federal, state, and local levels have subjected our Main Street businesses to restriction after restriction. These onerous regulations, coupled with \$6 trillion in government spending, have thrown the economy into a freefall.

First, it was the lockdowns. Government forced small businesses to close indefinitely. Then, when they were finally allowed to reopen, they were saddled with capacity restrictions, mask mandates, and vaccine requirements for customers. While these government dictates did nothing to change the trajectory of the virus, they forcibly closed nearly 10 million small businesses, many permanently.

The government's so-called solutions did not stop at public health. Congress doled out trillions of dollars in taxpayer money, the Fed ran the printer 24-7, and government paid people who decided they did not want to work nearly \$800 billion from March 2020 to July 2021. It should be no surprise to anybody that labor force participation is at its lowest point since the Carter administration.

Despite countless warnings, government, Congress, poured even more gasoline on the fire. Even economists like Larry Summers and Jason Furman, who worked for Democrat administrations, agree President Biden's \$1.9 trillion so-called Rescue Plan was too large and has caused the rampant inflation we are now encountering.

Only now, Treasury Secretary Janet Yellen, who refuses to testify before this Committee, admits she was wrong in calling inflation a small and manageable problem. If she had not been deliberately blind to the predictable result of unrestrained, reckless spending, we might have avoided the economic pain the Biden administration inflicted on every American family.

And to add insult to injury, President Biden's anti-domestic energy policies have created five to seven dollars per gallon gas prices, which have roughly doubled since he took office.

No matter how many times the Biden administration blames the War in Ukraine or so-called greedy corporations, the truth remains; inflation comes from the Federal Reserve creating money to buy the exploding U.S. debt.

One would think, in the face of such profound failure, politicians in Washington would show some humility. One would think they would consider the possibility they do not know economics better than economists or business better than the small business owners of America. Maybe, just maybe, problems created by excessive government spending and intervention cannot be solved by more government spending and intervention. We cannot look to the same people who created this problem for a solution.

Those who think small businesses are telling us they want more government spending on ineffective Federal job training programs are not paying attention. What small businesses need is freedom. The free enterprise system has created more wealth and prosperity than any government program ever could. Let us let small business owners do what they do best without government getting in the way.

Chairman CARDIN. Thank you, Senator Paul.

We will now go to our witnesses. We will start with Dr. Annelies Goger, who is a fellow at the Brookings Metropolitan Policy Program at Brookings Institution. Her work as a fellow involves researching and developing policy solutions to increase economic opportunities and decrease work inequality. Since 2019, Dr. Goger has focused heavily on researching ways to reform unemployment.

I am informed that you are a recent new resident of Maryland, and that is the reason you are going first.

**STATEMENT OF DR. ANNELIES GOGER, Ph.D., FELLOW,
THE BROOKINGS INSTITUTION, WASHINGTON, DC**

Dr. GOGER. Thank you, Chairman Senator Cardin and Ranking Member Senator Paul and members of the Committee.

It is an honor to testify before you today about the challenges facing small businesses. My name is Annelies Goger, and I am a fellow at Brookings Metro, and my specialty is in U.S. workforce policy, inclusive economic development, and global supply chains.

This is also a personal topic for me because my father is a small business owner. He owns a lightning rod installation company with

two or three employees, and he has consistently struggled to find and retain quality talent. I believe my father could have really benefited from more management training on how to more effectively manage his teams and reach out to pools of talent that he could not find.

But for the last 30 or 40 years we have had a very lean approach to supporting small business ecosystems. And this, in a normal time, looks like a Darwinian survival of the fittest, but in the pandemic it quickly devolved into a Squid Games scenario. And the carnage was all around us.

The temporary relief that was provided helped avoid some of the worst effects of this carnage and helped to prevent this from cascading into the rest of the economy. But today, small businesses, as you have both noted, really face major challenges with workforce as a massive pain point, and I believe we need to do more to think about how we can support a vital ecosystem.

So what is causing this pain? I would argue that it is actually a complex perfect storm of factors, some of which were pandemic-related, but some are actually longer-term trends. The pandemic trends including immigration, lack of child care—actually, 256,000 Americans of prime working age passed away from COVID, so there are those workers that we unfortunately no longer have. Also, the reallocation that happened as things like hospitality completely collapsed and then there was massive growth in things like warehousing, that reallocation of workers and matching employers, there is a lot of friction there, and it takes a lot of time to resolve.

But there are also much more long-term shifts which include demographic shifts such as an aging workforce. The pandemic actually accelerated the retirement of many Baby Boomers, and the younger generation of workers is not only a smaller pool, but it is a much more diverse pool. Historically, we have underinvested in Black and Latino or Hispanic talent, and they have had less access to quality jobs and higher education.

In addition, the Digital Age is going to create an ongoing need to keep people fresh, not just workers but also managers and manager training, and this is really costly for employers to bear as well.

So what should we do about this? I think in the short term expanding immigration and including work visas, but also helping employers understand like extension services, to help them understand how they can reach talent that is on the sidelines, like the long-term unemployed, people with disabilities, people who were formerly incarcerated. That is something we can do.

But I think in the long run we need to think about three things. One, employers in the Digital Age need to shift from being just consumers of talent to also co-producers of talent. So we have done some studies in my previous job on incentives to small and medium-size and large businesses to train their workers where they would be reimbursed for their training. What we found was that there is a sweet spot for medium-size in particular, 18 to 100, where investing in their training and subsidizing that leads to greater revenue and greater employment, but for small businesses they were actually harmed by these subsidies.

And so I believe we also need to think about things like pooling costs and sharing training costs, which happens in some of the most mature systems where you have applied training. Finally, I think we really do need to expand that management and supervisory training and manufacturing extension to many more industries, such as the service sector.

Number two, we need to rethink our talent model from programs—we have 43 across 9 Federal agencies, often duplicating efforts—to more of a systems approach. A systems approach is what small businesses can participate and act part of. They cannot create their own bespoke training programs. They just cannot afford it. Things like apprenticeships happen in a system in countries that do it the best.

And finally, diversity inclusion is not about charity. If we fail to engage the talent, our diverse talent that makes up not just workers but also entrepreneurs, if we fail to get them off the sidelines and into our economy, we will fail to innovate, we will fail to have regions that are vital, and moreover, we will fail to really have an “American Dream” in this country anymore, where there is a level playing field for people that do not have wealth to access it.

My father is approaching 70, next fall, and he has confided in me that he does not think he can retire fully. He has never had—for most of his adult life, he has not had health insurance even though he stands on roofs all day.

I think really if we are going to think about creating the vibrant ecosystem that we need in this country to compete with China and other countries we need to think more about creating that level playing field and investing in our diverse talent.

Thank you very much.

[The prepared statement of Dr. Goger follows:]

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Testimony submitted to:
United States Senate
Committee on Small Business & Entrepreneurship

June 8, 2022

“The Small Business Workforce Challenge: Causes, Impacts and Solutions”

Annelies Goger, Ph.D.
Fellow
Brookings Metro
The Brookings Institution

*I am grateful to my former colleague Dr. Marian Negoita for his contributions to the research findings I will share today.

Chairman Cardin, Ranking Member Paul, and Members of the Committee, I am honored to testify before you this afternoon about the causes, impacts, and solutions to the workforce challenges facing small businesses and entrepreneurs. My name is Annelies Goger. I am a Fellow at Brookings Metro at the Brookings Institution and an economic geographer specializing in U.S. workforce policy, inclusive economic development, and global supply chains.

I appreciate you taking up this topic, because it has personal significance for me. My father owns a small business, a lightning rod installation company with two employees. He doesn't have a college degree and he has always been self-taught.

Finding and managing talent has always been a challenge for him, and it has been difficult for him to get the support he needs to learn how to manage his team better. For example, one day last summer one of his employees announced on a Friday that he was taking the next two weeks off for vacation. I asked my father if he had a paid time off policy, so that he could hold the employee accountable for failing to give sufficient notice. He didn't. So I searched around on the Small Business Development Center (SBDC) website to see if they had a free template that he could use that was also compliant with state law. They didn't.

To understand why, we need a brief history lesson. Throughout the history of capitalism, there has been a back-and-forth dynamic between protectionism and liberalism – well articulated in Karl Polanyi's seminal book *The Great Transformation*. If we reflect back on the 20th century lessons from this dynamic, I hope we can agree on two observations relevant to small businesses: (1) too much focus on protectionism is bad because over-regulated markets fail to innovate and adapt, and it can prop up businesses that generally are not viable in the long run or serving in the

public interest. (2) too much focus on liberalization is also bad, because under-protection can cause massive pain in times of economic shock (such as a pandemic) and can lead to monopolistic or oligopolistic markets and supply chains that ultimately also constrain innovation and increase consumer prices. Since the 1980s, the pendulum has swung towards neoliberalism – in other words, a non-interventionist approach of lean government. You can think of this as the laissez-faire, Darwinian approach: the best businesses will survive and that the growing concentration of wealth at the top will ultimately trickle down and “lift all boats.”

Unfortunately, instead of a trickle down, we are now seeing rising income and wealth inequality and growing concentration in many supply chains, which tends to squeeze the profit margins of small business like my father’s. What this means for the level of support available to small business owners, whether through SBDCs, extension programs, or the Workforce Innovation and Opportunity Act job centers, is that the resources available are quite limited.

It’s in this context of limited small business support that COVID-19 struck. Suddenly the darwinian scenario morphed into something more like a *Squid Games* scenario from the perspective of many small businesses. We all saw the carnage. It is in temporary shocks like this that you really see the need for support and protections. Congress responded with high levels of temporary relief such as PPP for small businesses that – evidence suggests – appear to have moderated the worst of the economic impacts of COVID-19 not only on small businesses but overall in terms of keeping spending high and spurring a comparatively rapid economic recovery.¹

Business starts increased 20.6% from 2020 to 2021, especially in e-commerce, professional services, administrative support, construction, and warehousing/logistics.² Moreover, the share of Black-owned and women-owned micro-businesses increased in the pandemic.³ The labor force participation rate declined to a low of 60.2% in April 2020,⁴ but labor force participation has risen back up to 62.3% by May 2022. It is still 1.1 percentage points lower than pre-pandemic labor force participation rates.⁵

The question now is how to support small businesses cope with the current pain points – one of the largest is a workforce challenge.

The pain is real. The April 2022 JOLTS survey from the Bureau of Labor Statistics found that small businesses with 10 to 49 employees were hit the hardest by hiring challenges and employee churn.⁶ The survey found that these small businesses had the highest number of job openings, highest number of quits in a single month, and the lowest number of involuntary layoffs in the history of the survey since 2000. Small businesses typically lack the resources to offer competitive pay, benefits, and flexibility compared to larger companies.

¹ Haltiwanger, J. June 2021. “Entrepreneurship During the COVID-19 Pandemic: Evidence from the Business Formation Statistics.” Accessed June 6, 2022 from: <https://www.nber.org/system/files/chapters/c14575/c14575.pdf>.

² Betterton, K. February 15, 2022. “Top 5 Types of Businesses Started During the Pandemic.” U.S. Chamber of Commerce. Accessed June 6, 2022 from: <https://www.uschamber.com/co/start/strategy/top-businesses-started-during-pandemic>.

³ Hartman, J. and J. Parilla. January 4, 2022. “Microbusinesses flourished during the pandemic. Now we must tap into their full potential.” The Brookings Institution. Accessed June 6, 2022 from: <https://www.brookings.edu/blog/the-avenue/2022/01/04/microbusinesses-flourished-during-the-pandemic-now-we-must-tap-into-their-full-potential/>.

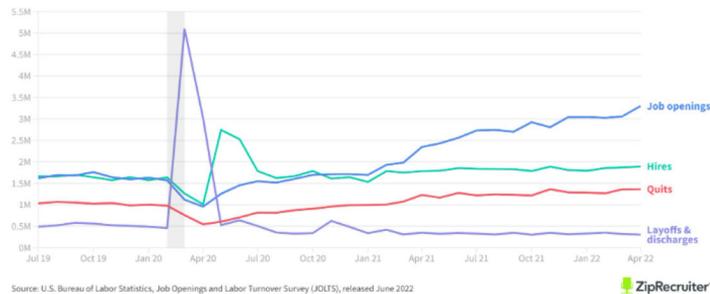
⁴ Congressional Research Service, August 20, 2021. “Unemployment Rates During the COVID-19 Pandemic.” Accessed June 6, 2022 from: <https://crsreports.congress.gov/product/pdf/R/R46554>.

⁵ U.S. Bureau of Labor Statistics, June 3, 2022. “Employment Situation Summary – May 2022.” Accessed June 6, 2022 from: <https://www.bls.gov/news.release/empsit.nr0.htm>.

⁶ U.S. Bureau of Labor Statistics, June 1, 2022. Job Openings and Labor Turnover Survey. Accessed June 6, 2022 from: <https://www.bls.gov/jlt/>.

April was a record-breaking month for small businesses

Levels of job openings, hires, quits, and layoffs and discharges for establishments with 10 to 49 employees, seasonally adjusted



So, what's going on here? What are the causes? I wish there were a simple explanation, but we have a complex, perfect storm of factors, including some factors that were directly related to the pandemic and others that are longer-term trends.

Pandemic-related factors

- **Lower Immigration:** Had we not had COVID-19 restrictions on immigration in the U.S., economists estimate that we would have had roughly 2 million more working age immigrants in the U.S., including 950,000 college-educated immigrant workers.⁷ Many of the industries struggling the most to fill job openings such as health care, hospitality, and construction, have historically had a disproportionate share of immigrants in their workforce.
- **Higher death rates:** Over 250,000 Americans of prime working age, 18 to 64, died due to COVID-19.⁸
- **Lack of childcare:** Parents, and predominantly women, continue to contend with COVID-19 exposures in schools that shut down classrooms and subsequently leave parents with a lack of reliable and affordable childcare. Women also were disproportionately impacted by pandemic-related job losses due to their concentration in jobs that must be performed in person. This may be contributing to the ongoing churn and elevated quit rates in the labor market.⁹
- **Friction in reallocation:** When lockdowns began, more than 22 million Americans lost their jobs. Once job loss occurs, especially with structural shifts in demand away from sectors such as hospitality and towards sectors such as e-commerce and warehousing, it can take a long time for employers and workers to match with each other. In addition, the health crisis deterred many workers in frontline jobs, especially those at high risk of severe cases, from returning to frontline work.

Long-term trends

- **Demographic shifts:** The pandemic accelerated a wave of retirements that has been looming among the baby boom generation. Economists at the St. Louis Fed estimated 2.4

⁷ Peri, G. and R. Zaiour, January 11, 2022. "Labor Shortages and the Immigration Shortfall." Econofact. Accessed June 6, 2022 from: <https://econofact.org/labor-shortages-and-the-immigration-shortfall>.

⁸ Center for Disease Control, June 2, 2022. "Weekly Updates by Select Demographic and Geographic Characteristics." Accessed June 6, 2022 from:

https://www.cdc.gov/nchs/nvss/vsr/covid_weekly/index.htm#SexAndAge.

⁹ Stevenson, B. 2021. "Women, work, and families: Recovering from the pandemic-induced recession." The Brookings Institution. Accessed June 6, 2022 from: <https://www.brookings.edu/research/women-work-and-families-recovering-from-the-pandemic-induced-recession/>.

million “excess” retirements due to the pandemic.¹⁰ There are fewer young workers to replace retired workers due to lower fertility rates, declining labor force participation, and lower immigration.¹¹

- **Underinvestment and uneven investment in talent:** The younger generations to replace baby boomers are smaller and more racially and ethnically diverse, by comparison. Since the 1980s, we have decreased funding for education and training for youth and workers who are not on a path to a college degree. The U.S. spends roughly 1/5th the average spending among OECD countries on “active labor market programs” to support people seeking a job or training opportunity.¹² Employers also tend to under-invest in training their existing workers, especially frontline workers.¹³ Moreover, Harvard researchers suggest that the U.S. could quadruple innovation if we invested more equally in talent.¹⁴
- **Discrimination and stigma:** Black and Latino or Hispanic candidates, formerly incarcerated individuals, older workers, veterans, and workers with disabilities historically encounter disproportionately high levels of discrimination in the labor market, so they have disproportionately high rates of unemployment and tend to take longer to get a job. The latest data from the Bureau of Labor Statistics suggest that there remain 1.4 million long-term unemployed workers.¹⁵
- **Untapped talent:** many employers (including the federal government) over-rely on college degrees as a screening requirement for jobs that do not truly require a degree artificially limits the pool of talent.
- **Digitalization of work:** As the labor pool declines, employers are also confronting the rapid pace of technological change in every industry and occupation.¹⁶ This shift to automated production, the use of digital platforms and cloud-based services, and artificial intelligence means that employers and workers both must adapt more often to update their work practices and skills to stay competitive and innovative. A college-for-all, one-and-done model of learning is inconsistent with the growing need for lifelong learning and talent investment in the labor market.¹⁷ It is unclear how small businesses will be able to keep up with work trends in the digital age under the current policy environment, which could dampen innovation, regional vitality, and the wealth distribution.

Some have argued that expansions to Unemployment Insurance (UI) eligibility and benefit amounts caused the labor shortage. Evidence from the most severe stages of the pandemic-related recession suggest that UI expansions may have had a small effect on employment, but they were not the key factor.¹⁸ More recent evidence since the summer of 2021 suggest that the states that

¹⁰ Federal Reserve Bank of St. Louis, December 28, 2021. ““Excess” Retirements during the COVID-19 Pandemic.” On The Economy Blog. Accessed June 6, 2022 from: <https://www.stlouisfed.org/on-the-economy/2021/december/excess-retirements-covid-19-pandemic>.

¹¹ Toossi, M. 2016. “A Look at the Future of the U.S. Labor Force to 2060.” U.S. Bureau of Labor Statistics. Accessed June 6, 2022 from: <https://www.bls.gov/spotlight/2016/a-look-at-the-future-of-the-us-labor-force-to-2060/home.htm>.

¹² Goger, A. July 23, 2020. “Turning COVID-19’s mass layoffs into opportunities for quality jobs.” The Brookings Institution. Accessed June 6, 2022 from: <https://www.brookings.edu/research/turning-covid-19s-mass-layoffs-into-opportunities-for-quality-jobs/>.

¹³ Negoita, M. and A. Goger, 2020, July 2020. “State-Level Policies to Incentivize Workplace Learning: Impacts of California’s Incumbent Worker Training Program.” Social Policy Research Associates. Accessed June 6, 2022 from: https://www.brookings.edu/wp-content/uploads/2020/07/Neigoita_Goger_final.pdf.

¹⁴ Bell, A., Chetty, R., Jaravel, X., Petkova, N., & Van Reenen, J. 2019. “Who becomes an inventor in America? The importance of exposure to innovation.” *The Quarterly Journal of Economics*, 134(2), 647-713.

¹⁵ U.S. Bureau of Labor Statistics, June 3, 2022. “Employment Situation Summary – May 2022.” Accessed June 6, 2022 from: <https://www.bls.gov/news.release/empsit.nr0.htm>.

¹⁶ Autor, D. 2022. “The Labor Market Impacts of Technological Change: From Unbridled Enthusiasm to Qualified Optimism to Vast Uncertainty.” No. w30074, National Bureau of Economic Research.

¹⁷ Goger, A. December 9, 2020. “Desegregating work and learning through ‘earn-and-learn’ models.” The Brookings Institution. Accessed June 6, 2022 from: <https://www.brookings.edu/research/desegregating-work-and-learning/>.

¹⁸ Ganong, P., F. Greig, P. Noel, D. M. Sullivan, and J. Vavra, July 29, 2021. “Micro and Macro Disincentive Effects of Expanded Unemployment Benefits.” Accessed June 6, 2022 from: <https://www.jporganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/when-unemployment-insurance-benefits-are-rolled-back-paper.pdf>.

ended these expanded benefits earlier had a modest improvement in employment and labor force participation compared to states that did not.¹⁹ However, all states ended the expanded benefits on Labor Day in 2021, therefore there is little reason to believe that they are having a major effect on employment and labor force participation today.

Solutions

In developing solutions to the talent challenges that small businesses are experiencing, it is important to think about short- and medium-term solutions that address the stress caused by the ongoing out-of-whack pandemic economy and solutions that address broader trends that are likely to make talent more expensive to attract, manage, and retain in the long run.

It is also important to consider different policy responses for very small businesses (micro-enterprises) of less than 20 employees compared to medium-sized businesses with 21 employees or more. I will share some findings from some of my evaluation research to stress the importance of this.

My study with former colleague Marian Negroita examined California's Employment Training Panel program, which reimburses employers for training based on a pay-for-performance approach. We found that training reimbursements had the greatest and most significant effect on medium-sized businesses with 19 to 100 employees in terms of job creation and sales revenue.²⁰

- Sweet spot of investment for job creation and economic growth
- California Employment Training Panel – tax collected alongside UI is redistributed to employers to reimburse them to train
- Propensity score matching to compare similar companies that did and did not receive the reimbursement
- We obtained negative impact estimates for the smallest companies (1-18 employees) in terms of employment and sales, although the finding on the impact on sales was not statistically significant. By contrast, companies in the next size bracket (19-50 employees) appeared to experience large and positive impacts on both outcomes, with each hovering around 40 percent. The positive impacts persisted for the next larger size category (51-100 employees), although they decreased in size compared to the previous bracket. Finally, the impacts for the largest category were small and not statistically significant.

Short- and medium-term responses

- Support policies to expand legal immigration and address delays in processing of work visas, potentially identifying industries of highest priority with the most openings
- Create mechanisms for small businesses to pool resources, e.g., by sector or trade association, especially for micro-enterprises, for:
 - Community training centers and small business incubators
 - Benefits pools – e.g., health insurance, liability insurance

Ganong, P., F. Greig, M. Liebeskind, P. Noel, D. Sullivan, and J. Vavra. February 2021. "Spending and Job Search Impacts of Expanded Unemployment Benefits: Evidence from Administrative Micro Data." University of Chicago, Becker Friedman Institute for Economics Working Paper 2021-19. Accessed June 6, 2022 from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3784008.

Dube, A. February 2021. "Aggregate Employment Effects of Unemployment Benefits During Deep Downturns: Evidence from the Expiration of the Federal Pandemic Unemployment Compensation." No. w28470. National Bureau of Economic Research. Accessed June 6, 2022 from: <https://www.nber.org/papers/w28470>.

¹⁹ Holzer, H. J., Hubbard, R. G., & Strain, M. R. 2021. "Did Pandemic Unemployment Benefits Reduce Employment? Evidence from Early State-Level Expirations in June 2021." No. w29575. National Bureau of Economic Research. Accessed June 6, 2022 from: https://www.nber.org/system/files/working_papers/w29575/w29575.pdf.

²⁰ Negroita, M. and A. Goger, 2020, July 2020. "State-Level Policies to Incentivize Workplace Learning: Impacts of California's Incumbent Worker Training Program." Social Policy Research Associates. Accessed June 6, 2022 from: https://www.brookings.edu/wp-content/uploads/2020/07/Negroita_Goger_final.pdf.

- Technology adoption and implementation (including training) – Accounting software, CRM software, digital literacy
- Hiring, onboarding, human resources management, accounting

Lasting solutions

- To adapt policy to the modern economy, consider expanding the Manufacturing Extension Partnership (MEP) concept beyond manufacturing, such as services.
 - Educate small business employers about how they can adjust their hiring and management practices through practices such as skills-based hiring and revisiting job descriptions, offering career ladders and advancement opportunities, and offering mentorship opportunities.
 - Provide support to small business owners to understand how to reach younger talent effectively, such as through social media, and how to cater talent outreach to populations that continue to be on the sidelines, such as people with a conviction record, older workers, the long-term unemployed, and youth.
 - Educate small business owners about the business case for diversity and inclusion. A study by the Boston Consulting Group found a strong and statistically significant correlation between the diversity of management teams and overall innovation. Companies with above-average diversity reported innovation revenue that was 19 percentage points higher than that of companies with below-average leadership diversity.²¹
 - Provide support to business owners to understand how high turnover impacts labor costs, and promising practices to reduce turnover. Help business owners understand costs *and* benefits of investments in talent, as well as how to measure their return on investment for talent investment.²²
- Consider funding low-interest financing for small businesses, especially in regions and communities that were disproportionately impacted by the pandemic. This could help revitalize commercial districts and ensure that more capital recirculates in the community through local ownership.
- Make apprenticeships and other earn-and-learn opportunities easier and cheaper for small and medium sized businesses to sponsor
 - Registration process is onerous and outdated, training is cost prohibitive to design deliver (without partnerships with community colleges and other education partners)
 - Public investment is needed for upfront, seed funding for businesses to get started in apprenticeship, including funding for outreach, to have managers and supervisors trained on their role, to invest in learning management infrastructure, and to develop of shared competency frameworks with other small businesses and educators/training providers for the occupations in highest demand
 - Longer term model self-sustaining for apprenticeship occupations
- Revisit our approach to layoffs and rapid response: The WARN Act system was designed for large scale manufacturing layoffs. It doesn't capture concentrated layoffs of small

²¹ Lorenzo, R., N. Voigt, M. Tsusaka, M. Krentz, and K. Abouzahr. January 23, 2018. "How Diverse Leadership Teams Boost Innovation." Boston Consulting Group. Accessed June 6, 2022 from: <https://www.bcg.com/en-us/publications/2018/how-diverse-leadership-teams-boost-innovation>.

²² A. Goger, C. Sinclair, and A. Dick. March 1, 2021. "An apprenticeship FAQ: What employers need to know about talent development." The Brookings Institution. Accessed June 6, 2022 from: <https://www.brookings.edu/research/an-apprenticeship-faq-what-employers-need-to-know-about-talent-development/>.

firms in one place, nor is it particularly geared towards the needs of service sector small businesses.

To close, I want to speak to the misperception that all one needs to do in the U.S. to succeed is work hard. I can honestly say that I have never met anyone in all my life who works harder than my father has. He works at least 6 days a week, sometimes 7. He is up at 6am to get the team ready to leave by 7 to beat the traffic, and he often stays up past midnight entering data or processing invoices.

But despite all this hard work, the American Dream still hasn't quite panned out. For most of his adult life he did not have health insurance and given that he climbs on roofs all day I realize now how truly lucky we were. He is not perfect, but he would have benefited tremendously from more technical assistance and especially support with human resource management and learning how to use some basic business technologies better. As he is approaching his 70th birthday this fall, he has confided in me that he does not believe he will ever be able to fully retire. I know that he is not alone.

In this era of continued uncertainty, I urge you to implement creative solutions to create and sustain a more inclusive, accessible, viable small business ecosystem in the U.S. because investing in our own diverse talent and entrepreneurs is how we will compete as a country in the digital age. It will be good for business, good for left behind regions, good for communities that were hard hit by the pandemic, and good for majority Black and Latino or Hispanic communities that have historically had less access to generational wealth. Taken together, unleashing the potential in our existing, untapped entrepreneurs and talent is not charity, it is a path to shared prosperity. Indeed, creating a more level playing field of opportunities for talent and small business owners is how we can start to find our way back to the American Dream. Thank you.

Chairman CARDIN. Thank you for your testimony.

Our next witness is Rachel Greszler. She is a senior research fellow at Heritage Foundation, focusing on retirement and labor policies such as Social Security, disability insurance, pensions, and worker's compensation. Her work focuses on policies that promote economic growth, individual freedom, and well-being.

Before joining Heritage in 2013, Ms. Greszler was a senior economist on the staff of the Joint Economic Committee of the Congress. That is a good pedigree, coming from Congress.

Glad to hear from you.

STATEMENT OF RACHEL GRESZLER, SENIOR RESEARCH FELLOW, THE HERITAGE FOUNDATION, WASHINGTON, DC

Ms. GRESZLER. Thank you. Thank you for the opportunity to be here today.

Small businesses continue to struggle to find workers who are willing to work and who have the skills that they need. In fact, employers listed labor quality as their single most important problem every month between 2018 and 2021, with the exception of March and April 2020 with the COVID shutdowns. These struggles have gotten worse since the labor shortage. The current 11.4 million job openings equates to 1.9 jobs available for everyone that is looking for work.

And yet, small businesses now say that inflation has become an even bigger problem than their workforce struggles, with 32 percent of small business owners reporting inflation is their single biggest problem. That compares to 3 percent in January 2021. Forty-year high inflation has created many struggles for businesses. Surging input costs means that contracts come in over budget, sometimes even at a loss. Employers have to increase workers' pay to keep up with rising consumer costs and to compete in a labor force that is now 3.2 million below its pre-pandemic rate.

But this creates an inflationary cycle. When businesses have to pay workers more to do the exact same thing, they have to raise their prices. In April alone, 70 percent of businesses said that they increased their pay or they plan to increase it at the same time that 63 percent of businesses increased their prices. Higher wages have not made workers better off, though.

The median worker has experienced a \$3,300 wage increase over the past year, but inflation has eaten away that entire gain and actually left them \$1,600 poorer.

So what is driving inflation? The Federal Government's policies. Inflation is too many dollars chasing too few goods, and the Federal Government has simultaneously pumped trillions of dollars into the economy while restricting the supply of goods and services through policies that discourage or outright prohibit work. The Federal Government spent 45 percent more in both 2020 and 2021 than it did in 2019, and all of this is deficit-financed. About half of it came from the Federal Reserve printing money.

The money supply has increased more over the past two years than it did over the prior ten.

Most problematic was the \$1.9 trillion American Rescue Plan, and it was enacted well after the recovery was underway and which included less than 10 percent going toward actual public

health. The bulk of the American Rescue Plan was welfare expansions that exacerbated the labor shortage, private union bailouts that incentivized reckless behavior, giveaways to state and local governments that were already abundant in revenues, and \$1,400 stimulus checks that fueled the inflation that has since eaten away their entire value.

The Administration's proposed solutions to spend more and produce less are backward. Things like forgiving college loan debts owed by the most affluent Americans, enacting a child care entitlement that would drive up costs and crowd out providers, and taxing away the output and the innovation of the most productive parts of our economy will lead to something that is even worse than inflation; we will have stagflation.

Moreover, when it comes to the unprecedented worker shortage and the workforce skill gaps, the government is the problem and not the solution. The government has effectively put up road blocks on all of the most efficient roadways to a more productive and robust economy and, instead, is directing traffic onto a congested toll road.

Ongoing welfare without work benefits, including Obamacare expansions and SNAP expansions, are continuing to discourage work, particularly among young people.

And, Federal COVID-19 vaccine mandates have made the health care workforce shortage especially pronounced, even life threatening, with health care employment lagging total employment by 263,000 jobs just since the mandates went into effect.

Higher education subsidies and the Administration's cancellation of thriving new apprenticeship programs are preventing people from pursuing lower cost and higher quality education, and Federal job training programs have been failures. The WIA program is supposed to provide training for in-demand careers, but a gold-standard study found that only one out of three participants found jobs in their field of training.

Politicians and bureaucrats cannot know businesses' needs better than employers themselves, so they should stop diverting people into programs that waste their time and taxpayers' money when private sector employers can, and are, providing more effective education and training.

While the temptation for policymakers is always to do something, the best solution to fighting inflation and improving the workforce is to interfere less. Instead of building an expensive new highway, policymakers should simply remove the road blocks that are preventing people from getting where they need to go in the shortest time and at the lowest cost.

Thank you.

[The prepared statement of Ms. Greszler follows:]



CONGRESSIONAL TESTIMONY

The Small Business Workforce Challenge: Causes, Impacts, and Solutions

Testimony before the Committee on Small Business and Entrepreneurship

U.S. Senate

June 8, 2022

Rachel Greszler

Senior Research Fellow in Economics, Budgets, and Entitlements
The Heritage Foundation

My name is Rachel Greszler. I am senior research fellow in Economics, Budgets, and Entitlements at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

The Biggest Struggles of Small Business: Inflation, Labor Shortage, and Skills and Education Gap

Workforce issues have been a primary concern for small businesses over at least the past four years. According to the National Federation of Independent Business (NFIB), business owners reported labor quality as their single most important problem every month between 2018 and 2021, with the exception of April and May 2020 during the widespread COVID-19 shutdowns. Included in those workforce issues

is the unprecedented labor shortage. The workforce is interconnected to what has recently become small business owners'—and most ordinary Americans'—biggest concern: inflation. Thus, my testimony today will address three primary small business concerns: (1) inflation, (2) the labor shortage, and (3) the skills and education gap. I examine the causes and impacts of each of these struggles separately, but, as the issues are in many ways interconnected, the final section on solutions pools the many policy recommendations together.

Inflation Overview

Inflation is at 40-year highs, with the latest April 2022 figure showing an 8.3 percent increase over the past year. Food prices are up 9.4 percent while energy prices have surged

30.4 percent.¹ Advance economic indicators, such as shrinking inventories after adjusting for inflation, indicate additional inflation headwinds.

According to the NFIB, 32 percent of business owners said that inflation was their single most important problem in May 2022.² That compares to 3 percent in January 2021, and an average of 3 percent over the 35 years prior to 2021.³

Inflation Causes and Impacts

Inflation is caused by too many dollars chasing too few goods. The federal government—including the Administration, Congress, and the Federal Reserve, are primarily to blame for this predictable inflation.

Federal Spending Spree. The federal government has authorized more than \$6 trillion for COVID-19 packages—the equivalent of more than \$50,000 for every U.S. household. In response, the Federal Reserve has purchased more than \$3 trillion in government bonds, and trillions more in other assets by printing money, spurring a nearly 50 percent expansion in the money supply, which has grown more over the past two years than it did over the prior 10 years.⁴

¹U.S. Bureau of Labor Statistics, “Consumer Price Index Summary,” Economic News Release, May 11, 2022, <https://www.bls.gov/news.release/cpi.nr0.htm> (accessed June 6, 2022).

²William C. Dunkelberg, “NFIB Jobs Report: Over Half of Small Businesses Have Unfilled Job Openings,” National Federation of Independent Business, May 2022, <https://www.nfib.com/foundations/research-center/monthly-reports/jobs-report/> (accessed June 3, 2022).

³Data available for download from: NFIB Research Foundation, <http://www.nfib-sbet.org/indicators> (accessed June 4, 2022).

⁴Joel Griffith, “Three Things Congress Can Do to Get Serious on Inflation,” Heritage Foundation

Most notably, Congress passed the \$1.9 trillion American Rescue Plan Act (ARPA) more than a year after the pandemic began and when the economic recovery was already well underway. Less than 10 percent of the bill went towards public health. The bulk of the bill went towards welfare expansions that exacerbated the labor shortage, bailouts that incentivize reckless behavior at taxpayers expense,⁵ giveaways to state and local governments that were already abundant in revenues, and \$1,400 stimulus checks that further increased the gap between demand and supply—and the value of which has since been entirely erased by spending-induced inflation.⁶ Larry Summers, chairman of President Obama’s National Economic Council expressed his concerns that the ARPA was so costly that it could backfire and hurt the economy. He was right.

The Administration’s proposal to fight inflation by spending more money—including things like “forgiving” debts owed by the most affluent Americans—and growing the size of government is perverse. Jimmy Carter realized that, and after years of presiding over high inflation came up with a plan to reduce it: restrict federal spending, reduce the budget deficit, cut the federal workforce and eliminate government waste, get rid of needless

Commentary, May 16, 2022, <https://www.heritage.org/budget-and-spending/commentary/three-things-congress-can-do-get-serious-inflation>

⁵Rachel Greszler, “What Taxpayers, Workers, and Retirees Need to Know About the Union Pension Bailout That Has Nothing to Do with COVID-19,” Heritage Foundation *Issue Brief* No. 6059, February 26, 2021, <https://www.heritage.org/sites/default/files/2021-02/IB6059.pdf>

⁶David Ditch, “Eight Things You Must Know About Deeply Flawed COVID-19 Package,” Heritage Foundation *Commentary*, February 22, 2021, <https://www.heritage.org/budget-and-spending/commentary/8-things-you-must-know-about-deeply-flawed-covid-19-package>

regulations, and bring back competition to the American economy.⁷

The Administration’s War on Conventional Fuels and Affordable Energy. On the presidential campaign trail, candidate Joe Biden promised voters, “Look into my eyes: I guarantee you we’re going to end fossil fuels.” Within his first month in office, President Biden instituted a “moratorium” on energy production in Alaska and a “pause” on federal lands and waters—despite clear directions to the contrary from Congress. This was only the start of the Administration’s inflationary energy agenda. As my Heritage colleague Katie Tubb has explained,

[T]he administration continues to push policies that frustrate future oil, coal, and natural gas exploration, production, distribution, and investment, even as it saps taxpayers to boost subsidies for renewable energy R&D, investment, manufacturing and production, and infrastructure.⁸

President Biden’s actions to remove helpful federal permitting reforms and his “social cost of carbon” shadow carbon tax enforced by regulators instead of legislators are also driving up energy costs. Tubb goes on to point out how the Biden Administration is subtly restricting the choices and increasing the costs of everyday consumer products:

The Environmental Protection Agency and Transportation Department are finalizing fuel-economy standards on cars and heavy-duty trucks that are so stringent they make it nearly impossible for a conventional gasoline- or diesel-powered vehicle to comply by the end of the decade. Less obvious are scores of regulations that will increase the costs of everyday energy-consuming products such as kitchen stoves and ovens, washing machines and dryers, water heaters, lightbulbs, ceiling fans, dehumidifiers, dishwashers, microwaves, and furnaces.⁹

In addition to higher energy costs, the Administration’s agenda is driving down the value of Americans’ savings and retirement accounts by allowing fiduciaries that are supposed to act in the best interests of investors to sacrifice higher returns in exchange for funding radical environmental, social, and governance agendas.

Onslaught of New Regulations Limiting Output, Increasing Costs.¹⁰ During President Biden’s first year in office, his Administration pushed through more major regulations—69 in total—than any other President in modern U.S. history, while publishing 72,000 pages of agency notes, regulations, and executive orders.¹¹ The American Action Forum estimated that the Biden Administration’s “year one” regulations added \$201 billion in regulatory costs and required 131 million hours in new annual paperwork (the equivalent of

⁷Jimmy Carter, televised speech on Anti-Inflation Program, delivered on October 24, 1978, available in text at:

<https://www.pbs.org/wgbh/americanexperience/features/carter-anti-inflation/> (accessed June 7, 2022).

⁸Katie Tubb, “Biden’s Energy Screw Up,” *Washington Examiner*, March 31, 2022, <https://www.washingtonexaminer.com/restoring-america/faith-freedom-self-reliance/bidens-energy-screw-up> (accessed June 6, 2022).

⁹*Ibid.*

¹⁰Diane Katz, “The Biden Administration’s Radical Regulatory Agenda,” Heritage Foundation *Backgrounder* No. 3691, March 14, 2022, https://www.heritage.org/sites/default/files/2022-03/BG3691_0.pdf.

¹¹Jonathan Ingram, “It’s Not Just Spending—Biden’s Record Regulations Are Driving Inflation Too,” *New York Post*, May 23, 2022, <https://nypost.com/2022/05/23/its-not-just-spending-bidens-record-regulations-are-driving-inflation-too/> (accessed June 4, 2022).

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65,500 full-time jobs filling out paperwork).¹² And that is just the beginning, as the Administration has dozens more major regulations in the pipelines.¹³

Regulations disproportionately increase costs for small businesses, because they do not have as large a scale to spread the costs across and they are less likely to have an in-house compliance team. The time that businesses spend complying with regulations is time not spent on their core business functions, and the money they spend paying lawyers, implementing new workplace policies, altering or adding infrastructure, changing their production processes, and filling out paperwork gets passed on to customers through higher prices.

While most regulations go unnoticed by consumers as their costs are built into the prices and availability of the things they buy, the baby formula shortage brings to light unnecessary regulations and ineffective regulatory administration. Regulations that amount to labeling preferences and a 60-day waiting period for bringing new formula products to shelves are just two example of unnecessary regulations preventing otherwise safe baby formula from being available. Meanwhile, as the FDA waited months to address the predictable shortage in many babies' sole nutrition, it was spending time proposing new regulations, such as a 56-page proposed rule to ban "characterizing flavors" in cigars in an effort to reduce cigar use among "racial/ethnic minorities, lesbian, gay, bisexual, transgender

and queer (LGBTQ+) persons, those of lower socioeconomic status, and youth."¹⁴

Supply Chain Struggles. If companies cannot get the goods they need, they cannot produce products and services. And longer wait times result in costly idle operations. Just one example I heard: is a grocery store owner can't stock single-serve pudding in his store because the manufacturer cannot get the glue that seals the aluminum lid to the plastic pudding container.

Many government policies are causing and exacerbating supply chain struggles. Crony trade restrictions limit the supply and increase the costs of domestic shipping. Environmental regulations are increasing transportation costs and limiting the supply of trucks (especially in California, where environmental regulations prohibit a majority of trucks from entering the state).

And union chokeholds—emboldened by the "most pro-union Administration"—are clogging up supply chains. In the California ports, for example, unions opposed 24–7 operations that exist around the rest of the world's ports and they've fought against automation to protect their six-figure blue-collar jobs.

Inflation Tax. While the median worker's wages increased by \$3,300 over the past year, inflation erased all of those gains and has left

¹²Dan Goldbeck and Dan Bosch, "Year One: Assessing the Biden Regulatory Record Against Recent Administrations," American Action Forum, January 20, 2022, <https://www.americanactionforum.org/research/year-one-assessing-the-biden-regulatory-record-against-recent-administrations/> (accessed June 4, 2022).

¹³Daren Bakst, ed., "37 Biden Administration Regulations in the Pipeline that Americans Should Know About," Heritage Foundation *Special Report*

No. 250, December 8, 2021, <https://www.heritage.org/governmentregulation/report/37-biden-administration-regulations-the-pipeline-americans-should-know>.

¹⁴Department of Health and Human Services, "Tobacco Product Standard for Characterizing Flavors in Cigars," Proposed Rule, *Federal Register*, Vol. 87, No. 86 (May 4, 2022), pp. 26396–26452, <https://www.govinfo.gov/content/pkg/FR-2022-05-04/pdf/2022-08993.pdf> (accessed June 6, 2022).

the average worker \$1,550 poorer.¹⁵ For a typical household that spends about \$61,000 a year, the 8.3 percent inflation rate translates into a \$5,100 inflation tax.¹⁶

Government Policies Holding Back Labor Force Participation Are Driving Price Increases. As discussed in more detail below, government policies that restrict the supply of workers require employers to increase compensation to attract and retain the workers they need. The U.S. Bureau of Labor Statistics (BLS) reports that labor costs make up more than 60 percent of the value of output produced in the nonfarm business sector.¹⁷ Despite record-high job openings, the labor force has declined and is now 3.2 million below pre-pandemic rates.¹⁸ When employers have to pay workers more to do the exact same thing, they have to raise prices on their products and services.

Labor Shortage Overview

The U.S. currently faces an unprecedented labor shortage that is adding to inflation and supply chain struggles, and making it harder for small businesses to operate.

Labor Shortage. Employment should have surged in 2021. A year's worth of pent-up household savings due to COVID-19 lockdowns, and trillions of dollars in new federal spending enacted in the name of COVID-19 relief, massively increased the demand for goods and services. Yet, as the population ages 16 and above has grown by 4.1 million, the U.S. economy has 822,000 *fewer* jobs today than before the pandemic.¹⁹ Economists have also noted a significant decline in the desired hours of work, which has roughly doubled the magnitude of the labor force decline.²⁰

Employers are struggling to get the workers they need with fewer workers and increased demand caused by the surge in government spending. With 11.4 million job openings, 1.9 jobs are available for every unemployed worker.²¹ Labor shortages exist across all industries and skill levels. According to the NFIB's May 2022 survey, a record-high 51 percent of employers reported job openings they could not fill.²² Forty-two percent of owners reported job openings for skilled workers, and 25 percent reported openings for unskilled workers.²³

¹⁵News release, "Real Earnings—April 2022," U.S. Bureau of Labor Statistics, May 11, 2022, <https://www.bls.gov/news.release/pdf/realer.pdf> (accessed June 4, 2022).

¹⁶U.S. Bureau of Labor Statistics, "Consumer Expenditures in 2020," *BLS Report* No. 1096, December 2021, <https://www.bls.gov/opub/reports/consumer-expenditures/2020/home.htm> (accessed June 4, 2022).

¹⁷U.S. Bureau of Labor Statistics, "Labor Productivity and Costs," Frequently Asked Questions <https://www.bls.gov/lpc/faqs.htm> (accessed December 14, 2021).

¹⁸U.S. Bureau of Labor Statistics, "Databases, Tables & Calculators by Subject," Monthly Employment and Labor Force Data through May 2022, <https://www.bls.gov/data/home.htm> (accessed June 3, 2022).

¹⁹U.S. Bureau of Labor Statistics, "Databases, Tables & Calculators by Subject," Monthly Employment and Labor Force Data through May 2022, <https://www.bls.gov/data/home.htm> (accessed June 3, 2022).

²⁰R. Jason Faberman, Andreas I. Mueller, and Ayşegül Şahin, "Has the Willingness to Work Fallen During the Covid Pandemic?" *NBER Working Paper* No. 29784, February 2022, <https://www.nber.org/papers/w29784> (accessed April 5, 2022).

²¹News release, "Job Openings and Labor Turnover—April 2022," U.S. Bureau of Labor Statistics, June 1, 2022, <https://www.bls.gov/news.release/jolts.nr0.htm> (accessed June 1, 2022).

²²Dunkelberg, "NFIB Jobs Report: Over Half of Small Businesses Have Unfilled Job Openings."

²³*Ibid.*

High quit rates are contributing to workforce struggles and higher costs as 51 million workers—one in three—quit their jobs over the past year.²⁴ Replacing a worker typically costs between six months and nine months of that worker’s salary, and high quits rates reduce productivity.²⁵

Labor Shortage Demographics. At the beginning of the pandemic, lower-wage workers, women who were caregivers, and older workers with greater health risks were more likely to have lost or dropped out of employment. Those trends have since shifted.

Currently, young workers (ages 20 to 24)²⁶ account for the largest employment decline. While total employment is down by 440,000 (–0.28 percent) since February 2020, employment for individuals ages 20 to 24 is down by 536,000 (–3.8 percent).²⁷ Meanwhile, employment for teens (ages 16 to 19) is up by 174,000 (+3.2 percent), employment among workers ages 25 through 54 is up by 386,000 (+0.38 percent), and employment for people ages 55 and older is down by 470,000 (–1.2 percent).²⁸

²⁴U.S. Bureau of Labor Statistics, “Job Openings and Labor Turnover Survey,” <https://www.bls.gov/jlt/> (accessed June 4, 2022).

²⁵Lynchburg Regional SHRM, “Essential Elements of Employee Retention,” October 29, 2017, <https://lrshrm.shrm.org/blog/2017/10/essential-elements-employee-retention> (accessed April 7, 2022).

²⁶The seasonally adjusted data reported here are only available for the age group of 55 and older, but not seasonally adjusted data that are broken down into ages 55 through 64, and 65 and older, indicate that the entirety of the employment declines are among individuals ages 65 and older.

²⁷U.S. Bureau of Labor Statistics, “Databases, Tables & Calculators by Subject.” Note that employment data, which includes demographic such as age, comes from the household survey, which is separate from the establishment survey that contains payroll jobs data.

²⁸The seasonally adjusted data reported here are only available for the age group of 55 and older, but not seasonally adjusted data that is broken down

One possible reason for the decline in employment among 20- to 24-year-olds could be that more of them are attending college, but according to the National Student Clearinghouse Research Center, college enrollment fell by 5 percent in 2020, and by another 3.2 percent in 2021.²⁹

Labor Shortage Causes and Impacts

The pandemic itself is not weighing significantly on employment. Rather, many of the government policies enacted in response to the pandemic have reduced workers’ willingness and capacity to work.

Welfare-Without-Work Policies. Various government programs and policies enacted in response to COVID-19 have made it easier for people not to work. A recent National Bureau of Economic Research study found that the pandemic unemployment insurance benefits significantly restricted employment.³⁰ (I also estimate that at least \$357 billion went to people who were not unemployed.)³¹ Moreover, ongoing expansions in Obamacare,

into ages 55 through 64, and 65 and older, indicate that the entirety of the employment declines are among individuals ages 65 and older.

²⁹National Student Clearinghouse Research Center, “Overview: Spring 2022 Enrollment Estimates,” https://nscresearchcenter.org/wp-content/uploads/CTEE_Report_Spring_2022.pdf (accessed June 3, 2022).

³⁰Harry J. Holzer, R. Glen Hubbard, and Michael R. Strain, “Did Pandemic Unemployment Benefits Reduce Employment? Evidence from Early State-Level Expirations in June 2021,” National Bureau of Economic Research *Working Paper* No. 29575, December 2021, <https://www.nber.org/papers/w29575> (accessed February 5, 2022).

³¹Rachel Greszler, “A Warning Against Embedding Problematic Pandemic Unemployment Benefits,” Heritage Foundation *Backgrounder* No. 3637, July 13, 2021, <https://www.heritage.org/sites/default/files/2021-07/BG3637.pdf>.

rental assistance, and a 21 percent increase in food stamps have made it easier not to work.

As evidence of these welfare program effects, a measure called the reservation wage, which is the lowest wage at which individuals will accept a job, surged 26.4 percent between March 2020 and March 2021 for workers earning between \$40,197 and \$50,825.³² The reservation wage subsequently declined in the latter half of 2021 when the bonus unemployment insurance benefits ended, but then resurged in March at a level of \$50,643. Ongoing welfare benefits, along with the government-spending-spree-induced increase in demand, has almost certainly contributed to this rise in workers' reservation wages.

Vaccine Mandates. Various states, private businesses, and medical facilities began implementing COVID-19 vaccine, or vaccine-and-testing, mandates in the late summer and fall of 2021. The Federal Reserve's October 2021 "Beige Book" noted that vaccine mandates were contributing to high turnover and production slowdowns, and that impending "federal vaccine mandates were expected to exacerbate labor problems."³³ An October 2021 "Vaccine Monitor" survey from the Kaiser Family Foundation reported that 5 percent of adults said they would leave their job if their employer required them to get a vaccine or get tested weekly, and that figure jumped to 9 percent if weekly testing was not an option.³⁴

While some vaccine mandates have ended, the federal government's Centers for Medicare and

Medicaid Services (CMS) COVID-19 vaccine mandate still applies to roughly 14 million health care workers. This is almost certainly contributing to the outsized shortage of health care workers. Employment growth in health care since vaccine mandates began around September 2021 has been less than half the rate of total employment growth. Had the health care sector experienced the same employment growth as the rest of the economy over the past eight months, there would be 263,000 more health care workers today.³⁵

Worker Shortage Driving Up Wages Creates Inflationary Cycle. In response to the workforce shortage, employers have increased compensation. In May 2022, 49 percent of businesses reported that they increased compensation over the prior three months, and 25 percent said they plan to increase compensation over the next three months. Since labor accounts for 60 percent of the cost of goods and services, when employers have to pay workers more to do the same thing, that translates into higher prices for consumers. Despite the fact that the median wage has increased by \$3,300 over the past year, the average worker is \$1,550 poorer in real terms after accounting for inflation.³⁶ This is creating an inflationary cycle in which employers have to pay workers more to account for higher inflation, and then they have to increase prices to account for higher wages.

Government Attempts to Restrict Independent Work Limit Labor Force and Hurt Smaller Businesses. Independent

³²U.S. Federal Reserve, Center for Economic Data, Survey of Consumer Expectations, Job Search Survey, March 2022, available for download at <https://www.newyorkfed.org/microeconomics/databank.html> (accessed June 4, 2022).

³³U.S. Federal Reserve, "The Beige Book," October 20, 2021, <https://www.federalreserve.gov/monetarypolicy/beigebook202110.htm> (accessed June 6, 2022).

³⁴Liz Hamel et al., "KFF COVID-19 Vaccine Monitor: October 2021," Kaiser Family Foundation, October

28, 2021, <https://www.kff.org/coronavirus-covid-19/polling/kff-covid-19-vaccine-monitor-october-2021/> (accessed October 31, 2021).

³⁵U.S. Bureau of Labor Statistics, "Employment, Hours, and Earnings from the Current Employment Statistics Survey," <https://www.bls.gov/data/> (accessed June 3, 2022).

³⁶U.S. Bureau of Labor Statistics, "Real Earnings News Release," May 11, 2022, <https://www.bls.gov/news.release/realer.htm> (accessed May 13, 2022).

work—which includes contracting, freelancing, gig-work, and self-employment—has become an increasingly popular form of primary work and a new opportunity to earn additional or “on the side” income. Last year, 59 million Americans participated in independent or freelance work.³⁷

During the pandemic, it was a lifeline to many, with 12 percent of the entire workforce starting freelancing in 2020. Independent work is growing because people want it. They report greater work-life balance, less stress, and better health, with the same, or higher, incomes.³⁸ For many people, it is independent work or no work, as more than half of freelancers say they are unable to work for a traditional employer.

Moreover, independent contractors are critical to small businesses that do not have the same scale as larger companies. Businesses with one to four employees use 6.7 contractors on average.³⁹

Yet, the Administration and many lawmakers in Congress want to restrict independent work. The reason is that unions do not like independent work, since those workers are harder to organize (and unions are key to liberal

politicians’ election outcomes). By definition, independent workers choose to be their own bosses—they don’t want a union boss speaking for them or imposing rigid schedules and collective compensation schemes on them. Restrictions on independent work will reduce the number of people who can participate in the labor force and limit Americans’ income opportunities.

Government Policies: Increasing Construction-Worker Shortages, Driving Up Costs. In addition to the Davis Bacon Act that already drives up federal construction costs by an estimated 9.9 percent, the Administration has imposed significant restrictions on work that receives federal contracting dollars.⁴⁰ For example, an executive order and the \$1.2 trillion Infrastructure Investment and Jobs Act require federal construction projects to include project labor agreements, which effectively means the work must be done by unionized labor.⁴¹

Yet, only 13.6 percent of construction workers are unionized.⁴² Already, business owners in the construction industry report the highest rates of job openings (with 59 percent having

³⁷Adam Ozimek, “Freelance Forward Economists Report,” commissioned by Upwork, 2021, <https://www.upwork.com/research/freelance-forward-2021#:~:text=Upwork%E2%80%99s%202021%20Freelance%20Forward%20survey%20confirms%20the%20finding,the%20eight%20years%20that%20we%20have%20been%20surveying.7msckid=af38e75aa94311eca0aa2072597d624b> (accessed May 3, 2022).

³⁸FreshBooks, “Women in the Independent Workforce—2nd Annual Report, 2019,” <https://www.freshbooks.com/press/data-research/women-in-the-workforce-2019> (accessed June 6, 2022).

³⁹New Paychex Data Shows Independent Contractor Growth Outpaces Employee Hiring in Small Businesses,” PR Newswire, January 9, 2019, [https://www.prnewswire.com/news-releases/new-paychex-data-shows-independent-contractor-growth-outpaces-employee-hiring-in-small-](https://www.prnewswire.com/news-releases/new-paychex-data-shows-independent-contractor-growth-outpaces-employee-hiring-in-small-businesses-300775712.html)

[businesses-300775712.html](https://www.prnewswire.com/news-releases/new-paychex-data-shows-independent-contractor-growth-outpaces-employee-hiring-in-small-businesses-300775712.html) (accessed June 5, 2022).

⁴⁰James Sherk, “Repealing the Davis–Bacon Act Would Save Taxpayers \$10.9 Billion,” Heritage Foundation *Web Memo* No. 3145, February 14, 2011, http://thf_media.s3.amazonaws.com/2011/pdf/wm3145.pdf.

⁴¹The White House, “Executive Order on Use of Project Labor Agreements For Federal Construction Projects,” February 4, 2022, <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/02/04/executive-order-on-use-of-project-labor-agreements-for-federal-construction-projects/> (accessed June 5, 2022).

⁴²U.S. Bureau of Labor Statistics, Economic News Release, “Table 3. Union Affiliation of Employed Wage and Salary Workers by Occupation and Industry, 2020–2021 Annual Averages” <https://www.bls.gov/news.release/union2.t03.htm> (accessed June 6, 2022).

openings they are unable to fill).⁴³ Spending hundreds of billions of dollars on new federal construction projects will drive up construction projects across the country. Restricting the supply of workers on federal contracts to fewer than 14 percent of construction workers who are unionized will result in less work being done at a higher cost for taxpayers. Already, 81 percent of construction firms reported raising prices in April.⁴⁴

Childcare Struggles Not Causing Employment Declines; New Federal Childcare Entitlement Will Drive Up Costs and Limit Access. Multiple economic studies find that childcare is not the cause of employment declines. A study by Jason Furman (former Chair of President Obama’s Council of Economic Advisers), Melissa Kearney, and Wilson Powell III found that, “despite the widespread challenges that parents across the country have faced from ongoing school and daycare closures, excess employment declines among parents of young children are not a driver of continuing low employment levels.”⁴⁵ Claudia Goldin reported in a study that “the real story” is that “employed women...were stressed because they were in the labor force, not because they

left.”⁴⁶ My analysis of unpublished demographic data from the Bureau of Labor Statistics finds that workers with young children make up only 16 percent of the total employment gap today. In fact, women with children have experienced a significantly smaller employment gap of –1.3 percent, compared to the –3.0 percent gap among women without children.⁴⁷

Childcare is expensive and can be difficult to find, but a new federal childcare entitlement would drastically increase childcare costs and restrict the number of providers.⁴⁸ Taking money from some people and giving it to others to purchase a more expensive, government-controlled service does not qualify as reducing costs.

It is especially perverse considering that the proposed childcare subsidies would disproportionately benefit high-income parents: A couple making \$343,600 in Washington, DC, would receive \$30,300 in childcare subsidies for two children, while a couple making \$53,000 in Mississippi would receive \$17,600, and a couple that chooses to have one parent stay home would receive nothing.⁴⁹ Moreover, while the majority of

⁴³News release, “New NFIB Report: Industry-Specific Small Business Economic Trends Survey,” National Federation of Independent Business, May 18, 2022, <https://www.nfib.com/content/press-release/economy/new-nfib-report-industry-specific-small-business-economic-trends-survey/> (accessed June 4, 2022).

⁴⁴Ibid.

⁴⁵Jason Furman, Melissa Kearney, and Wilson Powell III, “How Much Have Childcare Challenges Slowed the US Jobs Market Recovery?” Peterson Institute for International Economics, May 17, 2021, <https://www.piie.com/blogs/realtime-economic-issues-watch/how-much-have-childcare-challenges-slowed-us-jobs-market> (accessed June 6, 2022).

⁴⁶Claudia Goldin, “Understanding the Economic Impact of COVID-19 on Women,” NBER Working Paper No. 29974, April 2022, <https://www.nber.org/papers/w29974> (accessed June 6, 2022).

⁴⁷These demographic employment data come from unpublished tabulations from the Current Population Survey of the BLS. According to the BLS, these data are based on a very small number of observations and should be interpreted with extra caution. For further information on the CPS, see U.S. Bureau of Labor Statistics, “Labor Force Statistics from the Current Population Survey: Technical Documentation,” <http://www.bls.gov/cps/documentation.htm> (accessed January 31, 2022).

⁴⁸Casey Mulligan, “Biden Would Make Daycare Even More Expensive,” *The Wall Street Journal*, December 9, 2021, <https://www.wsj.com/articles/biden-would-make-daycare-even-pricier-child-care-cost-quality-regulation-build-back-better-11639084122> (accessed June 6, 2022).

⁴⁹Rachel Greszler, “Government Childcare Subsidies: Whom Will They Help Most?” Heritage Foundation *Issue Brief* No. 5231, October 20, 2021,

parents who use childcare centers choose faith-based centers, the proposed subsidies specifically exclude faith-based providers.⁵⁰

Education and Skills Gap Overview

It is not just the quantity of labor that is lacking, but also the quality. In 46 of 48 months between 2018 and 2021, small business owners noted labor quality as their single most important problem (bested recently by inflation).⁵¹ Government interventions have distorted the higher education market, driving individuals away from more effective and lower-cost education alternatives as college becomes more expensive and employers report that graduates are often ill-prepared for the workforce.

Education plays a significant role in workers' future productivity. Although one data point is not a trend, labor productivity fell 7.3 percent in the first quarter of 2022—the fastest decline in nearly 75 years.⁵² While some temporary factors contributed to this decline, continued low levels of employment and inefficient education will reduce the rate of economic growth, result in smaller real incomes and output, cause greater dependence on government social programs, require higher levels of taxation, and exacerbate America's already precarious fiscal situation.

<https://www.heritage.org/sites/default/files/2021-10/IB5231.pdf>.

⁵⁰Linda Smith, Sarah Tracey, and Ben Wolters, "Are Parents' Child Care Preferences Changing? Overview of BPC's Parent Survey," Bipartisan Policy Center, February 24, 2021,

<https://bipartisanpolicy.org/blog/are-parents-child-care-preferences-changing-overview-of-bpcs-parent-survey/> (accessed June 6, 2022).

⁵¹Data available for download from: NFIB Research Foundation, <http://www.nfib-sbet.org/indicators> (accessed June 4, 2022).

⁵²U.S. Bureau of Labor Statistics, "Productivity and Costs, First Quarter 2022, Revised," Economic News Release, June 2, 2022,

Education and Skills Gap: Causes and Impacts

Employers have the incentive to educate, or upskill, workers. And colleges and universities should have the incentive to provide valuable and effective education at minimal cost. But government policies are getting in the way. Government subsidies for select higher education institutions drive up costs, distort college's incentives to maximize value, and drive out more effective and lower-cost alternatives. And restrictions on apprenticeship programs prevent more employer-led and industry-led education.

Federal Subsidies for Higher Education Crowd Out More Effective, Lower-Cost Alternatives.

The federal government spends over \$100 billion per year subsidizing select forms of higher education in the U.S.—namely, accredited colleges and universities. This has primarily served to drive up costs, with in-state tuition and fees at public four-year universities nearly tripling between 1990 and 2020 as federal spending increased more than three-fold.⁵³ A Federal Reserve Bank of New York study found that each dollar in federally subsidized loans that colleges receive leads to a 60-cent increase in tuition.⁵⁴ And tuition itself only accounts for about 40 percent of the total

<https://www.bls.gov/news.release/prod2.nr0.htm> (accessed June 6, 2022).

⁵³Jennifer Ma, Matea Pender, and CJ Libassi, "Trends in College Pricing and Student Aid 2020: Published Tuition and Fees Over Time," College Board, 2020, p. 12, <https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf> (accessed June 6, 2022).

⁵⁴David O. Lucca, Taylor Nadauld, and Karen Shen, "Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs" Federal Reserve Bank of New York *Staff Report* No. 733, July 2015, revised February 2017, p. 19, <https://www.newyorkfed.org/medialibrary/media/>

cost of college. The Urban Institute estimates that, in addition to what students and families paid themselves, taxpayers spent \$29,689 per full-time student in 2019, with expenditures ranging from a high of \$51,338 per student in Alaska to a low of \$23,208 per student in Nevada.⁵⁵

A primary purpose of these subsidies is to increase college access and graduation among lower-income households. Yet, the subsidies have disproportionately benefited upper-income households. In part, that is because college subsidies are not available for students who do not graduate high school. A study by Martha Bailey and Susan Dynarski finds that this explains half of the inequality in college entry.⁵⁶ Moreover, Bailey and Dynarski find that, “Even if rates of college entry were miraculously equalized across income groups, existing differences in persistence would still produce large gaps in college completion” because low-income students are less likely to complete college.⁵⁷ The share of low-income students entering but not completing college increased from 14 percent in the early 1980s to 20 percent in the early 2000s.

[research/staff_reports/sr733.pdf](#) (accessed June 6, 2022).

⁵⁵Urban Institute, “State and Local Backgrounders: Higher Education Expenditures.”

<https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders/higher-education-expenditures> (accessed April 7, 2022).

⁵⁶Martha J. Bailey and Susan M. Dynarski, “Gains and Gaps: Changing Inequality in U.S. College Entry and Completion,” NBER *Working Paper* No. 17633, December 2011,

https://www.nber.org/system/files/working_papers/w17633/w17633.pdf (accessed May 24, 2022).

⁵⁷*Ibid.*

⁵⁸Bryan Caplan, *The Case Against Education: Why the Education System Is a Waste of Time and Money* (Princeton, NJ: Princeton University Press, 2018).

⁵⁹Preston Cooper, “Why College Is Too Expensive—and How Competition Can Fix It,” The Foundation

Government subsidies have also distorted the incentives for colleges to provide high-value education and for students to finish their schooling on time.⁵⁸ Instructional staff now account for only 40 percent of full-time employees at non-doctoral colleges, and a mere 28 percent at doctoral universities.⁵⁹ And fewer than half of students earn a degree in the expected four years, while only three in five earn a degree in six years.⁶⁰

Enormous federal subsidies for higher education divert students and resources away from more effective education alternatives that could otherwise be flourishing. The Flatiron School and other bootcamp-style programs are teaching a growing number of people, many of whom have no technical background, the skills they need to succeed in high-demand jobs, such as data scientist, software engineer, and cybersecurity engineer, in only 15 weeks.⁶¹ Many of these programs offer the option of an income-share agreement (ISA) where the programs have a direct financial stake in student achievement by allowing students to defer paying tuition up front and instead pay a small percentage of their post-graduation salary for a fixed amount of time upon graduation.⁶² Under ISAs, Flatiron and its

for Research on Equal Opportunity, March 5, 2021, <https://freopp.org/why-college-is-too-expensive-and-how-competition-can-fix-it-cb2eb901521b> (accessed May 13, 2022).

⁶⁰National Center for Education Statistics, *Digest of Education Statistics, 2021*, Table 326.10, “Graduation rate from...” https://nces.ed.gov/programs/digest/d21/tables/d21_326.10.asp (accessed April 7, 2022).

⁶¹Flatiron School, <https://flatironschool.com/> (accessed April 11, 2022).

⁶²Liz Eggleston, “All About ISAs: Income Share Agreements and Deferred Tuition at Coding Bootcamps,” Course Report, updated March 30, 2022, <https://www.coursereport.com/blog/deferred-tuition-and-isas-at-coding-bootcamps> (accessed April 7, 2022).

competitors only get paid if their students land a good job upon graduation, and they earn more when their students earn more.⁶³ These programs have a direct incentive to teach students skills that are highly valued in the labor market, as opposed to the government spending tens of thousands of dollars per university student whether he or she studies engineering, art history, or gender studies.

Employers Report: Higher Education Not Adequately Preparing Workers, So They Are Stepping Up. Even prior to the pandemic, employers were already investing in their labor force in alternative ways. In addition to providing an estimated \$90 billion per year for education and training, some employers have started programs to educate workers from the ground up, often replacing the need for higher education.

Employers are doing this because, as Apple CEO Tim Cook has noted, colleges typically do not teach the skills that businesses need most.⁶⁴ Employers, on the other hand, are typically more adept at providing timely and practical education to meet their needs. For example, tech companies are creating their own certification programs and curricula based on skills not degrees, such as Google Career Certificates, Amazon Technical Academy, and IBM's multiple training programs.⁶⁵ Bank of America launched a Pathways Program in

⁶³Mary Clare Amselem, "Income Share Agreements Have the Potential to Revolutionize College Financing," Heritage Foundation *Issue Brief* No. 4910, October 19, 2018, <https://www.heritage.org/education/report/income-share-agreements-have-the-potential-revolutionize-college-financing>.

⁶⁴Nate Swanner, "Apple CEO Reminds Us Tech Degrees Aren't Delivering Necessary Skills," Dice Insights, March 11, 2019, <https://insights.dice.com/2019/03/11/tech-degrees-delivering-skills/> (accessed April 5, 2022).

⁶⁵Amazon, "Amazon Helps Employees Become Software Engineers in 9 Months," updated February 2, 2022, <https://www.aboutamazon.com/news/workplace/>

2018, and Mazda tackled a skills gap by educating thousands of new workers at its Alabama manufacturing plant.⁶⁶

Walmart recently launched an education and training program—Live Better U (LBU)—with a \$1 billion investment over the next five years. Lorrain Stomski, a senior vice president at Walmart explained: "Think about how COVID has just accelerated the digital transformation for all companies. That produces new jobs, new roles. So, we have to upskill our associates." LBU is tuition free and provides many programs—ranging from foundational programs like English as a Second Language and High School Diplomas to short programs like project management, to degree programs in business, health, and technology, and college credits. The result has been tens of thousands of participants learning valuable skills that have translated into more promotions and pay raises, while the company has benefitted from reduced absenteeism and participants being less likely to leave the company.

Government Monopoly on Apprenticeships Stifling Paid Education Opportunities. For roughly 80 years, the government's Registered Apprenticeship Program (RAP)—which requires conforming to government standards and includes federal funding, tax credits, and other federal resources—has dominated apprenticeship programs in the U.S. While this

[amazon-helps-employees-become-software-engineers-in-9-months](#) (accessed March 2, 2022), and Sonia Malik, "Start on the Path to Lifelong Learning and Employability with IBM," IBM Training and Skills Blog, June 1, 2021, <https://www.ibm.com/blogs/ibm-training/start-on-the-path-to-lifelong-learning-and-employability-with-ibm/> (accessed April 11, 2022).

⁶⁶Bank of America, "Career Development," <https://careers.bankofamerica.com/en-us/join-us/career-development> (accessed April 5, 2022), and TRANSFRVR, "Training the Next Generation of Workforce at Mazda Toyota Manufacturing," <https://resources.transfrvr.com/training-the-next-generation-of-workforce-at-mazda-toyota-manufacturing> (accessed April 5, 2022).

model has been successful in some occupations, it has failed to meet the changing workforce needs as it is concentrated in only a few industries. A report by Isabel Soto at the American Action Forum notes that while the health care sector accounts for six of 10 of the most rapidly growing occupations, health care apprenticeships only make up 2.5 percent of RAPs.⁶⁷ Moreover, while women make up 47 percent of the labor force, they account for only 9 percent of all active federal apprenticeships.⁶⁸

To help to expand apprenticeship programs and better align them with industry needs, the Trump Administration created a new Industry-Recognized Apprenticeship Program (IRAP). IRAPs created an easier process for developing apprenticeship programs, built on more employer involvement, with a goal of reaching more workers in high-demand industries. Even without access to the federal funding that is available to traditional RAPs, more than 130 IRAPs were created (along with 27 Standards Recognition Entities to recognize and oversee them).⁶⁹ Most IRAPs were focused on developing workers for the nursing profession, which faced shortages that have since been exacerbated by the pandemic.

Yet, the Biden Administration rescinded the Trump Administration's executive order that expanded apprenticeship programs and directed the Department of Labor to reverse "industry recognized apprenticeship programs

(IRAPs) which threaten to undermine registered apprenticeship programs."⁷⁰

Yet, organizations across the political spectrum have noted the failure of RAPs to meet workforce demands, particularly due to their overly bureaucratic and burdensome nature. A 2021 Brookings Institution report noted that registered apprenticeships are concentrated in legacy and historically male trades, and fail to meet growing demands in the health care and technology industries. The report noted the overly onerous process for employers to establish apprenticeship programs, concluding that "[a] robust apprenticeship system has the potential to increase earnings and reduce occupational segregation in the labor market."⁷¹

Federal Job Training Programs Have Been Failures. The federal government spends billions of dollars each year on job-training programs that fail to provide workers with education and experience that helps them to find and retain jobs. Even a gold-standard evaluation of the federal government's Workforce Investment Act, which is supposed to provide training for in-demand services, found that only 32 percent of participants found occupations in their area of training and the majority—57 percent—did not believe that

⁶⁷Isabel Soto, "Industry Recognized Apprenticeship Programs and the Biden Administration," American Action Forum, April 6, 2021,

<https://www.americanactionforum.org/insight/industry-recognized-apprenticeship-programs-and-the-biden-administration/> (accessed April 5, 2022).

⁶⁸Ibid.

⁶⁹Ibid.

⁷⁰The White House, "Fact Sheet: Biden Administration to Take Steps to Bolster Registered Apprenticeships," February 17, 2021, [https://www.whitehouse.gov/briefing-room/statements-releases/2021/02/17/fact-sheet-biden-administration-to-take-steps-to-bolster-](https://www.whitehouse.gov/briefing-room/statements-releases/2021/02/17/fact-sheet-biden-administration-to-take-steps-to-bolster-registered-apprenticeships/)

[registered-apprenticeships/](#) (accessed April 8, 2021).

⁷¹Annelies Goger and Chenoah Sinclair, "Apprenticeships Are an Overlooked Solution for Creating More Access to Quality Jobs," Brookings Institution blog, January 27, 2021, <https://www.brookings.edu/blog/the-avenue/2021/01/27/apprenticeships-are-an-overlooked-solution-for-creating-more-access-to-quality-jobs/#:~:text=Apprenticeships%2C%20which%20combine%20on-the.%2C%20and%20problem-solving%20skills> (accessed April 7, 2022).

their training helped them to find employment.⁷²

Moreover, individuals receiving the full workforce training were less likely to obtain health insurance or pension benefits, their households earned several thousand dollars less, and they were more likely to be on food stamps than participants who received minimal services. The National Job Corps Study (an evaluation of the federal government's primary youth job-training program) found that a federal taxpayer investment of \$25,000 per Job Corps participant resulted in participants being less likely to earn a high school diploma, no more likely to attend or complete college, and earning only \$22 more per week.⁷³

It is not surprising that federal job-training programs are out of touch with the needs of employers in high-demand occupations, because politicians and bureaucrats can never know businesses' needs better than employers themselves.

Solutions for Small Businesses

To help reduce inflation, encourage more people to pursue their productive capabilities,

and enable more efficient education and training, policymakers should:

Reduce Government Spending. The federal government spent 45 percent more in both 2020 and 2021 than it did in 2019, all of which was financed by adding to the federal debt.⁷⁴ The sooner Congress acts to reduce spending—most notably ending recent expansions and enacting entitlement reforms—the sooner consumers and small business owners will stop experiencing declining real incomes.

Reduce, Instead of Increase, Regulations that already impose an estimated \$2 trillion in costs on the private sector, and which disproportionately hurt small businesses and start-ups.⁷⁵

Eliminate Tariffs. Congress could immediately reduce prices by eliminating tariffs on imports of steel and aluminum; manufactured goods like cars, trucks, and parts; washing machines; and chassis used in transportation.⁷⁶

Prevent Tax Increases. When employees and employers can keep more of what they earn, they will work more and put those higher incomes toward productive activities.⁷⁷

⁷²Sheena McConnell et al., "Providing Public Workforce Services to Job Seekers: 15-Month Impact Findings on the WIA Adult and Dislocated Worker Programs," *Mathematica*, May 30, 2016, <https://mathematica.org/publications/providing-public-workforce-services-to-job-seekers-15-month-impactfindings-on-the-wia-adult> (accessed April 4, 2022).

⁷³David B. Muhlhausen, "Job Corps: An Unfailing Record of Failure," Heritage Foundation *WebMemo* No. 2423, May 5, 2009, <https://www.heritage.org/jobsand-labor/report/job-corps-unfailing-record-failure>.

⁷⁴Joel Griffith, "Three Things Congress Can Do To Get Serious On Inflation," Heritage Foundation *Commentary*, May 16, 2022, <https://www.heritage.org/budget-and-spending/commentary/three-things-congress-can-do-get-serious-inflation>.

⁷⁵W. Mark Crain and Nicole V. Crain, "The Cost of Federal Regulation to the U.S. Economy, Manufacturing and Small Business," National Association of Manufacturers, September 10, 2014, <https://www.nam.org/wp-content/uploads/2019/05/Federal-Regulation-Full-Study.pdf> (accessed February 28, 2022).

⁷⁶Daren Bakst and Peter St. Onge, "Inflation: Policymakers Should Stop Driving It and Start Fighting It," Heritage Foundation *Special Report* No. 252, January 20, 2022, <https://www.heritage.org/sites/default/files/2022-02/SR252.pdf>.

⁷⁷Adam N. Michel, "The Tax Cuts and Jobs Act: 12 Myths Debunked," Heritage Foundation *Backgrounder* No. 3600, March 23, 2021, <https://www.heritage.org/taxes/report/the-tax-cuts-and-jobs-act-12-myths-debunked>.

Enable Greater Natural Wage Increases. Policymakers should eliminate double taxes on investments that boost productivity and wages.⁷⁸

Make Welfare Work Better Through Work-Oriented Programs. The goal of welfare programs should be to help people achieve independence and to break intergenerational cycles of poverty, including ending COVID-19 welfare expansions and including work requirements.

Protect Independent Work. Congress should clarify the test for independent contractor status under the Fair Labor Standards Act, the National Labor Relations Act, and the tax code based on the “common law” test that determines how much control an employer exerts over a worker. This would particularly benefit small businesses, which disproportionately rely on contractors, and individuals who need or want more flexible and autonomous work.

Eliminate Social Security’s Retirement Earnings Test. Social Security’s misunderstood earnings test is perceived by workers as a 50 percent tax on their earnings, which causes people to work less, and thus earn less, than they otherwise would. Policymakers should end this paternalistic and economically detrimental policy so that older Americans are not discouraged from working and earning more.

⁷⁸Jamie Bryan Hall and Mary Clare Amselem, “Time to Reform Higher Education Financing and Accreditation,” Heritage Foundation *Issue Brief* No. 4668, March 28, 2017, <https://www.heritage.org/education/report/time-reform-higher-education-financing-and-accreditation>.

⁷⁹Rachel Greszler, “Why Congress Must ‘Cancel’ the Davis–Bacon Act,” *The Washington Times*, April 5, 2021,

Protect the Franchising Pathway to Entrepreneurship. Congress should codify in law the longstanding precedent, and practical reality, that an individual’s employer is the one who hires, oversees, and pays her: the franchise owner.

Prioritize Workers’ Choices About Unionization. Congress should prioritize workers’ choices and respect unions’ resources by simultaneously getting rid of forced unionization laws and “exclusive representation” laws (which require unions to represent non-union workers) so that workers do not have to pay for representation they do not want, and unions do not have to use their resources to represent workers who do not pay union dues.

Repeal the Davis–Bacon Act and End Project Labor Agreement Requirements in Repeal Laws Requiring Inflated Federal Construction Costs. To reduce taxpayers’ costs and prevent further construction price increases in the private sector, Congress should repeal the Davis–Bacon Act⁷⁹ and repeal Project Labor Agreement requirements in federal construction projects.

Expand Accessible, Affordable Childcare. Congress should allow parents to use federal childcare subsidies and Head Start funds at a provider of their choice.⁸⁰

Remove Barriers to Work and Flexibility. Congress should enact the Working Families Flexibility Act so that lower-wage workers can choose to accrue paid time off, and also remove an unintentional barrier in the Fair Labor

<https://www.washingtontimes.com/news/2021/apr/5/why-congress-must-cancel-the-davis-bacon-act/> (accessed January 10, 2022).

⁸⁰Rachel Greszler and Lindsey M. Burke, “Rethinking Early Childhood Education and Childcare in the COVID-19 Era,” Heritage Foundation *Backgrounder* No. 3533, September 30, 2020, <https://www.heritage.org/sites/default/files/2020-09/BG3533.pdf>.

Standards Act that makes it harder for businesses to offer child care benefits.⁸¹

Abandon Federal Vaccine Mandates. Since COVID-19 vaccine mandates began, health care employment growth has lagged behind total employment growth by 263,000 workers. The federal government should abandon the CMS mandate and allow health care providers to set their own vaccination policies, based on the simultaneous goals of providing safe environments and ensuring access to quality care.

Replace Failed Federal Job-Training Programs with More Effective Private and State or Local Programs. The federal government has a terrible track record on job-training programs. Instead of wasting taxpayer dollars and workers' time on failed federal job-training programs, policymakers should allow workers to benefit from more effective employer-provided programs.⁸²

Phase Out Federal Subsidies for Higher Education to Unleash More Effective, Lower-Cost Alternatives. Federal subsidies for higher education inflate total costs, drive up tuition, suppress more effective education alternatives, and have failed to expand lower-income Americans' share of college graduates.

⁸¹Under the Fair Labor Standards Act (FLSA), employers who provide any kind of onsite childcare or childcare subsidies must include the value of those benefits in employees' "regular rate" of pay calculations. This complicates and increases costs when workers who receive hourly wages work overtime because, instead of just paying the worker 1.5 times the wage, employers have to add on 1.5 times the hourly value of any childcare subsidy, even though those subsidies are usually fixed benefits. Policymakers should exclude childcare benefits from the "regular rate" of pay calculations, just as the law already excludes similar benefits, such as retirement contributions, and accident, health, and life insurance benefits. This would particularly benefit lower-income to middle-income workers who are more likely to receive hourly wages.

The U.S. Department of Education should stop adding gasoline to the fire and allow private financial institutions to pick up any gap in new loans and financial aid.

Prohibit Blanket Student Loan "Forgiveness." Congress should immediately prohibit the Biden Administration's pending proposal for blanket student-loan forgiveness, which would be inflationary, morally hazardous, regressive, and tip the scales away from more effective education alternatives.

Expand Apprenticeship Programs by Ending the Government Monopoly. A 2017 study by Harvard Business School and Burning Glass Technologies estimated that the number of occupations commonly filled through apprenticeships could nearly triple (from 27 to 74), that the number of job openings filled through apprenticeships could expand eight-fold (to 3.2 million), and that the occupations ripe for apprenticeship expansion could offer 20 percent higher wages than traditional apprenticeship occupations.⁸³

The Training America's Workforce Act would end the government monopoly on Registered Apprenticeships by directing the U.S. Department of Labor (DOL) to revive IRAPs so that DOL-approved entities, such as trade

⁸²In the case of federal job-training programs used as part of work requirements in means-tested aid programs, such as TANF, food stamps, and housing, a pay-for-outcomes model should be applied. See Leslie Ford and Robert Rector, "Pay-for-Outcomes: Transforming Federal Social Programs to Expand Individual Well-Being," Heritage Foundation *Backgrounder* No. 3550, November 5, 2020, <https://www.heritage.org/sites/default/files/2020-11/BG3550.pdf>.

⁸³Joseph B. Fuller and Matthew Sigelman, "Room to Grow: Identifying New Frontiers for Apprenticeships," Harvard Business School and Burning Glass Technologies, November 2017, <https://www.hbs.edu/managing-the-future-of-work/Documents/room-to-grow.pdf> (accessed April 7, 2022).

associations and educational institutions, could recognize and oversee apprenticeship programs.⁸⁴

Summary

The U.S. is experiencing a labor shortage unlike any before in U.S. history. Despite high demand for goods and services, small businesses are struggling with high inflation and a lower quantity and quality of workers than they need.

The federal government bears primary responsibility for many of these struggles, as it has fueled inflation, discouraged work, and continues to distort the higher education market. Government solutions should be to remove problematic government policies and practices, instead of doubling down with even more federal spending, more regulation, and new government programs.

To reduce inflation, federal policymakers should immediately reduce federal spending and reform entitlement programs, eliminate needless regulations, and stop fueling higher housing costs.

Policymakers should remove barriers that are contributing to the nationwide labor shortage, such as welfare-without-work programs, vaccine mandates, excessive labor regulations, and restrictions on individuals' ability to work in the ways that work best for them.

And, to address the growing skills and education gap, policymakers should phase out federal interventions in higher education, end the government's monopoly on apprenticeship programs, and replace federal job-training programs with employer-driven programs.

⁸⁴News release, "Thune, Scott Introduce Legislation to Combat Workforce Challenges," John Thune, U.S. Senator for South Dakota, March 7, 2022,

<https://www.thune.senate.gov/public/index.cfm/press-releases?ID=EC0FC336-7A34-4B44-BE1E-8D987CA1E7FD> (accessed April 7, 2022).

CONGRESSIONAL TESTIMONY

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Chairman CARDIN. Thank you very much for your testimony.

Our next witness is John Arensmeyer, who is well known in our Committee, a frequent visitor. He is the founder and CEO of the Small Business Majority, a national organization focused on uplifting small businesses across the country while ensuring a diverse and inclusive economy. He works with the Small Business Administration and has led to the organization providing resources to 30 million small businesses and entrepreneurs. He previously testified in front of Congress and has worked alongside the White House to solve issues facing small businesses and the economy.

Glad to hear from you.

**STATEMENT OF JOHN ARENSMEYER, FOUNDER AND CEO,
SMALL BUSINESS MAJORITY, WASHINGTON, DC**

Mr. ARENSMEYER. Thank you, Chairman Cardin, Ranking Member Paul, and members of the Committee.

I founded the Small Business Majority 16 years ago to empower America's diverse entrepreneurs to build a thriving and equitable economy. We have a network of over 85,000 small businesses and 1,500 partners or partner organizations we work with. Before founding the Small Business Majority, I was the founder and CEO of ACI Interactive, an award-winning interactive communications company. So I have had a front row seat for challenges and workforce challenges faced by small businesses.

The "Great Resignation" has spawned record numbers of new businesses, which is great. However, it has exacerbated workforce challenges. Small business owners have overwhelmingly cited labor shortages as one of the most significant challenges they face. According to a recent survey from Goldman Sachs, 87 percent of small firms report difficulties filling open positions. Our own polling has revealed that more than half of small business owners reported being negatively impacted by workforce shortages.

Small businesses are doing what they can to address these problems. According to our polling, small businesses have taken measures to create more incentives for workers, such as increasing pay, increasing benefits, creating more part-time positions, and hiring younger staff. However, as emergency financial assistance has expired and additional support remains stymied by partisan politics, small firms await the resources they need to sustain a long-term recovery.

A leading workforce barrier faced by small businesses is the ability to offer quality, affordable benefits commensurate with those offered by large firms. Since 2014, the Affordable Care Act has been an essential component of the small business ecosystem. Indeed, more than half of the ACA market participants are small business owners, small business employees, and self-employed Americans.

The American Rescue Plan has helped to fill the coverage gap by expanded tax credits. However, if Congress fails to extend these benefits, those who work in small businesses will find it difficult to maintain health care coverage commensurate with that offered by large firms.

Similarly, many small businesses do not have the resources to offer paid leave benefits the way large companies do and are looking to the Federal Government to step in with the kind of paid

leave programs that exist in every other developed country in the world.

Likewise, access to quality, affordable child care is essential if we are to address workforce instability. Women, in particular, have been forced out of the labor pool due to lack of access to affordable child care during the pandemic. More than one-third of small business owners with children reported that a lack of access to affordable, high quality child care was a barrier to starting their businesses and hiring employees. Congress must expand tax credits for child care expenses that would allow working parents to receive a percentage of child care expenses as a tax refund.

The pandemic has highlighted the importance of wealth building including saving for retirement. Unfortunately, many small businesses do not have the resources or the administrative capability to offer retirement benefits. We must expand State Secure Choice Savings Programs that provide an easy on-ramp for employees to save for retirement while ensuring that self-employed individuals have access.

I also want to touch on two essential workforce pools that are underutilized. The first is immigrants. Immigrants are highly entrepreneurial, launching small businesses at over twice the rate of native-born Americans. Moreover, throughout our history, immigrants have filled essential labor needs. We must pass comprehensive immigration reform. Alongside that, we must expand H-1B visa programs to allow more visas for skilled and low-skilled foreign workers while decreasing the waiting period for rejected applicants.

Also, justice-impacted individuals that the Chairman referenced, second-chance hiring opens an enormous untapped talent pool for small employers. Research has shown, and anecdotal evidence in our own network, that most employers hiring justice-impacted individuals have positive experiences and notably lower turnover rates. Some of the tools and resources needed include occupation licensing reform, implementing clean slate procedures, and creating materials that will educate small businesses on the benefits of second-chance hiring.

Finally, as has been discussed here, we must invest more in helping small businesses access the resources they need to train a skilled workforce. An example of this is the Lifelong Learning and Training Account Act that was reintroduced earlier this year.

To conclude, more than two years into the pandemic, small businesses are slowly rebuilding, but they need a vibrant, stable workforce to fully recover.

I look forward to your comments and questions.

[The prepared statement of Mr. Arensmeyer follows:]



**STATEMENT FOR THE RECORD BEFORE THE U.S. SENATE COMMITTEE ON
SMALL BUSINESS AND ENTREPRENEURSHIP**

JUNE 8, 2022

JOHN ARENSMEYER

FOUNDER & CEO, SMALL BUSINESS MAJORITY

Thank you, Chairman Cardin, Ranking Member Paul, and members of the committee.

My name is John Arensmeyer, and I am the founder and CEO of the national small business organization Small Business Majority.¹ As a leading representative of America's 32 million small businesses, Small Business Majority is pleased to testify today regarding the unique challenges small businesses face when trying to retain and recruit a strong workforce. I also plan to offer several solutions to overcome these challenges and suggestions for cultivating a strong, skilled small business workforce through commonsense and meaningful policy changes.

Small Business Majority's mission is to empower America's diverse entrepreneurs to build a thriving and equitable economy. We engage our network of more than 85,000 small businesses and 1,500 business and community organizations to deliver resources to entrepreneurs and advocate for public policy solutions that promote inclusive small business growth. Our work is bolstered by extensive research and deep connections with the small business community that enables us to educate stakeholders about key issues impacting America's entrepreneurs, with a special focus on the smallest businesses and those facing systemic inequities.

Before launching Small Business Majority more than 16 years ago, I was the founder and CEO of ACI Interactive, an award-winning interactive communications company. Based on my work at Small Business Majority and ACI, I know firsthand that for a very long time small business owners have faced challenges attracting and retaining talented employees. Key barriers facing our nation's entrepreneurs include the ability to offer quality affordable healthcare, paid family leave, childcare and retirement benefits along with not having the same ability as big corporations to participate in workforce training programs. Furthermore, small businesses don't have the support they need to hire from specialized populations such as immigrants and those who are justice-impacted.

It is no secret that the pandemic introduced new demands on small business owners. Small business owners overwhelmingly cited labor shortages as one of the most significant challenges they faced as COVID-19 continued to plague their recovery efforts. According to a recent survey from Goldman Sachs, 87% of hiring small firms reported difficulties filling open positions.² Polling conducted in March 2022 by Small Business Majority revealed that more than half (52%) of small business owners reported being negatively impacted by workforce shortages.³

¹ <https://smallbusinessmajority.org/>

² <https://www.goldmansachs.com/citizenship/10000-small-businesses/US/voices/policy-agenda/documents/2022-report-summary.pdf>

³ <https://smallbusinessmajority.org/our-research/small-businesses-share-current-business-concerns-challenges-federal-relief-programs>

Despite limited resources, small businesses are doing what they can to address their workforce challenges. According to our polling, small businesses have taken measures to create more incentives for workers, such as: increasing pay (32%), increasing benefits (20%), creating more part-time positions (26%), and hiring younger staff (23%).⁴ However, as emergency financial assistance from the federal government has expired and additional assistance remains stymied by partisan politics, small firms await the resources they need to sustain a long-term recovery.

The recent jobs report released by the Bureau of Labor Statistics showed there is a high demand for workers, meaning that we are currently in a tight labor market. Many small firms have reported the impact hiring and retention during a tight labor market has had on their bottom line. To attract talent, they must compete with larger corporations that can offer more robust benefits, but they need to be able to do so on a level playing field.

It's important for policymakers to understand that small businesses simply do not have the same resources or administrative capacity as large corporations to manage benefit programs like healthcare, paid family leave, childcare and retirement. Therefore, we must support forward-thinking policies that will help small businesses compete. Small Business Majority has outlined several solutions that will strengthen the nation's small business ecosystem and grow a skilled small business workforce.

Providing essential benefits

Healthcare

The "Great Resignation" has incited record numbers of new businesses and entrepreneurs. In the first half of 2021, small businesses with fewer than 50 employees created 1.9 million jobs, the fastest start to small business job growth in any year on record.⁵ It also exacerbated workforce challenges for small businesses that had difficulty maintaining health benefits for their workers during a period of uncertainty. As small businesses were forced to close, lay off staff, or cut health benefits for employees, nearly 2.7 million people in the U.S. lost their health insurance over 12 weeks in the spring and summer of 2020.⁶ Workers who lost access to benefits at small businesses were more likely to pursue positions at larger firms that guaranteed access to health benefits, thus increasing workforce shortage in the small business community.

These challenges are not new to small business owners because their employees have historically comprised a disproportionate share of the working uninsured, and small businesses have consistently identified healthcare costs as one of the top barriers to maintaining and growing their business.⁷ However, the passage of the Affordable Care Act (ACA) allowed small business owners and their employees to access crucial healthcare resources that support stability and affordability. Indeed, more than half of all ACA marketplace enrollees are small business owners, self-employed, or small business employees.⁸ Data suggests that recent policies, particularly the American Rescue Plan (ARP), helped fill the coverage gap.⁹ While many Americans lost employer-sponsored coverage during the pandemic, new tax credits made available through the ARP, as well as other solutions, played an important role in insulating the small business community from one of the worst consequences of the pandemic.

⁴ <https://smallbusinessmajority.org/our-research/small-businesses-views-on-tax-reforms-workforce-shortages>

⁵ <https://www.whitehouse.gov/wp-content/uploads/2022/04/President-Biden-Small-Biz-Boom-full-report-2022.04.28.pdf>

⁶ <https://jamanetwork.com/journals/jama-health-forum/fullarticle/2783874>

⁷ <https://smallbusinessmajority.org/our-research/entrepreneurship-freelance-economy/small-business-owners-say-government-doesn-t-understand-their-concerns-need-help-healthcare-costs-and-other-challenges>

⁸ <https://smallbusinessmajority.org/our-research/healthcare/small-businesses-see-significant-gains-aca>

⁹ <https://aspe.hhs.gov/sites/default/files/documents/ed44f7bb6df7a08d972a95c34060861e/aspe-data-point-2020-2021-uninsured.pdf>

However, the success of these affordable healthcare programs remains at risk and must be further bolstered by:

- Extending the premium assistance provided by the ARP that has helped make healthcare more affordable for many entrepreneurs and their employees;
- Addressing the rising costs of prescription drugs, as these costs are hurting small business owners' bottom lines; and
- Passing the Medicaid Saves Lives Act to ensure that the benefits of expanded Medicaid coverage is extended to small business employees and others in the 12 states that have failed to do so on their own.

Paid family and medical leave

Small business owners know it makes good business sense to take care of their employees, as it is crucial to retaining a productive and talented workforce. Unfortunately, many small businesses do not have the resources to offer robust benefits that larger companies can provide, like paid family and medical leave, which puts them at a disadvantage when it comes to attracting and retaining employees. And private insurers generally do not offer affordable, adequate paid leave policies to small businesses. As a result, as of 2019, only 14% of workers in firms with 99 or fewer employees had access to employer-provided paid family leave, compared to 29% of workers in firms with 500 or more employees.¹⁰ This is why small businesses strongly support implementing a federal program that would allow small employers to facilitate access to a paid leave program funded by employee and employer contributions.¹¹

A federal insurance program, like that proposed in the Family and Medical Insurance Leave (FAMILY) Act and previous iterations of Presidents Biden's Building a Better America plan, would go a long way toward helping entrepreneurs and their employees through difficult times while also benefiting business owners' bottom lines. What's more, 65% of small businesses support a proposal to establish a national program that would provide four weeks of paid family and medical leave to anyone to care for a new child or to care for a loved one's serious illness or other covered medical leave issues.¹² Research has found that paid leave programs have been popular with small employers in states where the program has been implemented. For example, in California, which has had a paid family leave program in place for more than a decade, some businesses reported cost savings due to reduced employee turnover and most businesses saw no increased costs to their bottom lines.¹³

Childcare

Access to quality, affordable childcare impacts the small business ecosystem in a multitude of ways and therefore is an essential investment small business owners need to address workforce instability.

The lack of access to affordable childcare has also impeded the ability of small businesses to retain a skilled workforce as parents have struggled to return to work amid extreme childcare challenges that grew during the pandemic. Women especially have been forced out of the labor pool due to the lack of access to affordable childcare during the pandemic. Childcare providers are feeling the pinch and we are hearing from our network how this shortage is not only impacting their business, but also their community.

¹⁰ <https://www.bls.gov/ncs/ebs/factsheet/family-leave-benefits-fact-sheet.htm>

¹¹ <https://www.nationalpartnership.org/our-work/economic-justice/paid-leave-resources.html>

¹² <https://smallbusinessmajority.org/our-research/small-businesses-views-on-vaccine-mandates-supply-chain-disruptions-and-build-back-better>

¹³ <https://smallbusinessmajority.org/our-research/workforce/california-small-business-owners-support-expanding-state-s-paid-family-and-medical-leave-program>

“As a childcare provider, I know firsthand the impact of inadequate childcare on a community and workforce. During the pandemic, my industry suffered tremendous losses and with the assistance of federal aid, my small childcare business was able to buffer the effects of low enrollment on my bottom line. But despite our best efforts, we were unable to return our workforce to pre-pandemic levels. Many of our parents and staff could no longer afford to pay for childcare. The pool of educators willing and able to return as childcare providers became very small. Access to affordable and quality childcare isn’t a local problem; it is one that should be addressed on a national level. Government support for childcare through long-term subsidies to nearly all working families would enable businesses like mine to charge a little more in tuition and in turn, attract quality talent with the reward of better pay,” says Ludmila Parada, president of Nelly’s Childcare and Preschool in Campbell, Calif.

Ninety-five percent of childcare providers in the United States are small businesses, and like Ludmila, most childcare providers are women and people of color. Additionally, more than one-third of small business owners with children reported that a lack of access to affordable, high-quality child care was a barrier to starting their business.¹³ Congress can help address this gap by expanding and improving federal income tax credits for childcare expenses that would allow working parents to receive a percentage of childcare expenses back as a tax refund.

Retirement and wealth building

The COVID-19 pandemic has highlighted the importance of wealth building, including saving for retirement. As the small business workforce continues to recover, they are searching for the resources they need to prepare for unprecedented financial setbacks. In order to compete and combat staff shortages across multiple industries, small businesses want to provide their employees with retirement packages to help them feel more prepared to face another possible global fiscal crisis. Unfortunately, many small businesses do not have the resources or administrative capability to offer retirement benefits to their employees. As such, a large percentage of small business owners support efforts to establish publicly-administered retirement savings programs to help more small businesses, their employees, and the self-employed save for retirement.¹⁴ In an effort to support retirement packages that better fit the needs of smaller employers, we must expand state Secure Choice programs that offer an easy “on-ramp” for employees to save for retirement. We must also pass a parallel federal program such as that included in the pending Secure Act 2.0, while ensuring that self-employed individuals have similar access.

Promoting a more robust workforce pool

Our country’s changing landscape provides us an opportunity to enact policies that would support entrepreneurship bolstered by a ready workforce that includes immigrants and justice-impacted individuals. To do that, we must reassess exclusive policies that restrict our ability to strengthen and grow our workforce, such as outdated immigration laws and regulations that stigmatize second chance hiring.

Immigrants

Immigrants are highly entrepreneurial, launching new companies at twice the rate of native-born Americans and creating large numbers of jobs.¹⁵ This pool is prime for creating candidates that will be able to strengthen the middle class while also boosting recovery in communities through job creation. Research shows that immigrants generally complement rather than compete with American workers

¹⁴ <https://smallbusinessmajority.org/our-research/entrepreneurship-freelance-economy/small-business-owners-say-government-doesn-t-understand-their-concerns-need-help-healthcare-costs-and-other-challenges>

¹⁵ <https://www.sba.gov/sites/default/files/rs396tot.pdf>

because they have different skill sets and educational backgrounds.¹⁶ Moreover, immigrants help grow the economy by filling labor needs, purchasing goods and paying taxes. When more people work, productivity increases. To keep this population engaged in the small business ecosystem, it is necessary that we pass comprehensive immigration reform guaranteeing eventual citizenship for those who contribute to our economic success. More immediately, we must expand the H-1B visa program to allow more visas for both skilled and low-skilled foreign workers while decreasing the waiting period for rejected applicants from one year to three months.

Justice-impacted individuals

Though often overlooked due to persistent stigma, second chance hiring opens an enormous untapped talent pool for small employers. Research has shown that most employers hiring justice-impacted individuals have positive experiences and notably lower turnover rates.¹⁷ Small business owners within our network have shared their own personal experiences with second chance hiring.

“I was initially very hesitant to hire someone who had been to prison. I was not sure how to ask employment questions without sounding inappropriate. I ultimately decided to hire a justice-impacted individual, and I’m glad I did. I valued his positive attitude more than the circumstances of his criminal record. The relationship that I pursued became mutually beneficial because he is now one of my most reliable employees,” shares Ron Nelson, president and general manager of Pioneer Overhead Door in Las Vegas, Nev.

Justice-impacted individuals are often eager to contribute to their communities and to achieve financial independence. These traits are highly favored and too important to overlook during a labor shortage. When justice-impacted individuals come home after paying their debt to society, our workforce will be positively impacted if we equip them with the tools and resources they need to rebuild their lives, including opportunities for employment and entrepreneurship. Some of the tools and resources needed include: supporting occupational licensing reform, implementing clean slate procedures, and creating materials that will educate small businesses on the benefits of second chance hiring.¹⁷ In turn, this population will themselves perhaps be inspired to launch businesses and careers that provide them with income and generate economic prosperity.

Equipping small businesses with workforce training resources

As small businesses struggle to attract and retain talented employees in a tight labor market, many know that offering workforce training will attract quality talent and retain skilled labor. A study by Pew Research Center found that 87% of workers believe training and developing new job skills throughout their work life is essential to succeed in the workplace.¹⁸ But providing training and apprenticeship programs is an investment that many small employers struggle to undertake.

If policymakers want small businesses to succeed, they must invest more in helping small business owners get the resources they need to train a skilled workforce. We hear this firsthand from members of our network.

“As a small employer, I pay for my apprentices’ training out-of-pocket, which costs about \$100,000 over a five-year training period. These trainings are necessary for our field, yet there are no assistance options through the government,” says Melanie Lichtfeld, owner of Lichtfeld Plumbing, Inc. in Madison, Wis.

¹⁶ <https://research.stlouisfed.org/publications/page1-econ/2014/05/01/the-economics-of-immigration-a-story-of-substitutes-and-complements/>

¹⁷ <https://www.prisonpolicy.org/reports/outofwork.html>

¹⁸ <https://www.pewresearch.org/social-trends/2016/10/06/the-state-of-american-jobs/>

Since small firms rarely have enough time to dedicate to extensive staff training or sufficient funds to pay for employee education, we are glad that the Lifelong Learning and Training Account Act was reintroduced by U.S. Senators Mark R. Warner (D-VA) and Chris Coons (D-DE) earlier this year. We support this legislation as it will be a huge boost to small businesses by offering them another way to invest in developing their staff. This legislation will also help solo entrepreneurs invest in their own development and acquire skills without the aid of an employer.

The Lifelong Learning and Training Account Act is an example of legislation needed to promote a more robust workforce pool while making lifelong learning more accessible for low- and moderate-income workers. Additionally, we must implement studies that ensure Workforce Innovation & Opportunity Act (WIOA) programs are meeting small business and worker needs. We also recommend establishing regional economic clusters and partnerships that include educational institutions such as community colleges with the resources to provide industry-focused training and skills development. Enacting these policies and programs will expand internship and mentoring opportunities that will create career paths for youth and ensure access to skilled, entry-level workers for small businesses.

Conclusion

More than two years into the pandemic, small businesses are slowly rebuilding but need a vibrant stable workforce to fully recover. Entrepreneurs, especially those in under-resourced communities, need an array of support to address labor shortages and ensure employees are able to come back to the workforce. I appreciate the opportunity to comment on these critical issues and I thank you for your time.

Chairman CARDIN. Thank you very much for your testimony.

Our final witness is Dr. Michael Faulkender, who is the Dean's Professor of Finance at the Robert H. Smith School of Business. He joined the University of Maryland in 2008.

And I am sure everybody here knows University of Maryland is the home of the national champion men's lacrosse undefeated season. You all knew that.

Senator HIRONO. Hanging on the edge of my seat.

Chairman CARDIN. It was never in doubt.

Dr. Faulkender left that role at the beginning of 2019 to serve as the Assistant Secretary of Economic Policy at the U.S. Department of Treasury. During the COVID-19 pandemic, he assisted in negotiating the CARES Act and was the senior Treasury official who led to the implementation of the Paycheck Protection Program, and I remember being in rooms with our witness as we were trying to implement this program.

STATEMENT OF HON. MICHAEL FAULKENDER, Ph.D., DEAN'S PROFESSOR OF FINANCE, UNIVERSITY OF MARYLAND, VISITING FELLOW, AMERICA FIRST POLICY INSTITUTE, COLLEGE PARK, MD

Dr. FAULKENDER. Thank you, Chairman Cardin, Ranking Member Paul, and Senators on the Committee. Thank you for the opportunity to speak with you today on the challenges America's small businesses are confronting as they look to meet their workforce needs.

As the Chairman said, I am a finance professor at the University of Maryland. I also serve on the Advisory Board of the Maryland Small Business Development Center, and I am a visiting fellow at the America First Policy Institute.

During the Trump administration, I had the honor of serving as the Assistant Secretary for Economic Policy at the Department of Treasury. In that role, I worked very closely with this Committee and the Small Business Administration to quickly implement the Paycheck Protection Program. As a result of our exceptionally strong partnership, the unemployment rate peaked at just 14.7 percent in April 2020. My co-authors and I estimate that the first round of PPP likely saved as many as 17 million Americans from the unemployment rolls.

The situation today, however, is very different from the depths of the pandemic. The current challenges confronting our economy are largely the result of overstimulation, particularly the American Rescue Plan. Excessive Federal spending has buoyed consumer demand, which has resulted in businesses struggling to find enough American workers to meet that demand. Absent sufficient supply, prices are rising at a pace not seen in 40 years. According to the National Federation of Independent Business' April 2022 report, "32 percent of small business owners report inflation is their single most important problem in operating their business, the highest reading since the fourth quarter of 1980." While the Federal Reserve has belatedly started raising interest rates to curb inflation, policymakers must also focus on ways that we can increase the supply of available workers.

To be clear, the pace of jobs recovery from the depths of the pandemic has been impressive. Largely as a result of vaccines generated by the Trump administration's Operation Warp Speed, we have already recovered more than 96 percent of the 22 million jobs lost from the pandemic recession. For context, it took more than six years to fully recover the jobs lost during the 2008 financial crisis.

That said, we are still 822,000 jobs short of where unemployment was in February 2020 even though our population has grown by nearly 4 million. While the unemployment rate is low, labor force participation is still more than 1 percent below pre-pandemic levels.

At the same time, households are flush with cash due to the \$4.6 trillion in total COVID resources authorized by Congress. With all of that cash boosting demand, the employment needs of our Nation's businesses have expanded.

The result is more than 11.4 million job openings at the end of April, just below the record set in March. Today, there are nearly two job openings for every one unemployed person.

America's small businesses are struggling to fully serve their customers' needs. According to data from ADP, while large and medium-size enterprise continue to grow, employment at firms of fewer than 50 employees has declined this year. Looking at the April survey of small business owners, "59 percent reported hiring or trying to hire in April" and "93 percent of those reported few or no qualified applicants for the positions they were trying to fill."

The fundamental problem is that we have a labor shortage. Our focus should be on implementing policies that will bolster supply, including increasing the size of the domestic labor force across the skills distribution.

First, we must stop providing prime-age, able-bodied adults excessive amounts of cash payments and social services detached from work requirements. The Biden administration has proposed eliminating work requirements from eligibility for child tax credits and has opposed recent state-requested Medicaid waivers that have work requirements. Recent work authored by researchers at the University of Chicago examined the child tax credit proposal and estimates that "this change in policy would lead to 1.5 million workers to exit the labor force."

Second, we should reduce the regulations associated with obtaining the training and experience that workers need. The U.S. Chamber of Commerce Foundation estimates that, quote, small businesses pay on average \$11,700 per year per employee in regulatory costs, and the costs of regulation to small businesses with 50 employees or less are nearly 20 percent higher than for the average firm, end quote.

Examples to include these—examples to reduce these regulations include ensuring that the Department of Labor does not micro-manage apprenticeship programs and by eliminating the excessive occupational licensing requirements that many states have imposed. Further interference by the Federal Government is not the solution. There are already too many overlapping state and Federal job training programs that do not provide the skills employers are looking for.

Third, we should re-examine the work disincentives in Social Security. While retirement age has risen over time from 65 to nearly 67, but early benefits start at age 62, those benefits are subject to reduction if people work. For example, somebody age 64 who has started taking benefits but makes \$30,000 from working would see their Social Security benefit reduced by more than \$5,000. The current Social Security structure tends to discourage Americans from continuing to work at a time that our labor force is too small.

Finally, our immigration system should be more skills—and merit-based. The current high-skilled visa program needs to be reformed so that we are selecting those that possess the highest skills needed to grow our economy.

I look forward to participating in this important conversation. Thank you.

[The prepared statement of Dr. Faulkender follows:]



Chairman Cardin, Ranking Member Paul, and Senators on the committee,

Thank you for the opportunity to speak with you today on the challenges America's small businesses are confronting as they look to meet their workforce needs. My name is Michael Faulkender, and I am a Professor of Finance at the Robert H. Smith School of Business at the University of Maryland. I am also on the advisory board of the Maryland Small Business Development Center and a Visiting Fellow at the America First Policy Institute. During the Trump administration, I had the honor of serving as the Assistant Secretary for Economic Policy at the Department of the Treasury. In that role, I worked very closely with Senators on both sides of the political aisle from this committee and with the Small Business Administration to implement the Paycheck Protection Program quickly. As a result of our exceptionally strong partnership, [the unemployment rate peaked at just 14.7 percent in April 2020](#), and [my co-authors and I estimate that the first round of PPP likely saved as many as 17.7 million Americans from the unemployment rolls](#).

The situation today is very different from the depths of the pandemic. The current challenges confronting our economy are largely the result of over-stimulation. Excessive federal spending, notably the American Rescue Plan enacted in March 2021, has buoyed consumer demand. This has resulted in businesses struggling to find enough American workers to meet that demand. Absent sufficient supply, prices are rising at a pace not seen in 40 years. According to the [National Federation of Independent Business \(NFIB\) April 2022 Small Business Optimism Report](#), "32% of small business owners report [inflation is] their single most important problem in operating their business, the highest reading since the fourth quarter of 1980." While the Federal Reserve has belatedly started raising interest rates to curb inflation, policymakers must also focus on ways that we can increase the supply of available workers.

To be clear, the pace of jobs recovery from the depths of the pandemic has been impressive. Largely a result of vaccines generated by the Trump Administration's Operation Warp Speed, we have already recovered more than 96 percent of the [22 million jobs lost](#) from the pandemic recession. For context, it took more than 6 years to fully recover the jobs lost during the 2008 financial crisis. That said, we are still [822,000 jobs short](#) of where employment was in February 2020, even though our [population has grown by nearly 4 million](#). While the unemployment rate is low, [labor force participation](#) is still more than one percent below pre-pandemic levels. Some of this decline has arisen from the aging of our population, but even [prime labor force participation](#) (ages 25 to 54) is still one-half of a percentage point below its pre-pandemic level.

At the same time, households are flush with cash due to the [\\$4.6 trillion in total COVID resources authorized by Congress](#). Prior to the pandemic, Americans had [aggregate balances in their checking and savings accounts](#) of just under \$11 trillion. That amount rose to more than \$15 trillion at the end of 2021 – a nearly 38 percent increase. With all of that cash boosting demand, the employment needs of our Nation's businesses have expanded. The

result is [more than 11.4 million job openings at the end of April](#), just below the record set in March. For context, there were approximately 7.1 million job openings at the onset of the pandemic. Currently, there are nearly 2 job openings for every 1 unemployed person. America's small businesses are struggling to serve their customers' needs fully. According to [data from ADP](#), while large and medium-sized enterprises continue to grow, employment at firms of fewer than 50 workers has declined this year. Looking at the [April survey of small business owners conducted by the NFIB](#), "59 percent reported hiring or trying to hire in April," and "93 percent of those (hiring or trying to hire) reported few or no qualified applicants for the positions they were trying to fill."

The fundamental problem is that we have a labor shortage. Our primary focus should be on implementing policies that will increase the size of the domestic labor force across the skills distribution.

First, we must stop providing prime-age, able-bodied adults excessive amounts of cash payments and social services detached from work requirements. The Biden Administration has proposed eliminating work requirements from eligibility for child tax credits and has [opposed state-requested Medicaid waivers that have work requirements](#). [Recent work authored by Corinth, Meyer, Stadnicki, and Wu](#) examines the child tax credit proposal and estimates that "this change in policy would lead 1.5 million workers (constituting 2.6% of all working parents) to exit the labor force." According to [recent findings of the Congressional Research Service](#), 3 million Americans aged 18 to 64 without disabilities and without children were not working but still received government benefits as recently as 2017.

Second, we should reduce the regulations associated with obtaining the training and experience that workers need. Regulation is particularly costly for small businesses as the efforts of implementing regulations are often the same for companies with five employees as for those with 500. The [US Chamber of Commerce Foundation](#) estimates that "[s]mall businesses pay on average \$11,700 per year per employee in regulatory costs, and the costs of regulation to smaller businesses with 50 employees or less are nearly 20% higher than they are for the average firm." An example that would improve job training is ensuring that the Department of Labor does not micromanage apprenticeship programs. Research by [Veras and Iovine](#) in 2017 found that "[a]lmost 95 percent of total job creation from now to 2024 will be in service-providing jobs. However, only 21 percent of federal apprenticeship programs equip workers with the skills to contribute to the services sector."

Another area where reduced regulation would generate significant benefit is the excessive occupational licensing requirements that many states have imposed. [Recent research by Peter Blair](#) finds that occupational "licensing both reduces the number of service professions and makes it harder for customers to find qualified workers who can provide them with service."

We do not need even more interference from the federal government. According to a [2019 report by the Council of Economic Advisers](#), "the Federal Government has 47 different employment and training programs spread across 15 different government agencies. Aggregate spending on these programs totaled \$18.9 billion in 2019 alone... [T]he evidence shows that most government training programs are not effective at securing higher paying jobs for participants." There are already too many overlapping state and federal job training programs that do not provide the skills employers are looking for. The last thing we need is an even larger federal bureaucracy when those workers could instead fill employment gaps in the private sector.

Third, we should re-examine how to keep older Americans working longer. According to [recent research by the Federal Reserve Bank of Kansas City](#), "individuals age 65 and older account for almost 66 percent of the missing labor force as of March 2022." While some of this comes from the differential effects of COVID based on age, the work disincentives in Social Security likely also contribute. Full retirement age has risen from 65 to nearly 67, but early benefits still start at age 62. [Those benefits are subject to reduction if people work](#). Somebody aged 64 who has started taking benefits but makes \$30,000 from working would see their Social Security benefit reduced by more than \$5,000. The current Social Security structure tends to discourage Americans from continuing to work at a time when our labor force is too small.

Finally, our immigration system should be more skills and merit based. The current high-skilled visa program needs to be reformed so that we select those that possess the highest skills needed to continue to grow our economy.

I look forward to participating in this important conversation.

Chairman CARDIN. Again, we thank all four of our witnesses. We will now start five minute rounds.

Before the pandemic, we had hearings in this Committee, and the challenges for small businesses getting trained workers was one of the top three issues mentioned as concerns for small businesses and growth. So we had a significant challenge for small businesses getting quality, trained workers.

When we created the Paycheck Protection Program, during the early parts of COVID-19, one of the main objectives was to allow small companies to be able to maintain their workforce because we knew if they had to lay them off it would be more challenging to bring that workforce back because small businesses would be, again, at a disadvantage at getting the most trained workers. So we recognized this issue.

Now the pandemic has made it worse. The labor shortage today has made it much worse. I will give you one example, though, in regards to government programs.

We have surveys from the National Restaurant Association about the challenges restaurants are having in being able to attract workers with the current labor market and the cost of labor. And those that received the Restaurant Revitalization funds are in a position where they can keep their workforce; they can get the workers. Those who did not receive it are having a much more difficult time competing, just mentioning the fact that there is an affordability issue here in addition to finding trained workers.

But several of you mentioned that small businesses do not really have the capacity to be able to have a training program. They do not have that. You have to have a shared effort.

We have lots of training programs at the national level. I am familiar with some of the apprenticeship programs, but it is difficult for a small business to get engaged in an apprenticeship program. If you are a large company, you have a much easier time connecting with those that have the apprenticeship programs.

So, Dr. Goger, let me start with you. How can we tailor these training programs so that small businesses can really be engaged as they partner to be able to get a trained worker to meet their needs?

Dr. GOGER. That is a great question, Senator Cardin. The issue, like I said, is that we have programs and not systems, and so that means if you look at the gold standard places, where these earn-and-learn ecosystems work well, you have a clear role of the education provider that takes some of that training burden off the employer. You have a clear role often of an intermediary that helps connect the learner and the employer. Right? And then you have employers that have a clear role, which is to engage in a longer-term strategy of training a professional. Right?

So we often treat apprenticeships like they are these bespoke programs. And the issue with that is like if I ask my dad, why don't you start an apprenticeship, which I have, the answer is, well, in lightning rods, he does not have a curricula for that. He does not have a registration—he cannot access that registration process. It is super cumbersome for him.

What if we had a mechanism where all the other lightning rod providers could get together and work with educators to build that

competency-based pathway and then he participates in that? On the job, he trains to that structured pathway. They all agree, and periodically they reassess that process. It takes the burden of creating that whole thing from scratch off of his shoulders.

And in the long run, once it is all set up—you have an up front investment, a public sector investment. But in places like Switzerland, employers get an 8 to 11 percent return on investment, and that is because some of those heavier costs around who does the educating and all that, that is not on the small business' shoulders.

So I think that business model is really critical to thinking about, and I also think the cumbersome nature of our registration process—you know, we do not have connections between apprenticeships, CTE, community colleges. These are all separate silos instead of a unified system that employers can engage in.

Chairman CARDIN. Mr. Arensmeyer, let me ask you, what would you like to see Congress do to make it easier for small businesses to be able to access training programs to be able to get trained workers?

Mr. ARENSMEYER. Well, I think Dr. Goger said, and the literature all shows, that these programs, they work well when you are dealing with big companies. But like everything else in the small business world, small businesses do not have the capability to navigate, you know, complicated bureaucracies. They do not have the time to independently pursue, whether it is connections with community colleges, directly with training programs, and they need—we need to consolidate these programs, and we need to improve the education and information that is provided to small businesses about how to access these programs.

I think sometimes the programs are—you know, if they are sort of looking to get the biggest numbers of impact, they are going to go to a big business. They are going to be able to deal with one HR department, and they are going to be able to get those numbers. But that does not solve the problem of the many small businesses out there, so I think it is a question of streamlining a system and making it accessible to small businesses.

Chairman CARDIN. Thank you.

Senator Paul.

Senator PAUL. I am going to reserve my time and pass it down to another member on my side, if I could.

Chairman CARDIN. Certainly. That would be? I think it is Senator Inhofe.

Senator INHOFE. It is. Okay. Thank you, Mr. Chairman.

There is no state that is more dependent upon the issues that are brought in this Committee hearing, and this is the reason I got on it in the first place. I hear regularly from small businesses in Oklahoma because we have got a lot of them. Their margins are shrinking, and I think we can speculate as to why, and it is pretty obvious.

In April, inflation was up 8.3 percent, and the average American family is spending an extra \$569 every month just to buy basic necessities. And on top of this, businesses everywhere are raising wages and offering more benefits simply to survive in the labor market, but it is still not enough.

So, Ms. Greszler? Is that right?

Ms. GRESZLER. Correct.

Senator INHOFE. Yes, I would like to have you—right now, we are undergoing this multi-trillion-dollar spending spree, and the effects that has on small businesses is debatable. You touched on this in your opening statement, but I would like to have you elaborate as you wish.

Ms. GRESZLER. Yes. So the spending spree has resulted in one out of every three dollars that is in circulation today having been printed by the government. That has massively expanded the amount of demand in the economy, and at the same time, we had welfare without work benefits that were restricting the supply of workers. And so it just created this huge gap. As a result of that, businesses cannot get the workers, and they are in this inflationary cycle here.

We have to stop the spending immediately. That is one of the first things, and then I think we get toward the longer term goals because workforce has been an issue for years and we have, in many ways, a broken higher education market.

Senator INHOFE. Yes. The spending is something I wanted to get to because that is something that is not talked about as much.

And I would say to Dr. Faulkender, very similarly—and you touched on this in your opening remarks, but . . . how can this Administration advocate policies—obviously, they are not doing it right now—that would help level the playing field for small businesses?

Dr. FAULKENDER. Thank you, Senator. I think some of the most important things that we can do is reduce, as was stated, some of the spending but also some of the regulation that is being imposed on small businesses. Organizations that are operating at smaller scale, but nevertheless have the same regulatory requirements, have fewer workers to spread those costs over. It makes it more expensive per worker, and as a result, we are seeing that small businesses are struggling more than others to retain workers. Likewise, as the Chairman mentioned, larger businesses have greater ease in providing telework, for instance, for their employees. And so anything we can do to make the environment for small businesses more competitive by reducing some of the costs that we impose upon them and some of the threats of higher taxation that we are imposing upon them would be beneficial to assist the small businesses.

More than anything, we need to increase the number of workers in the workforce. There just are not enough people that are looking for jobs relative to the number of openings right now, and so reducing the disincentives of being part of the workforce, I think, is the singular most important thing that we can do to help fill those employment gaps.

Senator INHOFE. It is kind of interesting because I am older than any of you guys are and I can remember it was not that long ago when we thought we would love to have a problem like this someday. And now it is here, and we are not so sure about it.

But I think it needs to be said over and over again by knowledgeable people, such as we have here today, on this overspending, overregulation, the damage that is being done, and I appreciate your witnessing.

Thank you, Mr. Chairman.

Chairman CARDIN. Senator Hickenlooper.

Senator HICKENLOOPER. Thank you, Mr. Chair, and I appreciate this importance of having someone on the panel who has a family experience with lightning rods because I think it is fair to say that Senator Paul sometimes acts as a lightning rod and has frequently said that I act as a lightning rod. So I think it is appropriate in some important way.

I was in Colorado last week and met with a group of students in one of our mountain towns to discuss the success of a program I started when I was Governor, called CareerWise, which is an apprenticeship program. And one of the students, his name was Brandon—and he had worked for the previous three years as he was working his way through high school, with a construction company, and he had actually decided he was going to go to college. He was not going to, but now he was going to go to college, but he was going to continue working for the construction company. He is a project supervisor at the age of 19. Anyway, he is going to continue to work for them as he goes through a degree in architecture.

He made a challenge to us. He said, what are you going to do to make sure every kid has a chance to get meaningful work experience while they are still in school, before they actually go out and get a job? So his challenge was: What are you going to do to get every kid this opportunity?

So what more can the Federal Government—Dr. Goger, I will start with you. What more can the Federal Government do to pair small businesses and younger Americans with these kind of experiential learning opportunities?

Dr. GOGER. That is a great question, Senator Hickenlooper, and really we need to start much younger. We need to start in K–12. We should be taking 11-year-olds to meet mentors because information asymmetries about what you can do in your job are huge. People do not know.

Jasmine Hill, a professor at UCLA, she calls it mobility knowledge. They do not know what the options are. There are so many well-paying jobs that are not being filled purely because people do not have someone in their family that works there and therefore can tell them how to access it. Right?

So as the first in my family to go to college, there was a lot of that mobility knowledge that I did not have, and I think we need to be taking a more proactive role going into schools and in K–12 curricula starting early with opportunities to get work experience. Right?

Our average apprenticeship age is 26. We should be thinking about 16. That is where our young talent really is.

And I think one of the things—if you want to get to specifics, one of the things that we really need to think about is guidance counselors and teachers. What do they know about the career opportunities available to young people? A lot of times, you know, be a lawyer, be a doctor, go to college. That is pretty much all people here, but I think there is a lot more options for the two-thirds of Americans that do not end up with a college degree.

Second, we need some permanent funding streams for intermediaries that do that connection, like CareerWise, between the

young person, the employer, and that can provide some support. Let us say the young person needs transportation. That is the connector that we do not have permanent funding for.

Three, we need funding for related instruction. Right? So if you are going to have someone learning that in the class, ideally, you have some time in the classroom and some time on the job. It is a structured program.

In the classroom, you learn—you know, if it is an electrical program, you learn the theories around like nodes of electricity. Right? But on the job you figure out how to actually solve the problem. And that is where the soft skills get built. That is where someone builds that professional network.

So I think that we need to really make sure that we are structuring the incentives in K–12 and community colleges so that education itself is creating multiple pathways for people and not just a college-for-all solution because you said an apprenticeship does not have to be a choice between a degree or not. In Alabama, they actually created the nation's first master's degree apprenticeship in social work in an HBCU.

Senator HICKENLOOPER. Yes. And I agree with that completely. There does not have to be that match.

I think it is also worth looking at how do we keep this skills learning going throughout a person's life. Kids of all ages are going to have to keep learning things.

You know, a woman in Colorado started a company called Guild Education that now is that interface between—some of her customers are Starbucks and Walmart, where every single employee, when they want to pick up any packet of learning skills, the company will support them, and then Guild is the intermediary that allows them to make sure they get the right class and they finish it.

If I can just get 30 seconds, I wanted to ask a little bit just about the visa application process, Mr. Arensmeyer, just because I see so much of this workforce. I mean, if we had a streamlined visa process, I think that could go a long way in a lot of these places where we have real workforce—I was a small businessperson myself, so I am painfully aware of the importance of this.

Mr. ARENSMEYER. That is absolutely true. I mean, some industries, like the hospitality industry and the construction industry rely on heavily on foreign-born labor.

And along those lines, it is absolutely true we need to increase the H–1B visa program for high-skilled workers, but we need to expand it to low-skilled as well. Talking to small business owners across the country, they are lacking workers at every level.

Senator HICKENLOOPER. Right.

Mr. ARENSMEYER. As I said, construction, hospitality, and other industries. So you know, we have grown our economy over the decades, over the centuries, with foreign-born workers. And we have constraints on that right now, and we are hearing from businesses across industries that that is a huge problem. So we need to, you know, responsibly ease some of those restrictions.

Senator HICKENLOOPER. Well, maybe the next thing we will have a hearing on comprehensive immigration reform and work from that point of view.

Anyway, thank you. I yield back. Thank you for being concise.
Chairman CARDIN. You are ambitious.

Senator Paul.

Senator PAUL. I just wanted to interject on the immigration issue just very quickly.

Senator HICKENLOOPER. I told you I was a lightning rod.

Senator PAUL. Well, here is the thing. We never do anything on immigration, and the reason is this, is people want the whole thing done or nothing. If you would break it into small pieces and look at the H-2A program, the H-2B program, or the employment-based visa program, there are fixes that both sides could come together.

But the big thing is there are 20 million people here illegally. One side wants them to vote; the other side does not think immediately voting is a great idea if you came here illegally. That is a big bugaboo, and it has stifled us.

I have a bill that doubles the employment-based visas. There is 1 through 5. And there is no reason why we should not be able to get bipartisan support on that and pass the bill. There are 70,000 employment-based visas, EB-1 through 5. I believe we ought to double it. I think a lot of Democrats would support that, but it has not gotten anywhere because everybody wants everything or nothing.

I have another bill that takes the H-2A program—and the H-2B are another category; they are capped. But H-2A is agriculture; it is uncapped. I would take some of the H-2B workers, put them in the H-2A, the uncapped, which would give us more workers, and they would now be called H-2A. It would be mostly like landscape workers, but it would be probably several hundred thousand landscape workers. You would move them over. And I think there could be bipartisan support for that, too.

We take the H-2A program and make it work better by making the government respond to you within a certain amount of days. It is electronic. If you are bringing back the same workers, there is less work, and they run through the system much easier. We make it year-round. All these things are very practical that there is probably no partisan disagreement on.

Not everybody is going to vote for it, but it is not a really, really pitched partisan battle. But we do not get to it because the sticking point is do we let 20 million people vote or 15 million people vote who came illegally. So I think if we got to smaller portions of this we might have a chance.

And I will go back to the regular order.

Chairman CARDIN. We might differ a little bit the way you explained it, but I do agree that we—

Senator PAUL. I am always right.

[Laughter.]

Chairman CARDIN. But I do agree we need to make progress.

Senator Ernst.

Senator ERNST. Thank you very much, Mr. Chair.

And thank you, Senator Paul. “Bugaboo,” that is the word for the day, folks.

But I do want to chime in on some of the thoughts that have been expressed by our witnesses today and thank you all so much.

And, Dr. Goger, I am going to agree about a phrase that I use all the time. It is: You only know what you know. Right? So we experience this throughout our population. You only know what you know, and you do need those examples out there.

I am the first in my family to get a four year degree.

My sister has a degree from a community college, and my brother is—he did not go to school, and that is probably a good thing. But he is doing quite well because he had skilled training in heavy equipment, and he went directly into the workforce. He works for—he is a union laborer with the Burlington Northern Santa Fe rail line, and he operates heavy equipment for them. And out of all the three of us kids, he probably does the best. So there are just different types of opportunities for different individuals out there, but you are right; you only know what you know.

And so to that, Dr. Faulkender, thank you so much for being here. I would like to say thank you because I do think we need to get more engagement in the workforce, and finding ways to do that is extremely important for so many small businesses that are really struggling. Some of them are closing their doors because they do not have workers. So we really have to do something about that.

And Federal apprenticeship and job training programs are—they exist in abundance, as you pointed out. I have actually worked for one of those job training programs at a technical college in South Carolina, but there are so many of them. So how can we put reforms in place, do a better job of maintaining those programs, getting the types of skills out there? What reforms would you recommend?

Dr. FAULKENDER. I think first and foremost we need to make them significantly more flexible. You know, one of the things that I learned during the pandemic in running the Paycheck Protection Program is that we may think of businesses as operating a particular way, but when you are then rolling out a program nationwide you are exposed to the diversity of businesses out there and the different situations they confront. And the idea that we can create this one-size-fits-all and have it work for everybody just does not work if you start putting lots of constraints in place.

We need to let businesses, states, municipalities have the flexibility to do it for themselves. And so for instance, when you have the Department of Labor put a lot of conditions on apprenticeship programs that then disqualify them from participation, that is going to make it more difficult for industries and businesses to find ways that work for them and their unique circumstances. So let us provide flexibility and otherwise get out of the way.

Senator ERNST. And I agree 100 percent, and I am going to tout a program that I visited last week while we were on recess. I visited the John V. Hanson Career Center in Forest City, Iowa. It is a career center that is sponsored by the local community college and four of the high schools and obviously a very generous employer in the area. It did not take the Federal Government to come up with this career center, and it is very focused on the needs of local employers.

And it allows juniors and seniors to go to the career center during their regular K-12 school time, and they are learning a trade and earning college credit at the same time through the community

college. And these young men and women, they can either decide to continue on and transfer credits into a university, go on to the community college, or some of them are even being presented with job opportunities from local employers coming directly out of high school, debt-free, great paying jobs.

So you know, I always hesitate to say, “We are from the Federal Government. We are here to help” because sometimes we just need to get out of the way and let those local decisionmakers, those local thought providers get in there and discover what is necessary and right for their own community and drive forward with it, and that is what the John V. Hanson Center has done.

So I appreciate it. This is a really good discussion today, so thank you all very much for being here. Thank you.

Chairman CARDIN. Senator Rosen.

Senator ROSEN. Well, thank you, Chairman Cardin, Ranking Member Paul. This is a really good hearing.

Workforce challenges, it is what we—we heard this before the pandemic. We are hearing it during. And now, hopefully, as we are moving through it, we are going to find some resolve.

I want to say that I agree 110 percent with everyone here who says we have to get down through K–12. We have to excite young kids, show them that there is more than three jobs that they might see on TV or the internet, how they get there and what the path is for them and really empower those career counselors and all of those things in each one of our communities.

And so we have spoken about training and mentoring for young folks, but we also have to talk about upskilling or reskilling our returning workforce, our midlife, perhaps, workers. And so “help wanted” is a sign we have seen in every window on the doors of small business over the past year. We hear from companies of every size and who are just facing unprecedented challenges filling the workforce.

So in Nevada, even though the unemployment rate has continued to go down, only three in five adults are working or currently actively seeking work. And so the rest have grown discouraged. They have dropped out of the labor market, and quite a few have stayed at home to take care of their families, maybe children, maybe an aging parent as a caregiver.

And so I felt that we had to create an on-ramp for those who want to join the workforce at that time, so I introduced what is called the STEM RESTART Act. It is bipartisan legislation to help Americans come back through what I am calling—what we are calling “returnships.”

So, Dr. Goger and then Dr. Arensmeyer, how do you think we can create on-ramps for these mid-career workers so we can get them upskilled or reskilled and return to the workforce and help them in that way? A little different than our young kids K–12.

Dr. GOGER. Sure. I think that most training that happens, happens by employers, and we should be incentivizing especially mid-size employers to train and onboard workers more. When we did a study in California, we found that 18 to 100 was the sweet spot, where when you reimburse employers to train, that increased their revenue and increased their size.

For smaller, though—for smaller employers, though, I think we need to think about how you can pool training costs, like community training centers, incubators, places where people know where to go when they are looking for that new job and they do not know where to start. Thank you.

Mr. ARENSMEYER. Well, I thank you for your—you know, there is a whole panoply of things that are in effect here. For women entering the workforce, child care continues to—maybe they have stayed home with the kids, the kids are off in school, but they still are going to need child care. And we hear constantly from employers that they struggle to keep and recruit women particularly, caregivers, because of the inability to access affordable child care. So the provisions in the Build Back Better Act to really reduce the cost of child care are absolutely essential.

You know, we have talked about expanding opportunities for foreign-born workers in the system, justice-impacted returning citizens in the system. And, quite frankly, if you are bringing—if you are recruiting someone back into your small business, you have got to be able to pay the same level of benefits that a big business will, the competition.

And so it is—you know, sort of the big four areas that we think are important: health care, pay level, child care, I have already talked about, and retirement savings. Really facilitating small businesses being able to offer commensurate benefits has been just a huge disparity across our system. So it is really—it is not one thing. It is really putting all of these together.

Senator ROSEN. Thank you. I know I have a few seconds left, so I just really want to reiterate what we have been talking about, about apprenticeships also because in Nevada we have over 90 registered apprenticeships where you earn while you learn, you graduate debt-free, average salary there about \$70,000. We are trying to bring more apprenticeships. We have large swaths of openings in cybersecurity and technical computing, forensics, a lot of those things, trying to bring more of that registered apprenticeship capacity because we know that that works.

And I just wanted to, like I said, in the few seconds left to say how much I agree with that, and I know that you are supportive of that, and I think it is important that we put our efforts into this to create a robust workforce.

Thank you, Mr. Chairman.

Chairman CARDIN. Senator Paul.

Senator PAUL. You know, we have discussed a little bit of labor force shortages, and you know, I am a Republican who is for more lawful immigration, so I think that can be part of the answer.

I do think there are certain aspects of the labor force shortage, though, that are perplexing. The argument has been made that the artificial stimulus of government spending and creation of new money by the Federal Reserve is part of it. It has created this enormous amount of demand, and that is part of the labor force shortage. The only problem with that argument is we still have not got back to the actual physical number of where we were before the pandemic.

Now the government did really disrupt. We have never had a \$20 trillion economy just closed and then reopened, so there are enor-

mous dislocations. It is not only ours. Most of the world closed down and then reopened.

But the other argument is that maybe it is an underuse or that maybe we have deterred people from work and quantifying those and making arguments for which is the case, that we have so much artificial demand that we cannot keep up with the workers because of the artificial demand versus a labor force that is not working.

So we have labor force participation that is about 62 percent or so, and people say it is going down. The remaining 38 percent I am interested in. Does that include people that are disabled or cannot work? Or, when you do labor force participation—we will start with Ms. Greszler—are those people able to work, the 38 percent that are not in the labor force? 62 percent are participating; 38 are not. Who are the 38 percent?

Ms. GRESZLER. Yes, so it can include those people that are not in the labor force. Part of that could be disability. Most of them are able to work.

I have been digging into the numbers and trying to figure out who is it that is not coming back to the labor force. A particularly troubling part is that it seems to be the 20- to 24-year-old age group. The drop in employment is actually bigger than the net drop in employment for all workers. That is when people should be at their greatest opportunity, like they have all the potential in the world there. And they are not attending college in greater degree either. The college enrollment rates have declined. So that is a particularly troubling part of it.

A narrative that is out there is that it is mostly women, especially women with younger children, who have been disproportionately impacted, and absolutely, child care is a struggle. I have six young kids and went through COVID, and it was not easy to work with them, all at home many times.

But there have been some studies, multiple ones, including by Jason Furman, President Obama's former CEA chair, Claudia Goldin, and they basically found, yes, it was a struggle, but women pushed through, and it actually did not cause their employment to decline. I have been looking at this, and only 16 percent of the current gap in employment is parents with children. That includes men and women.

And so I do not think that that is the big part there and we do not need to be enacting a big new entitlement that would drive up those costs of child care, but there are ways that we can help child care become more accessible and affordable and also have the types of jobs that work for women, that work for caregivers, that work for people at the older end of the age spectrum, that are particularly appealing to younger workers, and that is the independent contracting, the freelancing. We should not be shutting those opportunities out.

Senator PAUL. Did you say you have six young children?

Ms. GRESZLER. Well, 4 to 14, so I consider them all young.

Senator PAUL. Six. Yes, my sister has six. She is an OB/GYN. So I know what it is like to have a working sister with six also, so that is a big deal.

You know, when you look at this also, one of the things we talked about was we were quite concerned, at least on our side, of

adding the \$600 extra in unemployment. And that expired back in September, and we thought, well, people will go back to work. And the worrisome thing is: Did we change behavior so much that some of them did not go back to work or some of them are working for cash on the side? Are they taking government money and working on the side? And you do hear stories of that, the people who are taking a little bit less from the government, then they are driving somewhere for cash, you know, in another city or something and not being reported.

Mr. Faulkender or Dr. Faulkender, your response sort of to the previous question? Labor shortage in general, getting rid of the unemployment add-on, and why we still have a shortage.

Dr. FAULKENDER. Right. So the other significant segment of missing workers are those in their 60s. So there is an early retirement that is going on, and this is why potentially some of the penalties of Social Security should perhaps be revisited because that is also a significant portion of the missing segment of the labor force.

The technical answer to your question is we can look at different segments of the adult population, and prime labor force participation has mostly come back. It is still only about a half a percentage point below where it was prior to the pandemic. It is the older workers. So prime is 25 to 54. It is above that where we are seeing not a recovery. And so how much of that is extra concern about COVID versus how much of it is the savings that they accumulated, the run-up in their retirement portfolio facilitated them leaving but also some of the penalties associated with Social Security, associated with doing—taking Social Security and working at the same time?

Unfortunately, the high levels of inflation we are seeing may push some of those people back into the labor force, but I do not think that is what we—I do not think that is why we want them back in.

Ms. GRESZLER. If I could just add that eliminating the retirement earnings test would not cost anything, it is actually just kind of misperceived tax. You get the money back later on. So it would actually be pro-growth and improve Social Security's finances.

Chairman CARDIN. Senator Coons.

Senator COONS. Thank you, Chairman Cardin and Ranking Member Paul. Thank you to our witnesses today.

I have heard from a number of businesses up and down my home state, the small State of Delaware, that they are indeed in the middle of a significant labor shortage but also a skill shortage in that hiring and retaining and motivating folks who have the appropriate skills for the jobs for which there are opportunities is a real challenge. So, thank you.

If I could, Dr. Goger, you said in your testimony that apprenticeships should be easier and cheaper for small businesses to sponsor. The apprenticeship model is well known in the building trades and other well-established industries, but my former governor, Jack Markell, launched and ran a statewide program to help create registered apprenticeships in high-growth, high-potential sectors, really driven by employers in partnership with our community college.

What barriers do small businesses face in managing a registered apprenticeship program, and do you think government investment in apprenticeships can actually help alleviate this issue?

Dr. GOGER. That is a great question. The challenge for a lot of small businesses—because, as I said earlier, we have a program approach that essentially requires an employer to create a bespoke program customized for their business themselves. And instead of creating a system whereby—for example, in technology, I have done a lot of work on apprenticeship in tech. If you could partner with community training providers and community colleges to provide some of the actual structured education, that takes some of the cost burden off; if you have some subsidy also up front for the design and training your managers on what is your role here, what is expected of you, and how long this is.

I think one of the challenges that we hear from small businesses is that they tend to think about the cost in a short term way. You know. And I had an intern. Right? I had her for three months. I spent two months trying to train her, and then she had two weeks of actually helping me. If I could have kept her longer, then I would have seen that real return on investment coming out.

And I think a lot of times there is a mindset issue, where employers are seeing these talent investments as a short-term cost and not keeping it long enough to actually see the recoup of that cost. So I think structuring it longer is better for the employer, actually.

Senator COONS. I do think that government has a role to play as an aggregator of demand. Most of the small manufacturers, small and medium manufacturers I meet with in Delaware need four people with these skills or six people with these skills or ten people with these, but not enough to have them pay the money up front to design and register and run an apprenticeship program long-term.

I do have a bill, surprise, with Senators Young and Moran and Brown, the Apprenticeship Hubs Across America, that would expand the registered apprenticeship model, specifically the high-growth job market, and increase the availability of apprenticeships in a diversity of businesses like high tech, like hospitality, like home health care, that do not currently have any registered apprenticeship programs.

Mr. Arensmeyer, in your testimony, you spoke about the need to equip small businesses with workforce training resources. And I think workers ought to have the ability to advance their own skill and small business employers benefit when workers get the opportunity to improve their skills. Why should government make any investments in skills?

I have a bill that would create essentially a tax-preferred savings account with a match up to a modest amount for those who are low- and moderate-income. Why should government make investments rather than employers in skills training?

Mr. ARENSMEYER. I presume you are referring to the Lifelong Learning and Training Account Act? Yes, I was going to mention that actually because it does allow for government to match savings that employees can put into a fund and use it for when they need to for training.

I think it is essential that we—you know, there is a public policy behind making sure we have got a skilled workforce out there and—you know, this is a matching. This is a way the government can leverage its money. It is not 100 percent. It is not covering 100 percent of the need. It is matching.

And, look, we do this across our entire economy with tax benefited health care, with tax benefits for retirement savings. So this is really no different. This is the government, you know, strategically using its resources to step in and, you know, in a targeted way have a positive impact.

Senator COONS. How do you think providing a training opportunity like that would help with retention and morale in the workforce more broadly?

Mr. ARENSMEYER. The training, specifically, the training that is in your bill?

Senator COONS. Yep.

Mr. ARENSMEYER. Well, it would be—it enables us to have a more stable, skilled workforce that—then it enables the people who get this training to put themselves into position to do that job and then do other jobs and increase their responsibilities in the economy, and you know, you end up with a much more robust workforce by doing that.

Senator COONS. Great. Thank you.

Thank you, Mr. Chairman.

Chairman CARDIN. Senator Hirono.

Senator HIRONO. Just in time, it seems. I apologize if any of these questions have been asked, but here we go.

So, Dr. Goger, am I pronouncing your name correctly?

Dr. GOGER. Yes. Thank you.

Senator HIRONO. So you mentioned the need for child care because I think that just as we are having a really hard time finding workers, if we are not providing accessible, affordable child care that means that there are a lot of women, especially those who because of the pandemic left their work—but they need child care provisions to get back to work. So can you just tell us a little bit more about any stories about women who because of lack of child care they are not able to get back to the workforce?

Dr. GOGER. Yes, so what we saw is not only were women more likely to be laid off in the pandemic because they are concentrated in frontline jobs but also, you know, because of school disruptions. Even today, my friend last week—she has two girls. Her daughters' school was shutdown because there was a COVID exposure.

So this impacts parents generally but predominantly women, and I think that it is really challenging for women employed in small businesses, like hospitality, because they cannot really juggle these uncertainties and keep their job.

So that is why one of the things that I was talking about is how could you pool funds from small businesses, through trade associations and so on so, that you can do things like share some of the costs for child care or get small businesses together to reduce health insurance costs or to be able to offer paid sick leave. I think that, structurally, small businesses cannot afford a lot of these benefits, and that is what is leading them to lose talent to larger companies. And so I see that as really essential to being able to help

women stay and be able to show up in the workplace more regularly even in the face of ongoing disruptions.

Senator HIRONO. I agree with you that in spite of the testimony that says that government should not be involved—in fact, some of our panelists apparently take the position that the less government does to try to be of help the worse things are, and I do not agree with that position.

So to the extent that a lot of the women in our workforce are more in the frontline positions, we lost a number of them to COVID, and so I do think that as a developed country we are very much behind in terms of child care support and also paid family leave, that those things would help a lot.

So with regard to the supply chain, the COVID-related supply chain disruptions have been driving price increases in the U.S., which have disproportionately impacted working and middle-class families, and we know these families are paying more for everyday household goods like groceries, food, rent, utilities, gas. And the Build Back Better included investments to address supply chain vulnerabilities, but it has stalled in the Senate. What kinds of investments should we consider to improve supply chain resiliency in the United States?

Do you have any thoughts? For you, Dr. Grover.

Dr. GOGER. Doctor—Okay.

Senator HIRONO. Sorry. Goger.

Dr. GOGER. Yes. This is a really long-running challenge because for 40 years we have actually incentivized lean supply chains that do not have resilience built in, and so we have disinvested in our domestic manufacturing capacity—

Senator HIRONO. Yes.

Dr. GOGER.[continuing]. Including small businesses. We do not have managerial expertise right now in our supply chains to actually respond quickly to changes. And we really need an agile workforce that can learn and change and adapt, and that is why I think employer-provided training is so critical, especially for small- and medium-size businesses that are the source of a lot of the innovation that we see. In many cases, it was small businesses that adapted the most quickly to some of these demand shifts.

But I worry that the risks and the costs of all these disruptions will be with us for a really long time unless we can really start to use, you know, really concerted efforts to invest back in building that small business ecosystem and getting some of our diverse talent, you know, and diverse entrepreneurs, their ideas. Some Harvard researchers estimate that if we invested more equally in our talent we would quadruple innovation in the United States. We do not have a lack of people or a lack of ideas or a lack of talent, but we are keeping people on the sidelines, so we need to remove some of those barriers for innovation.

Senator HIRONO. I think you also mentioned in your testimony that we are not investing equally in Black communities and Hispanic communities and we are losing out a lot on the talent provided in these communities. I agree with you.

Thank you, Mr. Chairman.

Chairman CARDIN. Thank you, Senator Hirono.

Once again, I want to thank all four of our witnesses. This has been a very, very helpful panel, different views, but I think we all recognize the fundamental problem for small business today is access to trained workers and a stable workforce.

We have had hearings dealing with the challenges small businesses have with capital, small businesses have with dealing with supply chain disruptions, we had a hearing on that, to deal with the regulatory burdens of small business.

But today, we really are concentrating at this hearing on the issues concerning labor force, and there is no simple answer to this. I think you all have really given us some really good suggestions. We have programs that deal with job training and apprenticeship, but it is very difficult for a small business to access those programs in a useful way that could be relevant to their current needs. So how do we fine-tune these programs to make sure they are accessible to small businesses?

There seems to be a growing consensus, as Senator Paul indicated, on easing the immigration rules, certainly as it relates to worker visas. I would point out that the general immigration policies are just as important. The replenishment of our workforce through normal immigration is important for us to have a supply of workers in this country, not just those that come under the worker visas.

And we do need to deal with returning citizens. That is a significant number of people who have been disqualified in so many opportunities that are really able to work, want to work, and can be very reliable workers for themselves and for our economy.

And then we get to the issues of affordability to work. We have mentioned that. Not only child care but health care has been mentioned. These are areas that we have to continue to make sure we have a level playing field for small businesses so that the workers—the businesses are not put at a disadvantage with the workers that are available and can provide the necessary incentives for them to work.

One other area that we have not talked about, just put it on the table, is resource partners. We have invested a lot in our resource partners, and they should be able to help provide some of the services to make it easier to connect the dots between the services that are available but that small businesses do not have the capacity to be able to work through how they get to those services.

So I think there is a lot of good suggestions that have come out of this hearing, and I can assure you we will be following up on this.

And once again, we thank you for your being here today, but we are not going to let you off the hook. We expect that we will be continuing to reach out for your suggestions and your help as we try to help the small business infrastructure in America.

With that, if there are no further comments, the Committee will stand adjourned. Thanks.

[Whereupon, at 3:52 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Statement on Small Business Workforce Challenges
Small Business Committee
Senator James E. Risch

Thank you to the Chairman and Ranking Member for holding this important hearing. Whenever I visit a small business around Idaho, I ask them, “What is the greatest challenge you face?” For years, the most common response was the IRS or burdensome government regulations. Last year, business owners cited the pandemic. Now almost unanimously, the response is, “We cannot find enough people to work.”

This will come as no surprise to anyone in Idaho. You need only walk down the street of any city or town to see “Help Wanted” signs in nearly every shopfront window. In Kellogg, a regional employer is short 50 workers. In Boise, a fast food chain is down 300 employees and forced to close their doors several days each week. Across the state, businesses – particularly small businesses – are running out of incentives to get employees back.

The difficulty in finding workers has forced small businesses in Idaho to drastically alter their operations in order to keep their doors open. Employers have increased wages. They’ve offered signing bonuses or “show up on your first day of work” bonuses. But as the owner of a popular diner told a Boise news station after raising hourly wages anywhere from \$13 to \$20, “You have a price point to where you can only charge so much for an omelet or a cheeseburger.”

With that said, hard work and personal responsibility – not the federal government - are what strengthen the fabric of Idaho’s communities. That’s what we need to stay focused on. If we keep our eye on the ball and work to get people back on the job, we can have the strongest economy in history.

Senators,

It is an honor to give our written testimony on the issues facing small businesses across America. We at Dan-O's Seasoning have endured many challenges over the years, particularly during the COVID-19 pandemic. Labor shortages, worker skill sets and training, and supply chain disruptions rise to the top of the list when considering our recent hurdles.

The labor shortage has been a struggle we've felt especially hard in recent months, as we are finding it difficult to find workers motivated and willing to work in a growing company like ours. Our current compensation packages are higher than they ever have been to entice workers to join our team, but even with these aggressive compensation efforts, we find that many applicants only have the desire for remote work. This poses significant pressures on businesses like ours that employ warehouse, fulfillment, and customer-facing creative workers where remote work is not an option.

When we do find and onboard workers, they are highly valued by our organization. We invest hundreds of hours in training each associate to learn about the Dan-O's brand, our commitment to quality, our passion for the communities we serve, and the processes we have developed and implemented which make us one of the fastest growing businesses in our product category. We have found it essential that this training is conducted by internal staff and not by third-party organizations given the proprietary nature of our value proposition and brand promise. We would prefer to train our staff by internal training teams who are in tune with the specific needs of our business, as opposed to a brand-agnostic government program. We don't believe that a government program would have the same success we do in training our teams. We recognize that ensuring our success in this endeavor is our responsibility, and as such are evaluating plans to expand our current training offerings more broadly. We are in the process of developing a mentorship program to propel our staff's development and skill set.

It is my full belief that onsite and practical real-world training is what has created the personal successes that I enjoy today, while also developing my work ethic and the principles I apply daily in leading this organization. I do not believe that I would be the CEO of one of the fastest growing companies in Louisville without the hands-on training and experience as a marketing, sales and business practitioner complimenting the higher education I received at the University of Louisville.

Outside of the worker shortage and internal training programs, our business has faced many issues associated with multiple supply chain disruptions. Challenges like this are particularly impactful to growing businesses like ours. We have recently signed multiple distribution deals with major national retailers, and as part of those agreements, these business partners understandably expect us to be able to deliver product timely and service re-orders without interruption. To mitigate the risk of ingredient and packaging shortages, we have had to tie up more operating capital than is ideal on raw materials to ensure our ability to meet production and delivery deadlines to these major clients as well as the thousands of Americans who purchase our product directly from us. This hinders our ability to hire more workers and invest in new products.

Inflation has also caused the prices of our raw materials to increase, however retail partners only allow us to submit price increases once per year on a predetermined cycle. It is understandable that retailers wish to limit the number of price increases to ensure consistency among their customers, however it poses material pressure on our profitability during periods like the most recent few quarters when we have seen significant inflation over a short period of time. This margin pressure hampers our ability to reinvest back into our business, hiring more staff to produce, ship, market and sell our product, and in expanding our training programs.

I truly appreciate the opportunity to share these concerns with you and am enthused by the Senate's attention to the issues posed by the current economic climate. Small businesses like ours are facing unprecedented challenges, however our commitment to our employees, our communities, and our country remains unwavering.

Sincerely,

A handwritten signature in cursive script that reads "Phillip Crosby". The signature is written in black ink and is positioned above the typed name.

Phillip Crosby

Chief Executive Officer
Dan-O's Seasoning

Senate Committee on Small Business and Entrepreneurship Hearing
June 8, 2022
Follow-Up Question for the Record

Question for Ms. Rachel Greszler

Question from:

Senator Risch

QUESTION 1:

Ms. Greszler, what are the predominant factors contributing to the major workforce challenges small businesses are facing? What can be done to help small businesses better attract workers and retain talent?

Response from Rachel Greszler

Small businesses' biggest challenges are inflation and their workforce, including both a shortage of workers and shortfalls in workers' preparedness for the jobs that employers need them to perform.

The primary cause of the current inflation is the surge in government spending that has artificially increased demand and led to the Federal Reserve creating a huge expansion in the money supply. Policymakers need to put an end to pandemic spending expansions, prevent further expansions in federal spending and the creation of new federal entitlement programs, immediately enact reforms to put unfunded entitlement programs on track towards solvency, remove unnecessary regulations that needlessly drive up costs, and end the Biden Administration's anti-American-energy agenda by enacting policies that make it easier to access, develop, and transport America's abundant natural energy resources.

The main drivers of the workforce shortage are the massive government spending that increased demand for workers and welfare-without-work policies that have discouraged many people—especially younger workers who have the most potential—to sit on the sidelines instead of working or gaining the education and skills they need for good jobs and financial security.

Policymakers should immediately end remaining pandemic expansions in welfare programs, such as SNAP and Obamacare, and shift the welfare system away from one that measures success on how many people are receiving benefits to one that measures success by how many people move off welfare and into work and self-sufficiency.

Protecting and expanding income opportunities by clarifying and codifying the common-law definition of a contractor would particularly benefit small businesses as they rely heavily on independent contractors to fill their workforce needs and compete with larger companies. Policymakers could also help small business franchises by codifying the long-standing, direct-control definition of a joint-employer.

Where childcare struggles and family care needs are holding workers back, policymakers should enact the Working Families Flexibility Act and allow low-income parents to use Head Starts funds at a childcare provider of their choice.

In addition to a shortage of workers, small businesses are also struggling with a gap in the skills workers have versus what they need. Federal interventions in the higher education market have created significant distortions that are preventing many young people from getting the education and experience they need for successful careers.

Policymakers should expand apprenticeship programs by enacting the Training America's Workforce Act, phase out federal subsidies for higher education to unleash more effective, lower-cost alternatives, prohibit blanket student loan forgiveness, and replace failed federal job-training programs with more effective private and state or local programs.

In short, easing the labor shortage requires creating an environment in which more Americans want to pursue work and are able to maximize their productive capabilities.

The unintended consequences of many COVID-19 policies and federal interventions in the workforce demonstrate that while the temptation for policymakers is always to do more, the best solution to increasing employment is to remove the barriers government has already created and to refrain from creating new or expanded regulations and programs that would discourage work and entrepreneurship.

BENJAMIN L. CARDIN, MARYLAND, CHAIRMAN
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June 27, 2022

Mr. John Arensmeyer
Founder & CEO
Small Business Majority
1015 15th Street, NW, Suite 450
Washington D.C. 20005

Dear Mr. Arensmeyer,

Thank you for appearing before the Committee on Small Business and Entrepreneurship on June 8, 2022, at the hearing titled “The Small Business Workforce Challenge: Causes, Impacts and Solutions.”

Enclosed are questions for you that have been submitted by Senator Hirono for the hearing record. Please submit your answers to these questions by Monday, July 11th via electronic mail to kathryn_eden@sbc.senate.gov. To facilitate the publication of the record, please reproduce the questions with your responses.

Again, thank you for your assistance. Please contact Sean Moore of the Majority Staff at sean_moore@sbc.senate.gov or Meredith West of the Minority Staff at meredith_west@sbc.senate.gov with any questions you may have. We look forward to reviewing your answers.

Sincerely,



Benjamin L. Cardin
Chairman

**Senate Committee on Small Business and Entrepreneurship Hearing
June 8, 2022
Follow-Up Questions for the Record**

Questions for Mr. John Arensmeyer

Questions from:

Senator Hirono

Lack of Resources for Small Businesses

Many small businesses lack the same resources as larger companies and simply cannot afford to offer the same kinds of benefits of those companies – whether that means affordable healthcare, paid family leave, childcare, or retirement benefits. Even administering these benefits can be difficult for small businesses.

QUESTION 1:

How can we, in Congress, help small businesses be more competitive when they are looking for workers?

Congress can help small business become more competitive by making improvements to healthcare and essential benefits such as paid family and medical leave, childcare, and retirement.

Healthcare

Small business owners and their employees have historically comprised a disproportionate share of the working uninsured, and small businesses have consistently identified healthcare costs as one of the [top barriers](#) to maintaining and growing their business. However, the passage of the Affordable Care Act (ACA) allowed small business owners and their employees to access crucial healthcare resources that support stability and affordability. Indeed, [more than half](#) of all ACA marketplace enrollees are small business owners, self-employed, or small business employees.

[Data suggests](#) that recent policies, particularly the American Rescue Plan (ARP), helped fill the coverage gap. While many Americans lost employer-sponsored coverage during the pandemic, new tax credits made available through the ARP, as well as other solutions, played an important role in insulating the small business community from one of the worst consequences of the pandemic. However, the success of these affordable healthcare programs remains at risk and must be further bolstered by:

- Extending the premium assistance provided by the ARP that has helped make healthcare more affordable for many entrepreneurs and their employees.
- Addressing the rising costs of prescription drugs, as these costs are hurting small business owners' bottom lines; and
- Passing the Medicaid Saves Lives Act to ensure that the benefits of expanded Medicaid coverage is extended to small business employees and others in the 12 states that have failed to do so on their own.

Paid family & medical leave

Many small businesses do not have the resources to offer robust benefits that larger companies can provide, like paid family and medical leave, which puts them at a disadvantage when it comes to attracting and retaining employees. And private insurers generally do not offer affordable, adequate paid leave policies to small businesses.

Small businesses [strongly support](#) implementing a federal program that would allow small employers to facilitate access to a paid leave program funded by employee and employer contributions. Sixty five percent of small businesses [support](#) a proposal to establish a national program that would provide four weeks of paid family and medical leave to anyone to care for a new child or to care for a loved one's serious illness or other covered medical leave issues. To support small businesses, we should institute:

- A federal insurance program, like that proposed in the Family and Medical Insurance Leave (FAMILY) Act and previous iterations of Presidents Biden's Building a Better America plan, which would go a long way toward helping entrepreneurs and their employees through difficult times while also benefiting business owners' bottom lines.
 - These programs have shown strong success in states too. [Research](#) has found that paid leave programs have been popular with small employers in states where the program has been implemented. For example, in California, which has had a paid family leave program in place for more than a decade, some businesses reported cost savings due to reduced employee turnover and most businesses saw no increased costs to their bottom lines.

Childcare

The lack of access to affordable childcare has also impeded the ability of small businesses to retain a skilled workforce as parents have struggled to return to work amid extreme childcare challenges that grew during the pandemic. Women especially have been forced out of the labor pool due to the lack of access to affordable childcare during the pandemic. Childcare providers, who tend to be small businesses owned by women of color, are also feeling the pinch and we are

hearing from our network how this shortage is not only impacting their business, but also their community.

- [Ninety-five percent](#) of childcare providers in the United States are small businesses, and most providers are women and people of color.
- Additionally, [more than one-third](#) of small business owners with children reported that a lack of access to affordable, high-quality child care was a barrier to starting their business.

Congress can help address the gap in access by allocating funding for childcare programs that support providers and expanding and improving federal income tax credits for childcare expenses that would allow working parents to receive a percentage of childcare expenses back as a tax refund.

Retirement

Many small businesses do not have the resources or administrative capability to offer retirement benefits to their employees. As such, [a large percentage](#) of small business owners support efforts to establish publicly-administered retirement savings programs to help more small businesses, their employees, and the self-employed save for retirement.

To support retirement packages that better fit the needs of smaller employers, Congress must expand state Secure Choice programs that offer an easy “on-ramp” for employees to save for retirement. Congress must also pass a parallel federal program such as that included in the pending Secure Act 2.0, while ensuring that self-employed individuals have similar access.

Immigration

[Research](#) shows that immigrants generally complement rather than compete with American workers because they have different skill sets and educational backgrounds. Moreover, immigrants help grow the economy by filling labor needs, purchasing goods and paying taxes. When more people work, productivity increases. To keep this population engaged in the small business ecosystem, it is necessary that we pass comprehensive immigration reform guaranteeing eventual citizenship for those who contribute to our economic success. More immediately, Congress must expand the H-1B visa program to allow more visas for both skilled and low-skilled foreign workers while decreasing the waiting period for rejected applicants from one year to three months.

QUESTION 2:

What role should SBA play in helping these businesses be more competitive?

The Small Business Administration’s efficacy is a result of how restrictive or expansive Congress allocates that administration to be. With that in mind, to improve the competitiveness of small business, the role of the SBA should be:

- Supporting regional economic clusters and partnerships that include educational institutions with the resources to provide industry-focused training and skills development. More entrepreneurs mean more business and competition.
- Expanded lending capability such as a direct lending program to increase access for traditionally underserved communities and small government contracts that need working capital.
- Implementing more collection on data on the efficacy of all SBA programs and the consolidation of duplicative programs so the capital needed to run these entities can effectively reach small business owners.
- Improving outreach and engagement for resources. Many small business owners are often not aware of technical assistance providers in their areas, which further puts entrepreneurs at a disadvantage.
- Meeting its goals of procuring with women and minority-owned small businesses, particularly as the Biden Administration has encouraged agencies to increase their procurement goals with these communities by 50%. SBA should do everything in its power to guarantee that small businesses are receiving advantages and are participating in an efficient and effective procurement system.

You alluded to “forward-thinking policies” that have the potential to help small businesses.

QUESTION 3:

How can we support these kinds of policies? What steps can we take?

Congress can support these policies by passing laws with the intent to react to and anticipate injustices and pernicious practices small businesses or potential employees experience. Furthermore, enact laws that promote competition by reducing monopoly power.

Fair Competition

There is a growing unlevel playing field between small and large companies, as underregulated technology platforms, corporate consolidations and pernicious business practices dramatically restrict markets and stifle competition. A [majority](#) (56%) of small business owners say that one or more large companies dominate the market in their industry, and the same percentage agree with a statement that, “Large companies have an unfair advantage in my industry or line of work.” Nearly half (44%) agree that there has been an increase in monopolistic practices in recent years. A large majority agree larger companies have the resources to take small businesses’ creative ideas, mass produce them, and drown them out with their market power (83% agree). Small businesses also believe that larger companies have greater access to capital and employee benefits like healthcare, putting them at an automatic advantage (82% agree).

Forward thinking policies Congress should support to level the playing field:

- Strengthening the Robertson-Patman Act and the Sherman Act to apply to the Big Tech companies.

- Pass new laws like the American Innovation and Choice Online Act (S. 2992) help to protect small businesses now and in the future.

Transparency

Currently the federal Truth in Lending Act (TILA) requires that consumer creditors disclose critical financing information, including annual percentage rate (APR), in a clear and comparable format. However, Congress has yet to extend these disclosure requirements to small business loans and other credit products, which means small businesses are vulnerable to irresponsible lenders. Small businesses deserve to shop safely for capital without being concerned about being taken advantage of.

We urge Congress to take these concrete steps to address these issues by:

- Extending TILA disclosure requirements to small business credit products by passing the Small Business Lending and Disclosure Act (S. 3235). This legislation will ensure small businesses struggling with cash flow are not taken advantage of as they try to recover from this pandemic.
- Prohibiting “confessions of judgment” clauses in small business lending agreements whereby borrowers agree in advance to waive their right to contest any dispute with a lender.

Justice-impacted individuals

- Though often overlooked due to persistent stigma, second chance hiring opens an enormous untapped talent pool for small employers. This sector of our economy could be critical in addressing workforce shortages. Justice-impacted individuals are often eager to contribute to their communities and to achieve financial independence. These traits are highly favored and too important to overlook during a labor shortage. When justice-impacted individuals come home after paying their debt to society, our workforce will be positively impacted if we equip them with the tools and resources, they need to rebuild their lives, including opportunities for employment and entrepreneurship. That’s why it’s essential that Congress should support measures that would ensure occupational licensing reform, implementing clean slate procedures, and educating small businesses on the benefits of second chance hiring.

Workforce training

A [study](#) by Pew Research Center found that 87% of workers believe training and developing new job skills throughout their work life is essential to succeed in the workplace. Congress needs to invest more in helping small business owners get the resources they need to train a skilled workforce. Congress should

reintroduce and pass legislation the Lifelong Learning and Training Account Act, which would make lifelong learning more accessible for low- and moderate-income workers by establishing a tax-preferred savings account with a federal match. It would also help solo entrepreneurs invest in their own development and acquire skills without the aid of an employer.

Federal Relief Programs

Federal relief programs created and expanded during the pandemic have provided a lifeline for small businesses. These include programs like the Restaurant Revitalization Fund (RRF), which was quickly oversubscribed shortly after it opened last year.

I have heard from many Hawaii businesses that benefited from the RRF, but unfortunately there were many more that did not benefit because of limited funding.

QUESTION 4:

In your work with small businesses, what have you heard about how these relief programs provided a lifeline for small businesses?

A recent [survey of our network](#) revealed that government programs such as the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), and the Employee Retention Tax Credit (ERTC) have helped small businesses stay afloat. Of those small businesses who applied and received at least one PPP loan, 94% report they have received full forgiveness of their loan. Roughly 6 in 10 (58%) small businesses applied for EIDL, and of those, two-thirds (67%) received a loan. The Restaurant Revitalization Fund allocated approximately [\\$18 billion](#) to underserved populations in grant awards including \$7.5 billion to women-owned businesses and \$6.7 billion to social and economically disadvantaged-owned businesses..

We have also heard from small businesses that accessing these programs was sometimes complicated and inequitable. For instance, EIDL approval rates were lower for entrepreneurs of color (59%) we [surveyed](#) compared to white business owners surveyed (73%). For respondents who received EIDL, 57% requested an increase but only 42% of those loan increases had been approved. Three in 10 are still waiting for a decision from the SBA about their loan increase. And while RRF helped many small businesses, it ran out of its allotted \$28.6 billion just three weeks after opening. It's clear that small business owners have shown immense resilience throughout the pandemic, but the need for continued capital support, namely in the form of grants, is in great demand.

QUESTION 5:

What have you heard from restaurants, specifically, about how the RRF supported their businesses?

The RRF provided necessary grants to help restaurants and other eligible businesses stay afloat when many restaurant owners faced significant hurdles in accessing capital from traditional banking institutions. Given the challenging recovery rate for many small businesses, getting emergency economic relief into the hands of those still struggling to rebuild in the form of RRF has been essential.

Testimonials from food and beverage industry owners in our network:

- Geoffrey Meeker, owner of French Truck Coffee in New Orleans, LA
 - Geoffrey Meeker's background is in culinary arts, and he worked in the restaurant industry to support himself for many years. He decided to delve into the coffee industry after his daughter was born so he could have a better life-work balance. Nearly 10 years ago, Geoffrey applied for and received a \$50,000 loan from the SBA to launch his roasting coffee company.
 - Fast-forward to 2020, and Geoffrey's revenue was supposed to reach \$12 million. And despite facing many challenges brought on by the COVID-19 pandemic, Geoffrey's business was still able to bring in \$9 million in revenue. This came at a steep price, as he was forced to let go of employees and the business accumulated more debt than he'd ever anticipated.
 - He applied to receive funding from the Paycheck Protection Program, and quickly realized that the sooner he could apply for a federal relief program, the faster the funding would be disbursed. So, when he learned about the Restaurant Revitalization Fund (RRF), he put in his application quickly. Unfortunately, his business did not receive funding from RRF because the funds had been exhausted already. He soon learned that his local competitors had all received funding from the program, which put him at a competitive disadvantage. He'd anticipated using the funds to bring his staff back on board and continue to grow, but his plans are all at a standstill without this funding.
- Clifton Cato, owner of Creative Caribbean Catering in Raleigh, NC
 - Clifton and his wife suffered a severe setback when the COVID-19 pandemic hit the United States. As many events were cancelled and venues closed their doors to the public, Clifton saw a steep decline in revenue, which forced him to ransack his savings to keep their business running. They considered alternative options to catering, such as pivoting to a food truck. Unfortunately, adapting their catering business to a food truck did not immediately solve their cash struggles. Clifton applied to the Paycheck Protection Program and received \$9,000 in relief funding. Even though this funding came at a critical time, it wasn't nearly enough to help offset the impacts of the pandemic.
 - When Clifton found out about relief funding through the Restaurant Revitalization Fund, he immediately applied to the SBA-backed program. He shares that the application process was simple and straightforward, but unfortunately his request for funding was denied when he needed it most. He sought the assistance of different staff at the SBA, but each person gave him conflicting information.
 - After his RRF application was denied, Clifton began to receive multiple MCA and payday loan solicitations, financing offers that seem untrustworthy and predatory in nature.
- Jaja Chen, owner of Waco Cha, LLC, in Waco, TX
 - Jaja Chen and her husband Devin Li launched a bubble tea food truck in June of 2018. Their business was booming, so they decided to launch a brick-and-mortar shop in March of 2020 but were faced with shutdowns and myriad issues due to the COVID-19 pandemic. After a couple of months, Jaja and Devin were able to carry on with their plans to open the restaurant and were able to open fully with

normal hours of operation. Though health restrictions on restaurants were less stringent in Texas, they still had to adapt their business model to keep it afloat.

- Jaja and Devin continued to experience economic challenges in both their truck and brick-and mortar restaurant, so they applied for the Restaurant Revitalization Fund as soon as the application period opened. They were approved for a \$10,000 grant for their small business, and yet, they never received the funds. They continue to receive notifications from the SBA about how they've used the funds, and this concerns the couple as they are still hoping they will eventually get the lifesaving grant. Jaja shares, "We were able to get in touch with a SBA representative about our peculiar situation and were told that the program had exhausted its funding. I'm not sure if there was an issue with our application, but we're hoping that the SBA will realize the mistake and deploy the funds if the program is replenished."
- Jaja and Devin are experiencing supply chain issues and inflation rates, which are putting extreme pressure on their small business. If Congress allocates additional funds for the RRF, Jaja and Devin are hoping to gain access to the funds they were promised to help offset the increasing costs of running a small business.

QUESTION 6:

What would additional funding mean for those businesses?

A [survey](#) of our network from May showed that nearly 1 in 4 of small businesses may not survive past the next six months without additional funding or market changes. What's more, a report from [Alignable](#) found 35% of small businesses in the U.S. could not pay their rent in full or on time in June. Not only is this rate 2% higher than the previous month, but it's also the highest it has been this year. It's clear that small businesses are still in desperate need of direct dollars in the form of grant programs such as the RRF. That's why it's essential that we appropriate emergency funding to replenish RRF to reach the more than 180,000 RRF applications that remain unfunded.