A Record Six Million U.S. Job Vacancies: Reasons and Remedies

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Chairman Tiberi, Ranking Member Heinrich, thank you for the invitation to testify today about the state of the job market and the record number of vacancies that our businesses posted at the end of April. I want to start by placing job openings in the context of a strengthening labor market. Today's high level of vacancies is largely a reflection of strong job growth. Then I will turn to challenges in the labor market in filling positions.

A Strong Labor Market

As of June 2017, the unemployment rate stood at 4.4 percent. The sharp drop in the unemployment rate coming out of the Great Recession consistently surpassed consensus forecasts, thanks to the stimulus package (ARRA) and fiscal and monetary policies that strengthened the economy and boosted aggregate demand.

Businesses are continuing to hire in large numbers. Just this past June total hiring once again surpassed expectations. Over the past six years, we're seen the longest, most persistent streak of job growth on record. Since March 2010, businesses have added nearly 16.5 million jobs. Today there are 7.8 million more jobs than the pre-recession peak. All of this growth has led to more openings, and as the committee has noted, the number of job vacancies on the last business day in April was the highest since the series began in 2000. To put this in context, during the depths of the recession new job postings dropped to a low of 2.2 million a month.

The number of vacancies are recorded on the last business day of the month. This point in time snapshot of available jobs can be compared to the subsequent hiring that happens over the next several weeks. Over the past six months, there have been 5.6 million vacancies on average on the last business day of each month. Over the subsequent month, 5.3 million workers were hired, illustrating the close link between vacancies and hiring.

One of the clearest signs of the strengthening labor market has been the increase in workers quitting jobs. During the depths of the recession, only 1.6 million workers quit a job in September of 2009. In contrast, over the past year, more than 3 million workers a month have a quit a job. Workers' willingness to quit suggests that they are receiving better offers or have confidence that they'll be able to find other work.

The typical hiring of roughly 5 million workers a month is the result of a dynamic labor market in which entrepreneurs hire people for their new businesses, and old businesses fill positions as people leave and create new jobs as they expand. Roughly 5 million workers also leave jobs each month as they seek better opportunities, or as businesses eliminate jobs they no longer need, or to close their doors completely when the market no longer wants their products. For workers, job changes are essential for them to climb the ladder to better and higher-paying opportunities. Research shows that changing jobs is a primary way in which workers achieve real wage gains, on the order of 2-6 percent increase in real wages from job changes in recent years.[1]

I want to highlight that one of the challenges facing the U.S. labor market in recent decades has been a decline in dynamism. Dynamism is what allows the reallocation of workers and capital to their most productive use. When workers can find better opportunities easily, both businesses and workers benefit.

Sectoral Shifts Leave Some Workers Without Necessary Skills and Require New Training Programs

While job change is a natural and essential part of our economy, sectoral shifts present challenges for workers and for policy makers seeking to smooth the costs associated with these transitions. Workers in shrinking sectors face a decreasing number of opportunities for wage gains, and an increasing likelihood of being left without a job if they lose the one they have. Goods-producing jobs, most notably manufacturing, are losing jobs, while healthcare, education, and information technology are adding jobs. While more jobs are being added across sectors than are lost, the within-sector losses present hardships and uncertainty for workers in declining sectors. It's important to keep in mind that this happens within the context of substantial churn within the sector. For example, over the past two decades more than sixty million people were hired into manufacturing jobs, yet more than sixty-five million people quit or lost manufacturing jobs. It's like a game of musical chairs in which the number of chairs shrunk by five million. Those who lose their seat face tremendous hardship and a difficult, and sometimes impossible, transition as they struggle to find one of the remaining positions or give up and attempt to apply their skills and experience elsewhere.

Sectoral changes are not a new force in the U.S. economy, but the changes that are occurring are hurting some groups more than others. Many declining sectors are in traditionally male occupations, while traditionally female or more gender-mixed occupations are growing. These changes will require that we not only provide training for workers to successfully transition, but that we confront and eliminate stereotypes about jobs and the people who hold them. That may require rethinking how we train workers for these jobs since research shows that education and training methods, materials, instructors, and even environment can shape gender and racial inclusivity.

Growing sectors represent opportunities for workers, but they also present challenges in that hiring needs may outpace the skills of current workers. Since the end of 2000, more than 104 million people have been hired in education and health services and nearly 97 million people have left such jobs, for a net gain of 7.5 million jobs. At the end of March, there were 4.6 million vacancies in education and health services, but only 2.6 million workers were hired the following month. A similar pattern has held over the past few years, with openings exceeding hiring suggesting that perhaps this is an industry that is struggling to find qualified workers. However, there is little evidence of accelerated wage growth

[1] For example, Molloy, Raven, Christopher L. Smith, and Abigail K. Wozniak. Declining migration within the US: The role of the labor market. No. w20065. National Bureau of Economic Research, 2014 and Fallick, Bruce, John Haltiwanger, and Erika McEntarfer. "Job-to-job flows and the consequences of job separations." 2012.

in the health care sector, suggesting that demand for workers isn't outpacing supply enough to lead to higher wages.

Large Wage Premiums for College-educated Workers Highlight the Demand for College-level Skills

Wages provide a clear market-based signal of demand for skills and one of the clearest signs of demand for skills is the strong growth in wages of college-educated workers compared to those with less education. The gap between the earnings of college-educated adults and those with a high school degree are large and have grown over the past thirty-five years. Over the last decade, the wage advantage of college-educated workers has never been greater, contributing to an increasing gap between those with substantial higher education and those without.

The benefits of a four-year degree are also seen in the substantially lower unemployment rate for college graduates—2.4 percent in June 2017—compared to 4.6 percent for high school graduates and 3.8 percent for those with only some college. Labor force participation rates also differ by education—73.9 percent of college graduates over age 25 were in the labor force in June 2017, compared to 57.5 percent of those with only high school. Labor force participation rates are difficult to interpret today because the aging of the population is placing downward pressure on the fraction of people in the labor force as Baby Boomers begin to retire—a pressure that the U.S. economy will face for some time. However, similar patterns are seen when examining prime age—those 25 to 54 years old--workers. Among prime age men who are college graduates roughly 9 in 10 are employed, compared to roughly 8 in 10 with a high school degree.

These differences are important to highlight because one of the largest challenges the labor force faces in developing the skills of workers is ensuring that students from across the income spectrum have access to successfully and affordably complete a four-year degree. While many people argue that college for all may not be necessary, or even possible, it is important to recognize that a century ago the same arguments were made about public high school. Our country's willingness to ignore these naysayers and make high school free and widely available was an engine of economic growth in the last century. While the United States led the world in educating our citizens last century, we have failed to keep up as other countries' student successes have surpassed ours.

Greater Wage Gains Are Necessary

One of the missing pieces of evidence when it comes to assessing a mismatch between the skills that employers demand and the skills that workers have is wages. Many researchers have diligently sought evidence of worker shortages that would naturally, in a competitive market, lead the businesses who would benefit most from hiring such workers to bid up their wages. While job growth exceeded expectations this past June, wage growth once again undershot expectations. Wage growth was slow coming out of the recession, yet accelerated in 2015 and 2016. From 2014 to 2015, real median household income grew $2,800 – the fastest growth on record. Wages for all private sector workers grew an average of 2.9 percent in 2016. Yet, growth in both wages and overall compensation per hour has slowed in recent quarters.

Many economists have pointed to slow growth in labor productivity as a source of slower wage growth. Higher productivity should, in theory, lead to higher wages and is an important reason for workers to acquire the skills that employers are seeking. The connection between wages and productivity is important and provides an incentive for workers to become more productive. However, in recent decades the link between productivity and wages has weakened and the wages of most workers have not risen as rapidly as productivity. There are several potential explanations for this decoupling of wages and productivity—including declining unionization, reduced worker bargaining power, and reduced worker mobility. Businesses are also increasingly engaging in anti-competitive labor market policies including forbidding the sharing of pay information and requiring non-compete clauses. Congress should seek to make the labor market as fair as possible by penalizing business that engage in such anticompetitive practices. Additionally, policies like updated overtime regulations, a robust minimum wage, enforcing workplace protections are all key areas that could help raise wages and improve working conditions.

The current pace of job growth is unsustainable unless more workers elect to join the labor force. The challenge that businesses will increasingly face as they continue to hire is not that the workers who are available do not have the skills they are seeking, but that there will simply be too few workers available for them to find workers. Higher wages and better working conditions are therefore essential to ensure that more workers are encouraged to participate.

Job Training and Apprenticeships Play an Important Role in Building Workers Skills

There is a large role for training programs, apprenticeships, and community colleges to play in preparing workers to transition to the jobs that employers are hiring in. One policy that can help both employers and employees and strengthen the overall economy are evidence-based job training programs. In his FY2017 budget President Obama outlined a comprehensive strategy to invest in highly-demanded skills and education to make our economy more competitive in the 21st century. While preparing workers for jobs begins with education when children are young, it continues in adulthood by helping workers get the skills to make the American economy more competitive. One of the most important skills all workers need in the 21st century is the ability to learn on the job and adapt to new technologies and new ways of doing things. That's why successful programs not only teach concrete skills, but help participants develop lifelong learning abilities. This is also why ultimately the success of our adult training programs has its roots in our preschool programs.

Successful training programs require evidence and adaptation to that evidence. WIOA, which covers job training programs for 20 million people a year, includes reporting and measurement aspects that will build the evidence base about what works in job training, and what we can do better. Crucially, WIOA passed with bipartisan support, and additional investments could help states and localities set up the infrastructure necessary to track what happens to workers after training programs.

The Need for New and Innovative Apprenticeships

Apprenticeships are an important part of worker training and some people are best suited to learn through hands-on doing. Additionally, apprenticeships help workers learn the skills associated with learning-on-the-job, an important skill in its own right in an ever evolving economy. Yet, apprenticeships have traditionally focused on a narrow slice of the labor market and need to be adapted and expanded to provide training for the jobs of the future. Research shows that apprenticeships tend to lead to higher-paying jobs – the average apprentice earns a starting wage of $60,000, more than the median worker's income, and 89 percent of people who complete registered apprenticeship programs are employed once their training ends. Based on this evidence, the Obama Administration allocated $265 million toward apprenticeship funding, and between 2014 and 2016, active apprenticeships increased 31 percent. Continuing and building this investment is crucial to prepare our economy for the 21st century.

The Importance of Fair Wages and a Competitive Labor Market

Government investment in job training and worker investment programs is one solution, but it's not the only answer. Businesses can do more to invest in workers. Many leading businesses have realized that the investments they make in their workers today have long-term benefits. From Henry Ford a century ago, leading businesses have realized they can attract and retain top talent by paying higher wages. Henry Ford called raising wages his best cost-cutting business decision. The reason was that his workers knew that it would be hard to find as good a job as they had with Ford if they were to lose their job. In today's labor market, business policies that may seem like they are cost-cutting in the short-run are hurting businesses as well as workers. When workers are easily replaced and jobs pay the bare minimum needed to hire workers, businesses can easily lose the loyalty and conscientiousness that lead to fewer mistakes and higher productivity. In fact, there is an important link between business management skills and worker skills. Research shows that the business with better management have workers with higher average skills and have less attrition—importantly, they also pay their workers higher wages compared to the market as a whole.

Let me end by noting that much of the strong labor market we're seeing today due to actions Congress, the Administration, and the Federal Reserve took that prevented the recession from becoming a depression– stimulating the economy through investments and tax cuts, stabilizing the financial sector, assisting the auto industry, supporting the housing market, and reducing long-term interest rates. Estimates from the Council of Economic Advisers show ARRA and other fiscal measure saved or created about 9 million job-years through 2012 and increased GDP by 9.5 percent, relative to its 2008 level. All of this shows that policy can, and does, make a difference.

Thank you.