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CONGRESSIONAL TESTIMONY

Help Wanted: A Stronger Labor Market for Robust Growth

Testimony before the

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My name is Rachel Greszler. I am a 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 onset of the COVID-19 pandemic led to a sudden and sharp decline in employment and labor-force participation which, despite strong demand for workers, has yet to recover. Many programs initially designed to provide temporary relief have instead suppressed employment and labor-force participation. And many proposals included in the $3.5 trillion reconciliation package would further discourage work and labor-force participation.

In my testimony today, I would like to examine the recent labor-market trends and consider what is holding workers back and then discuss what policies would hurt and what policies would help encourage optimal labor-market participation.

Recent Labor-Market Trends

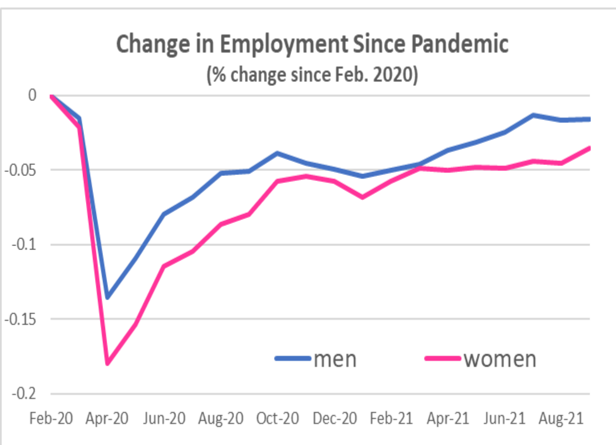
The current labor market is unlike anything America has ever experienced. It is also unlike anything that was predicted at the start of the pandemic. Thinking back to the spring of 2020, most people assumed a prolonged, weak job market would ensue, with few job opportunities and perhaps even cuts to workers' compensation. Yet, the opposite has occurred. There were 10.4 million job openings in August, which is 2.9 million more than the pre-pandemic record, and 2.0 million more than the 8.4 million unemployed workers in August.[1] Moreover, workers are quitting their jobs in droves, with a record-high 4.3 million quits in August. If that rate were to continue, it would mean that employers would have to replace one out of three workers over the course of one year.

[1]Figures do not add due to rounding.

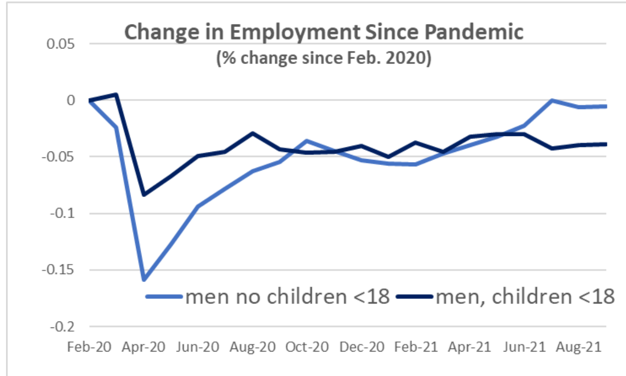
The labor shortage has created a damaging cycle: a lack of sufficient workers means those with jobs have to work harder to pick up the slack, but that leads to more unhappy workers, more people quitting their jobs, increased instances of strikes, higher costs for employers (overtime pay and turnover costs), and, subsequently, even greater shortages of labor, goods, and services, with further price increases.

The following graphs show the trends in various groups of workers' employment levels, as represented by the percent change in total employment compared to February 2020. These graphics are based on unpublished tabulations from the Bureau of Statistics' Current Population Survey and should be interpreted with extra caution as they are based on a very small number of observations.[2]

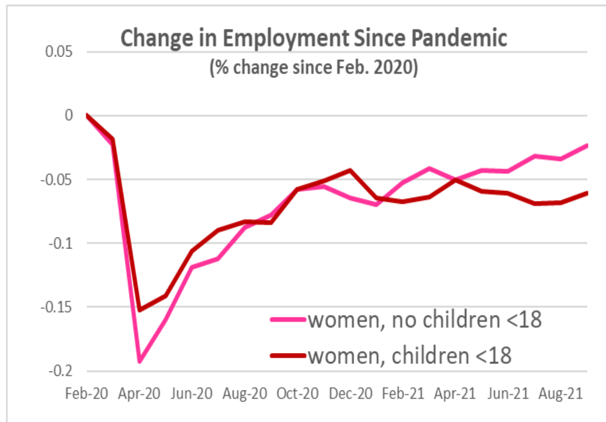
Men and Women



Men With and Without Children Under 18



Women With and Without Children Under 18



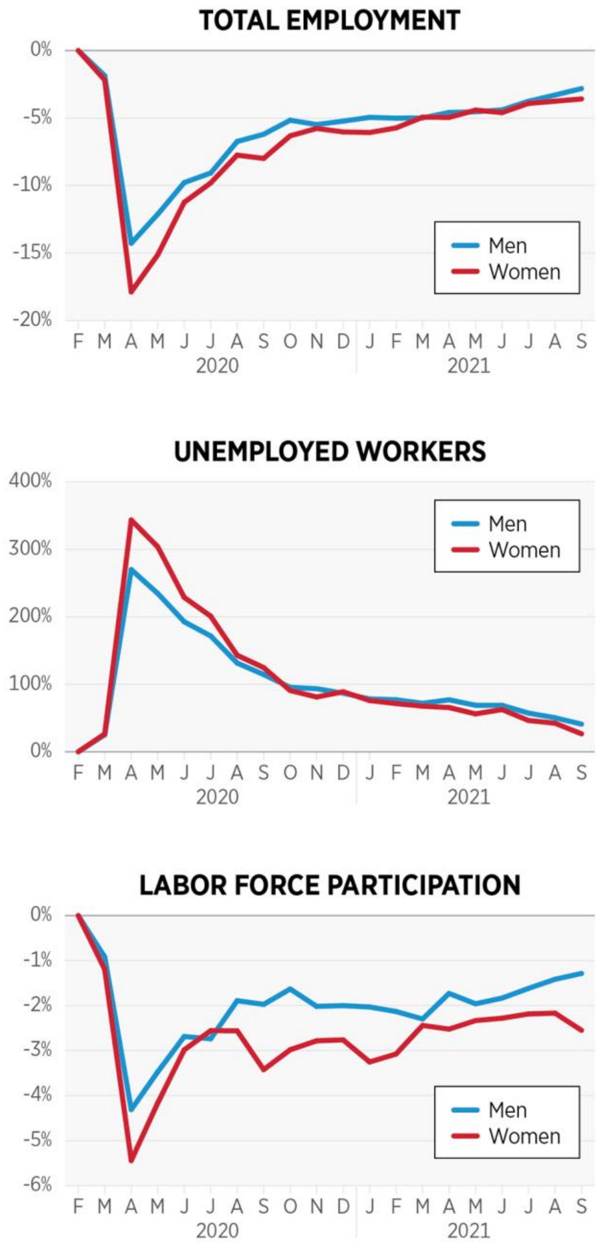
Of note is a shift in what had been smaller employment declines for parents versus non-parents, which flipped in the spring of 2021, with parents' employment experiencing smaller employment recoveries than non-parents. (See more discussion on this below on childcare and child payments.)

Similarly, women's employment outcomes had converged and nearly matched men's through March 2021, but that trend reversed course, with women's employment recoveries declining relative to men's. Yet, the fact that women's unemployment rate is significantly lower (and has recovered more) than men's suggests that women's employment shifts represent choices as opposed to a lack of options.

[2]Unpublished tabulations from the Current Population Survey (CPS), Bureau of Labor Statistics. Further information on the CPS is available online at http://www.bls.gov/cps/documentation.htm (accessed October 22, 2021).

Changes in Men's and Women's Employment Since COVID-19

PERCENT CHANGES RELATIVE TO FEBRUARY 2020



NOTE: Data are for men and women ages 16 years old and older.
SOURCE: Author's calculations based on data from Bureau of Labor Statistics, "Table A-1. Employment Status of the Civilian Population by Sex and Age," https://www.bls.gov/webapps/legacy/cpsatab1.htm (accessed October 20, 2021).

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What Is Holding Workers Back?

A lack of job opportunities is not the cause of low labor-force participation or sub-par employment. While some workers—especially older Americans and individuals with health conditions that put them at greater risk from COVID-19—may be hesitant to return to work, there is no evidence that these concerns are a significant factor in current labor shortages.

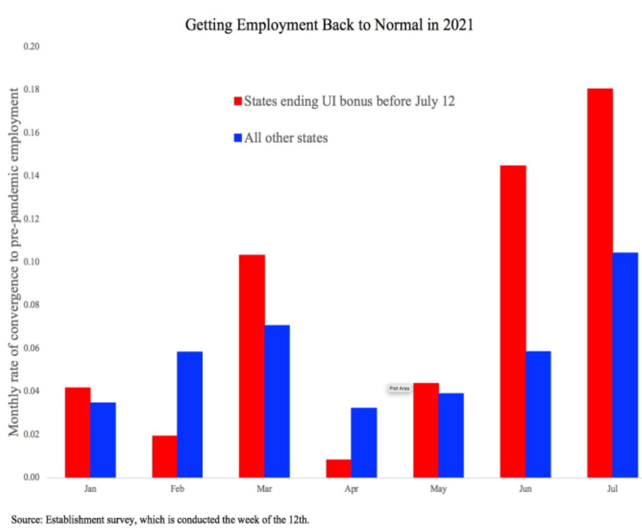
While the data is too recent for comprehensive economic analysis of many factors, the following—predominantly government-induced—policies are likely holding back labor-force participation and employment.

18 Months of Generous Unemployment Benefits. Congress's decision to provide $600 weekly unemployment insurance bonuses on top of existing unemployment benefits created a situation in which two-thirds of unemployed workers were receiving more from unemployment benefits than from their previous paychecks. Moreover, the extension of unemployment benefits to virtually all workers (including the self-employed, gig workers, and individuals who said they had been looking for work) for many reasons outside of being laid off through no fault of their own (such as being prevented from working due to COVID-19 or because of having children at home) contributed to a significant increase in the number of unemployed workers.

Economic studies consistently show that higher benefit levels and longer durations lead to higher levels of claims and longer periods of unemployment. The Congressional Budget Office estimated that the negative employment effects of extending the $600 bonus payments would be a drag on medium-and longer-term economic output and growth.[3]

Anecdotes from employers across the country confirm the negative impact of generous unemployment benefits beginning as early as the summer of 2020. Data confirm the unemployment insurance bonuses and extended benefits' consequences on employment as America has never before experienced relatively high unemployment rates alongside record-high job openings, record-high quits rates, and record-low layoffs.[4]

Analysis from Casey Mulligan shows that states that ended the unemployment insurance bonuses in July of 2021 or earlier experienced a significantly greater pace of employment recovery in July and August than states that did not end the benefits until the beginning of September. If the states that did not end unemployment insurance bonus payments early had recovered at the same rate as states that did end the payments early, the economy would have experienced 800,000 more job gains in July and August.



Expanded Obamacare Subsidies. Employer-provided health insurance acts as an incentive to work—both because of the value of the health insurance, as well as the effective price reduction that comes through the employer-provided tax deduction. For many people, access to health insurance is a primary reason that they work.

Thus, expanded access to non-employer-provided health insurance subsidies through the Obamacare exchanges disincentivizes work. Such disincentives were already present prior to COVID-19 as the availability of Obamacare subsidies reduced individuals' incentives to work or to work longer hours, and reduced employers' incentives to employ individuals for more than 29 hours per week (as Obamacare penalties on employers apply to employers who work 30 or more hours a week).

The American Rescue Plan (ARP) cut individuals' shares of Obamacare premiums by roughly four percentage points of their income levels, so that anyone making below 150 percent of the federal poverty level (FPL) now pays nothing for their health insurance; individuals making 300 percent of the FPL pay no more than 6 percent of their income for health insurance; and previously unavailable premium support was added for even high-income individuals.

Economic studies show that health insurance subsidies reduce the incentive to work, especially when availability of the subsidies is conditional on lacking employment-based health insurance. The fact that employment has not increased even as unemployment insurance bonus benefits have ended and record-high job openings exist suggests that the availability of health insurance for little-

[3]Congressional Budget Office, "Economic Effects of Additional Unemployment Benefits of $600 per Week," letter to the Honorable Charles Grassley, June 4, 2020, https://www.cbo.gov/system/files/2020-06/56387-CBO-Grassley-Letter.pdf (accessed August 1, 2021).

[4]Rachel Greszler, "Fact Check: Was Biden Right About Federal Unemployment Benefits Having No Effect on Jobs Report?" The Daily Signal, May 12, 2021, https://www.dailysignal.com/2021/05/12/fact-check-was-biden-right-about-federal-unemployment-benefits-having-no-effect-on-job-report/.

or no-cost is holding some people back from working.

Childcare Struggles Do Not Seem to Be a *New* Barrier to Employment. Initially, school and daycare closures had a significant impact on parents'—and particularly mothers'—employment, with 13 percent of working parents reported cutting back on work hours or quitting a job because of a lack of childcare in the spring of 2020.[5] But childcare providers were generally quicker to reopen than public schools and remote work along with family members stepping in to help with childcare allowed most parents to maintain or regain employment.

While childcare struggles remain a significant concern for some parents, they may not represent a uniquely COVID-19 phenomenon. A May 2021 study by Jason Furman (former Chair of President Obama's Council of Economic Advisers), Melissa Kearney, and Wilson Powell III found that childcare struggles have had little to no impact on the jobs recovery. The authors 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."[6] In fact, parents' employment declined by 4.5 percent, compared to a 5.2 percent decline in employment among workers who are not parents of young children.

While the employment of fathers declined by even less than mothers, the authors found that "any childcare issues that have pushed mothers out of the workforce account for a negligible share of the overall reduction in employment since the beginning of the pandemic," and noted that the impact was "zero, in fact" after controlling for factors like education and industry.[7]

Yet, that report was published in May 2021, presumably using data from March or April, and as the graphics comparing men and women, as well as workers with children and those without earlier in this report show, there has been a shift since then. It seems unlikely that childcare struggles would have markedly increased more than a year after the pandemic began, but multiple factors—parents' choices to spend more time at home with children, childcare struggles, an increase in homeschooling, or the introduction of monthly child payments (discussed below)—could all be playing a role.

Have Monthly Child Payments Reduced Parents' Employment? One factor that changed for parents around the same time that the data show a divergence in employment among parents versus non-parents was the beginning of monthly child payments. (See graphs comparing men and women with and without children earlier in this report.) Because these payments are not conditional on work and they make it easier for families to afford the things they need and want with less work, they could be contributing to employment declines among parents. A study by researchers at the University of Chicago estimated that making the child payments permanent would reduce the labor-force participation and employment of parents by 2.6 percent or 1.5 million workers.[8]

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[5]Heather Long, "The Big Factor Holding Back the US Economic Recovery: Child Care," *Washington Post*, July 3, 2020, https://www.washingtonpost.com/business/2020/07/03/big-factor-holding-back-us-economic-recovery-child-care/ (accessed June 17, 2021).

[6]Jason 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 18, 2021).

[7]Ibid.

[8]Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, "The Anti-Poverty, Targeting, and

Other COVID-19 Welfare Programs and Regulations. In response to the pandemic, policymakers substantially increased food stamp benefits in the Supplemental Nutritional Assistance Program (SNAP), and President Biden approved an even greater and permanent increase in SNAP benefits—the largest increase in history—in October 2021. Between fiscal year (FY) 2019 and FY 2021, the number of SNAP recipients increased by 6.1 million, or 17 percent, and per-person monthly benefits increased by $84—a 65 percent increase that translates into an extra $4,000 per year for a family of four.[9]

An economic analysis of the introduction of food stamps found that it reduced employment and incomes. The largest decreases in employment—an average of 183 fewer hours of work per year—were among single mothers.[10]

In addition to unemployment insurance benefits, health insurance subsidies, and food stamps, policymakers also provided significant housing benefits in the form of rental assistance programs and an unlawful moratorium on evictions that allowed millions of Americans to choose not to pay their rent with little or no consequence (and has since resulted in significant losses to property owners and added government costs from programs that split past-due rents between the government and property owners).

There were also a total of three rounds of "economic stimulus" payments that provided $11,400 in total to a typical family of four. Altogether, these programs and policies allowed many Americans to receive far more from government programs than from working, and Americans saved $2.2 trillion more in the year following the pandemic than they did over the prior year ($3.5 trillion vs. $1.3 trillion).[11]

Considering that past studies of demonstration projects for welfare cash assistance programs showed a $660 reduction in earnings for every $1,000 of cash benefits, the combination of COVID-19 cash and welfare benefits undoubtedly reduced employment.[12] Moreover, to the extent that COVID-19 benefits shifted reliance away from work and towards government transfers, this could have long-term consequences on lifetime employment and incomes.[13] A study of those same demonstration projects found that each $1

Labor Supply Effects of the Proposed Child Tax Credit Expansion," Becker Friedman Institute for Economics at UChicago, October, 2021, https://bfi.uchicago.edu/wp-content/uploads/2021/10/BFI_WP_2021-115-1.pdf (accessed October 22, 2021).

[9]USDA Food and Nutrition Services, "Supplemental Nutrition Assistance Programs," U.S. Department of Agriculture, data as of October 2, 2021, https://fns-prod.azureedge.net/sites/default/files/resource-files/34SNAPmonthly-10.pdf (accessed October 22, 2021).

[10]Hilary Williamson Hoynes and Diane Whitmore Schanzenbach. "Work Incentives and the Food Stamp Program," *Journal of Public Economics*, Vol. 96, No. 1–2 (February 2012), pp. 151–162, https://doi.org/10.1016/j.jpubeco.2011.08.006; https://www.sciencedirect.com/science/article/pii/S0047272711001472 (accessed October 22, 2021).

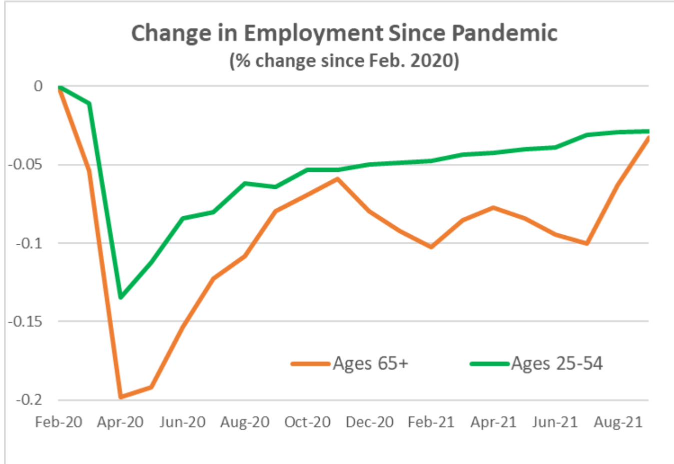
[11]FRED Economic Research, "Personal Saving," https://fred.stlouisfed.org/series/PMSAVE (accessed June 21, 2021).

[12]Gary Burtless, "The Work Response to a Guaranteed Income: A Survey of Experimental Evidence," in Alicia Munnell, ed., "Lessons from the Income Maintenance Experiments: Proceedings of a Conference Held at Melvin Village, New Hampshire, September 1986," Federal Reserve Bank of Boston *Conference Series* No. 30, September 1987, pp. 26–28. These specific figures represent the impact in the largest negative income tax experiment: the Seattle–Denver Income Maintenance Experiment (SIME/DIME).

[13]Robert Rector and Jamie Bryan Hall, "Congress Should Reject Efforts to Restore 'Welfare as We Knew It' by Expanding Child Credits," Heritage Foundation *Issue Brief* No. 6054, February 19, 2021, https://www.heritage.org/sites/default/files/2021-03/IB6054.pdf.

of government benefits resulted in a $5 decline in lifetime income.[14]

Factors Affecting Older Americans' Work. COVID-19 poses significantly higher risks for older individuals, and almost certainly contributed to older Americans' larger employment losses. Furthermore, all the COVID-19 workplace adjustments (such as increased reliance on technology) may have contributed to older Americans—especially ones with sufficient retirement savings—to withdraw from the labor force. The data show that employment of individuals ages 65+ initially declined significantly more than prime-age (25–54) workers at the beginning of the pandemic, rebounded and was nearly on par with prime-age workers in November of 2020, and then declined significantly (the surge in COVID-19 cases likely playing a role) before rising in the spring of 2021 at the same time that vaccinations became widely available to older Americans. Older Americans' employment is now nearing that of prime-age workers: As of September 2021, employment for workers ages 25 to 54 was down by 2.9 percent while employment for workers ages 65 and older was down by 3.3 percent since the start of the pandemic.



Policies that Will Not Help, But Will Likely Hurt Labor-Force Participation and Work Opportunities

Congress is considering a massive $3.5 trillion tax-and-spend proposal that would take incomes and resources away from the most productive people and activities and use them to subsidize unproductive activities. Taxing employers and investment activity to fund new and expanded cradle-to-grave welfare benefits that reward individuals for earning little or no income will significantly reduce employment. Two recent studies estimated that the massive tax and spending package would result in job losses of 5.3 million[15] and 8.7 million.[16]

Unconditional Monthly Child Payments. A recent study by economists from the University

[14] David J. Price and Jae Song, "The Long-Term Effects of Cash Assistance," Princeton University, Department of Economics, Industrial Relations Section, *Working Paper* No. 621, June 30, 2018, p. 16, https://dataspace.princeton.edu/bitstream/88435/dsp01ng451m210/3/621.pdf (accessed February 17, 2021). This paper finds that the discounted lifetime earnings loss for SIME/DIME adult recipients was $3.04 for each added $1.00 in benefits provided by the experiments. The non-discounted value would be roughly $5.00.

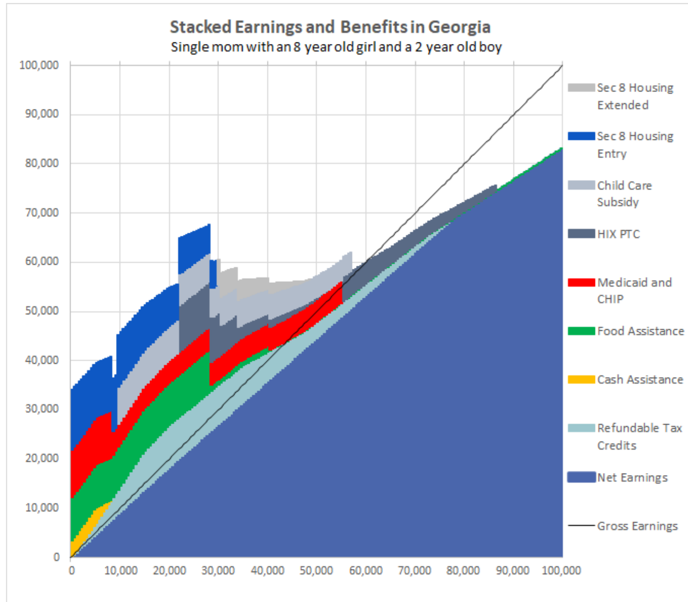
[15] E. J. Antoni, Vance Ginn, and Steve Moore, "Reversing the Recovery: How President Biden's 'Build Back Better' Plan Raises Taxes, Kills Jobs, and Punishes the Middle Class," Texas Public Policy Foundation, October 2021, https://www.texaspolicy.com/wp-content/uploads/2021/10/2021-10-RR-Ginn-RTT-Build-Back-Better-updated10-18.pdf (accessed October 22, 2021).

[16] Casey B. Mulligan, "Build Back Better's Hidden But Hefty Penalties on Work," The Committee to Unleash Prosperity, October 2021, https://www.dropbox.com/s/xc28a96mfn6pvpj/BBBworkCommitteetoUnleashProsperity.pdf?dl=0 (accessed October 22, 2021).

of Chicago estimated that the proposal to replace the $2,000 child tax credit (including work requirements) with $3,000 and $3,600 child payments not conditioned on work would cause 1.5 million people—representing 2.6 percent of all parents—to exit the labor force.[17] Not only would this work exodus mean that massive spending on child payments would fail to reduce deep child poverty, but fewer workers would translate into lower output and lower incomes across the U.S. Moreover, work is a crucial part of breaking cycles of poverty.

Expanded Obamacare Subsidies. The $3.5 trillion reconciliation package would increase Obamacare subsidies by further reducing the caps on individuals' payments, allowing individuals in the highest income brackets to receive Obamacare subsidies, expand Medicaid eligibility, and extend subsidies to individuals receiving unemployment benefits. A recent analysis by Casey Mulligan estimated that the Affordable Care Act and Medicaid expansions included in the reconciliation proposal would reduce employment by 4.5 million.[18]

Housing and Other Welfare Benefits. The massive tax and spending packageproposes large housing subsidies as well as other means-tested benefits. The stacked effect of multiple government welfare programs can create huge disincentives for work. Unpublished analysis from the Georgia Center for Opportunity demonstrates this impact with a graph showing the availability of various welfare benefits for a single mother with two children, based on her earnings. If that mother were to go from earning $10,000 per year to $60,000 per year, the combination of her earnings plus welfare benefits would increase by only $15,000, from $45,000 to $60,000, which implies a 70 percent marginal effective tax rate. Adding even more government benefits as part of a cradle-to-grave welfare system would only further reduce employment and thus individuals' and societal long-term well-being.



Government Paid Family Leave. It is important that workers be able to take leave from work when health and life circumstances require it, and without access to leave, some workers would not work at all. That is why the recent 64 percent increase in workers with access to paid family leave just between 2016 and 2021 is so important.[19] Moreover, COVID-19 and the labor shortage have caused many employers to enact more flexible and generous policies.

The proposed federal program could halt all this voluntary progress in its tracks and force workers out of flexible and accommodating policies and into a rigid and more restrictive government program that could result in less work.

[17]Corinth, Meyer, Stadnicki, and Wu, "The Anti-Poverty, Targeting, and Labor Supply Effects of the Proposed Child Tax Credit Expansion."
[18]Mulligan, "Build Back Better's Hidden But Hefty Penalties on Work."

[19]U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey-Benefits, 2011 to 2021, https://data.bls.gov/timeseries/NBU18700000000000033349 (accessed October 22, 2021).

The reduction in work hours for true family and medical needs that are not currently met through existing employer programs might be roughly offset by increased employment and labor-force participation. But there would be some unintended negative employment effects as well. For starters, the proposal does not guarantee that workers who use the program will not subsequently lose their jobs because employers with fewer than 50 employees do not have to provide job-protected leave, and current government programs in the states fail to reach lower-income workers. Moreover, the necessary rules and regulations of government programs often lead to misuse and abuse.

Already, significant abuse exists under the Family and Medical Leave Act, which some workers and employers refer to as the Friday Monday Leave Act for its frequent use to obtain long-weekends. (FMLA leave also spikes on the first day of hunting season and the Monday after the Superbowl.) On average, the Family and Medical Leave Act claims increase 31 percent when workers are assigned weekend shifts, and by 75 percent when assigned holiday shifts.[20] In some workplaces, up to 45 percent of workers have "Family and Medical Leave Act certifications" that effectively allow them to take leave at will. (The proposed legislation allows workers to take leave and not notify their employer until a full week later.)

These abuses—which exist for *unpaid* family and medical leave—will almost certainly increase (resulting in less work) if workers can get paid for their time off. Moreover, the program provides instances for individuals who are not employed and not working to nevertheless receive paid family leave benefits. Casey Mulligan estimated that the paid family leave program would reduce employment by 1 million.[21] `

Forced Unionization Restricts Workers' Freedoms, Opportunities. Unions often negotiate for higher compensation packages and limited work hours. Economic studies have shown that states that enact Right To Work laws that allow workers to choose whether or not they want to join a union (as opposed to forcing them to join a union as a condition of employment) experience higher employment growth. While unions attempt to micromanage employers and negotiate for multi-year contracts, they also limit employers' abilities to respond to changing conditions and prohibit them from accommodating workers' desires that do not align with the union's (such as workplace flexibility or performance-based pay and bonuses).

The massive bottlenecks at California ports—limiting the supplies and driving up costs—has a lot to do with limited workers and limited work hours. And unions are a big cause of that labor shortage: unions are refusing to operate the ports around the clock as most other major ports do, and California's pro-union AB5 law limits the supply of truckers who can pick up and deliver the cargo to predominantly unionized truckers.

By directly subsidizing unions and enacting multiple provisions aimed at increasing unionization across the U.S., the $3.5 trillion tax and spend package would not only limit employment, but also prevent millions of workers from attaining the type of work that they desire. Casey Mulligan estimated a loss of 300,000 jobs through increased unionization provisions.

[20]James Sherk, "Use and Abuse of the Family and Medical Leave Act: What Workers and Employers Say," Heritage Foundation *Special Report* No. SR-16, August 28, 2007, https://www.heritage.org/jobs-and-labor/report/use-and-abuse-the-family-and-medical-leave-act-what-workers-and-employers-say.

[21]Mulligan, "Build Back Better's Hidden But Hefty Penalties on Work."

Barriers to Flexible, Independent Work. Independent work has become increasingly popular in recent years as app-based platforms have provided a way for ordinary Americans to provide goods and services across large markets. Whereas independent work used to be reserved for highly educated, high-income individuals in occupations like doctors, lawyers, and accountants, individuals across all walks of life can now work independently. In fact—individuals with a high school degree are just as likely as those with advanced educations to perform independent work.[22] And while independent work is most popular among younger Americans, with 50 percent of Gen Z and 44 percent of millennials engaging in it, 26 percent of baby boomers performed independent work in 2020.[23]

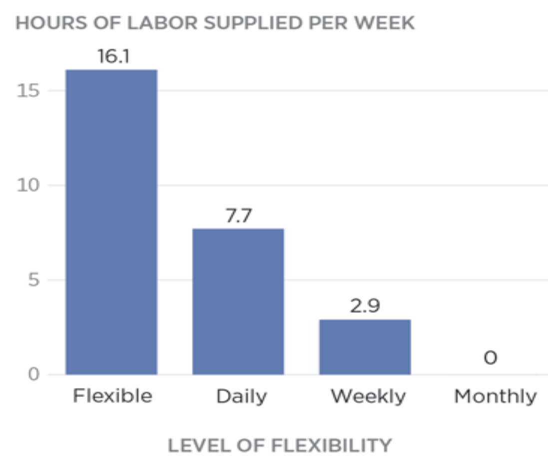
Independent work is not only something many workers desire—it is what makes work possible for millions of Americans: 48 percent of independent workers are caregivers and 33 percent report having a disability in their home. Moreover, among those who first started freelancing in 2020 amid the pandemic, 67 percent are caregivers of parents or children.[24] Taking away or restricting the ability to work independently could limit the work and incomes of more than 10 million caregivers.

The reconciliation package increases the budget of the Department of Labor's Wage and Hour Division by one-third, with that funding almost certainly going towards increased enforcement against employers for misclassifying workers. Having already rescinded the Trump Administration's independent contractor rule, the Department of Labor is likely to reclassify many independent workers—including most gig-economy workers—into employees. Setting aside how companies will respond to such moves (drastically cutting workers, raising prices, and dictating workers' jobs and schedules), a study of Uber drivers found that the average Uber driver would not work at all if they had to be treated like a taxicab employee. (See Chart 1.)[25] While economists have struggled to quantify the value of workplace flexibility, the study of Uber drivers pegged a fully flexible work platform to be worth 46 percent of the median Uber-driver's wages. Limiting the type of work that people can do will result in less work being done.

CHART 1

Flexible Work Schedules Lead to More Work Hours

At the median,* Uber drivers would work only half as much if required to commit to a daily schedule and only one-fifth as much under a weekly commitment.



* The median represents the 50th quantile of workers based on their average hours of labor supplied per week. The median active Uber driver works 16.1 hours per week (active drivers work at least one hour per week in at least 16 of the 36 weeks studied).

SOURCE: M. Keith Chen et. al., "The Value of Flexible Work: Evidence from Uber Drivers," National Bureau of Economic Research No. *Working Paper* 23296, March 2017, http://www.nber.org/papers/w23296 (accessed July 11, 2017).

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[22]Upwork, "Freelance Forward 2020," September 2020, https://www.upwork.com/documents/freelance-forward-2020 (accessed October 22, 2021).

[23]Ibid.

[24]Ibid.

[25]M. Keith Chen, Judith A. Chevalier, Peter E. Rossi, and Emily Oehlsen, "The Value of Flexible Work: Evidence from Uber Drivers," National Bureau of Economic Research, June, 2017, https://www.nber.org/system/files/working_papers/w23296/w23296.pdf (accessed October 22, 2021).

While the reconciliation process severely restricts how much of unions' wish list can be included, if the Protecting the Right to Organize Act becomes law, millions of Americans who prefer to be their own bosses could lose their livelihoods.[26]

Failed Federal Job Training Will Not Help. The federal government has a terrible track record on job-training programs. A gold standard evaluation of the Workforce Investment Act found that despite the Department of Labor's directive to provide training for in-demand services, only 32 percent of participants found occupations in their area of training, and the majority of participants—57 percent—did not believe that their training helped them find employment.[27] 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 (a 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 only $22 more per week in average earning.[28]

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 will never know businesses' needs better than employers themselves. While federal job-training programs would hopefully not reduce employment, they are unlikely to increase it significantly. Policymakers could do far more to increase effective job training by removing limits on apprenticeship programs and by not raising taxes on employers, so that they can invest more in educating and training workers.

Higher Taxes on Corporations Will Reduce Incomes and Employment. Economic studies show that workers bear the burden for about 70 percent of the corporate tax. Meanwhile, the massive tax and spending package would increase the federal corporate tax rate from 21 percent to 26.5 percent, resulting in an average 30.9 percent federal-plus-state corporate tax rate.[29]

A Heritage Foundation analysis found that a slightly higher 28 percent corporate tax (as originally proposed by President Biden) would lead to a 1.27 percent decrease in wages and a 0.38 percent reduction in hours worked (the equivalent of about 561,000 full-time-equivalent jobs), translating into $840 less

[26]Rachel Greszler, "6 Ways a Union-Backed Bill Will Upend the Job Market," The Daily Signal, February 05, 2020, https://www.dailysignal.com/2020/02/05/6-ways-a-union-backed-bill-will-upend-the-jobs-market/.
[27]Sheena McConnell, Kenneth Fortson, Dana Rotz, Peter Schochet, Paul Burkander, Linda Rosenberg, Annalisa Mastri, and Ronadl D'Amic, "Providing Public Workforce Services to Job Seekers: 15-Month Impact Findings on the WIA Adult and Dislocated Worker Programs," *Washington, DC: Mathematica Policy Research*, May 30, 2016, https://mathematica.org/publications/providing-public-workforce-services-to-job-seekers-15-month-impact-findings-on-the-wia-adult (accessed October 20, 2021).
[28]David B. Muhlhausen, "Job Corps: An Unfailing Record of Failure," Heritage Foundation *WebMemo* No. 2423, May 5, 2009, https://www.heritage.org/jobs-and-labor/report/job-corps-unfailing-record-failure.
[29]Alex Muresianu and Erica York, "U.S. Would Have Third-Highest Corporate Tax Rate in OECD Under Ways and Means Plan," Tax Foundation, September 15, 2021, https://taxfoundation.org/house-democrats-us-corporate-tax-third-highest/ (accessed October 22, 2021).

income per year for a median worker earning $52,000.[30]

Pushing Parents into Work at the Expense of Children, Family Well-being. The stated purpose behind massive childcare subsidies is to increase the labor-force participation of moms and to improve the outcomes of children. While large childcare subsidies can increase labor-force participation, they can also have significant long-term consequences for the well-being of children and families.

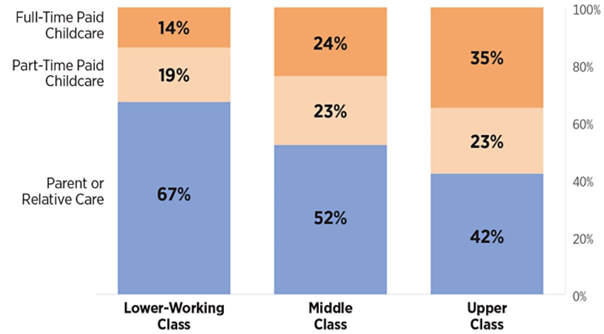
Quebec's highly subsidized childcare program caused a 14.5 percent increase in mothers with young children working outside the home, but it also caused children to experience significant behavioral and health consequences and led to more hostile parenting and worse parental relationships and significantly higher rates of crime and anxiety once children reached their teenage years.[31]

Different families have different needs and preferences, and the focus on childcare should be helping families to achieve the childcare settings that are best for them.

CHART 1

High-Income Families Most Likely to Want Full-Time Paid Childcare, but Most Prefer Parent or Relative Care

FAMILY CHILDCARE PREFERENCES FOR FAMILIES WITH CHILDREN UNDER AGE 5, BY INCOME LEVEL



NOTES: Figures for lower-working class include an average of lower class and working class figures. Figures may not sum to 100 due to rounding.
SOURCE: American Compass, "Home Building Survey Part II: Supporting Families," Survey Chart 2: Family Work Preferences by Class, February 18, 2021, https://americancompass.org/essays/home-building-survey-part-2/ (accessed October 14, 2021).

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A majority of all parents, and the overwhelming majority of lower-income parents, prefer family-based care over center-based childcare, and there is tremendous value in parents caring for children.[32] In fact, the same author who found that early childcare programs can have as high as 13 percent returns for disadvantaged children said that he would guess the returns to mothers caring for their children is closer to 30 percent to 40 percent.[33]

Vaccine Mandates Will Reduce Employment. Already, state and local vaccine mandates have caused thousands of workers to lose their jobs. In New York, the state's largest health care provider, Northwell Health, had to lay off 1,400 workers—nearly 2 percent of its

[30] Parker Sheppard, PhD, "The Long-Run Economic Effects of Raising the Corporate Tax Rate to 28 Percent," Heritage Foundation *Issue Brief* No. 6076, April 15, 2021, https://www.heritage.org/sites/default/files/2021-04/IB6076.pdf (accessed October 22, 2021).

[31] Michael Baker, Jonathan Gruber, and Kevin Milligan, "Universal Childcare, Maternal Labor Supply and Family Well-Being," National Bureau of Economic Research *Working Paper* No. 11832, December 2005, https://www.nber.org/system/files/working_papers/w11832/w11832.pdf (accessed October 22, 2021).

[32] Rachel Greszler, "Government Childcare Subsidies: Whom Will They Help Most?" Heritage Foundation *Issue Brief* No. 5321, October 20, 2021, https://www.heritage.org/sites/default/files/2021-10/IB5231.pdf.

[33] "Nobel-Prize Winning Economist Dr. James Heckman on Social Mobility, the American Dream, and How COVID-19 Could Affect Inequality," Medium Archbridge Notes, April 23, 2020, https://medium.com/archbridge-notes/nobel-prize-winning-economist-dr-5550da1df5c3 (accessed September 20, 2021).

workforce.[34] New York City had to put about 1,800 school safety agents and 2,000 teachers on unpaid leave when the city's COVID-19 vaccine mandate went into effect.[35] With many police unions opposing the vaccine mandate, and a spokesperson for the Los Angeles Police Protective League noting that only 56 percent of union members were vaccinated, could mean widespread layoffs—and public safety risks—if a mandate is imposed.

According to the Federal Reserve's October 2021 *Beige Book*, vaccine mandates are contributing to high turnover and production slowdowns. While the number of quits due to the mandate is expected to be relatively small, the Fed noted that "federal vaccine mandates were expected to exacerbate labor problems."[36]

Just as Congress never gave the Centers for Disease Control and Prevention authority to impose eviction moratoriums, Congress never gave the Occupational Safety and Health Administration the authority to require the use of vaccines as a condition of providing a safe workplace.

What Could Help Increase Labor-Force Participation

The more people benefit from working, the more work they will perform. And how much people benefit from work depends both on what working and not working provide. Thus, increasing labor-force participation and employment requires not only making work more attractive and easier to obtain, but also making not working and government dependency less attractive.

Make Work Pay—Spur Productivity Gains. When the reward to work increases, people work more. The only long-run pathways to higher wages are education and experience along with investments in technology that make workers more productive. Policymakers should remove barriers (such as occupational licensing laws and limits on independent work) that prevent individuals from using their existing skills to earn income. Making it easier for employers to establish apprenticeship programs would help expand affordable education opportunities. And reducing or eliminating double taxes on investments would help spur more productivity-enhancing investments.

Make Work Pay—Lower Taxes. If you tax something, you get less of it. So taxes on work result in less work. A Congressional Budget Office review of the economic literature found that lower-income earners and mothers are more responsive to changes in tax rates, especially in their labor-force participation decisions.[37] In particular, lower-income workers eligible for the Earned Income Tax Credit had very high labor-force participation elasticities in the range of 0.3 to 1.2. Elasticity levels over one mean that workers reduce their work by proportionally more than the percent of tax increase.[38] With Americans already

[34]Joseph Choi, "Largest New York Health Care Provider Fires 1,400 Employees over Vaccine Refusal," *The Hill*, October 4, 2021 https://thehill.com/homenews/state-watch/575283-largest-new-york-healthcare-provider-fires-1400-employee-over-vaccine (accessed October 22, 2021).

[35]Lee Hawkins, "Thousands of Unvaccinated New York City School Employees Placed on Unpaid Leave," *The Wall Street Journal*, October 4, 2021, https://www.wsj.com/articles/thousands-of-unvaccinated-new-york-city-school-employees-placed-on-unpaid-leave-11633371509 (accessed October 22, 2021).

[36]U.S. Federal Reserve, *The Beige Book*, October 20, 2021, https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20211020.pdf (accessed October 22, 2021).

[37]Robert McClelland and Shannon Mok, "A Review of Recent Research on Labor Supply Elasticities," Congressional Budget Office, October 2012, https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/workingpaper/10-25-2012-recentresearchonlaborsupplyelasticities.pdf (accessed October 22, 2021).

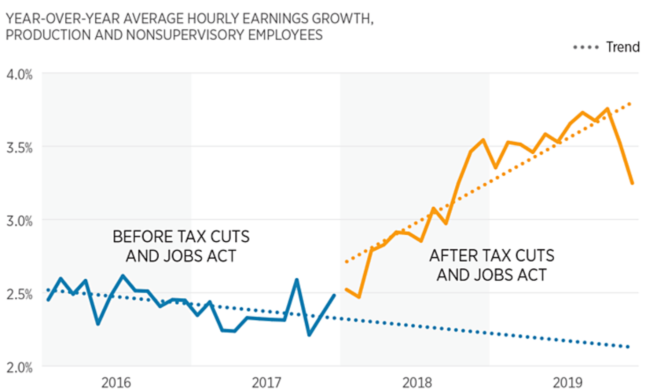
[38]Ibid.

paying more in taxes than they do on housing, clothing, and food combined, and with many of those expenses provided through welfare if individuals restrict their work, tax cuts on wages could help increase work.

Fewer Regulations, Lower Taxes on Employers. By driving up the cost of doing business, higher corporate taxes and unnecessary regulations leave less money to raise workers' wages. The Tax Cuts and Jobs Act reduced the top corporate tax rate from 35 percent to 21 percent, and a series of reductions in unnecessary and burdensome regulations helped businesses grow. Prior to these changes, wage growth had been declining, and then it quickly shifted course and rose at above trend rates. An analysis by Adam Michel found that the shift in wage growth translated into an additional $1,406 of annualized earnings above the previous trend for the average production and non-supervisory worker in March 2020.[39] When wages increase, people work more.

CHART 1

Faster Wage Growth After Tax Cuts



SOURCES: U.S. Bureau of Labor Statistics, "Average Hourly Earnings of Production and Nonsupervisory Employees, Total Private, Seasonally Adjusted," https://data.bls.gov/timeseries/CES0500000008 (accessed January 25, 2021), and author's calculations.

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Work -Oriented Welfare. Work is crucial to breaking cycles of poverty and dependency. When President Bill Clinton signed the historic, bipartisan welfare reform package in 1996, he talked about how many people in America had been "trapped on welfare for a very long time, exiling them from the entire community of work that gives structure to our lives."[40] He quoted Robert Kennedy, who said:

> Work is the meaning of what this country is all about. We need it as individuals, we need to sense it in our fellow citizens and we need it as a society and as a people.

Kennedy's and Clinton's comments are in stark contrast to the proposed cradle-to-grave welfare package.

Instead of measuring the success of government welfare programs by how many people they serve and by adding new programs to draw in even those who are not in need, the primary goal of welfare should be to help individuals and families thrive. That can only happen if they are empowered, through work, to earn a living that allows them to make their own decisions and pursue their own goals.

Integrate Workforce Services. Part of the reason that federal workforce programs fail to significantly improve outcomes is that they are scattered across 47 different programs and multiple agencies.[41] State workforce programs, including the implementation of federal programs, are often similarly uncoordinated and ineffective.

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[39] Adam N. Michel, "The Tax Cuts and Jobs Act: 12 Myths Debunked," Heritage Foundation *Backgrounder* No. 3500, March 23, 2021, https://www.heritage.org/sites/default/files/2021-03/BG3600_0.pdf.

[40] William Clinton, "Pres. Clinton Signing Welfare Reform," *Hashcut*, 1996, https://www.hashcut.com/v/xCN5kuu (accessed October 22, 2021).

[41] Douglas Holtz-Eakin and Tom Lee, "An Analysis of Federal Training Programs," American Action Forum, September 17, 2019, https://www.americanactionforum.org/research/an-analysis-of-federal-training-programs/ (accessed October 22, 2021).

Utah is one state that has shown success in integrating welfare and workforce services to move more people off government benefits and into employment. A study by the American Enterprise Institute found that Utah's integration of multiple programs (such as Medicaid and Children's Health Insurance Program, Refugee Services, Housing and Community Development, and Rehabilitation) into one Department of Workforce Services helped establish "one door" for residents in need to receive more effective services.[42] Another important component of the state's successful transformation was allowing local flexibility (within statewide consistency of delivery) to meet the workforce and training needs of local residents and businesses. Utah also developed a unique cost model to integrate federal and state funds for workforce services.

Flexible, Accommodating Paid Family Leave. Paid family leave is incredibly valuable and can help increase labor-force participation, but one-size-fits-all paid family leave can never meet workers' and employers' unique needs as well as more flexible and accommodating employer-provided policies. To help build upon the 64 percent increase in access to paid family leave that has occurred over the past five years, policymakers should allow lower-wage, hourly workers to choose between paid time off and extra pay for the overtime they work.[43] Senator Mike Lee's (R–UT) Working Families Flexibility Act would do just this. Moreover, policymakers could clarify that employers are allowed (but not required) to auto-enroll their workers in private disability insurance programs, which cover the majority of workers' needs for leave.

Portable Benefits. The average worker will change jobs 12 times throughout her career. That can mean changing health insurance 12 times, and either having to roll over retirement accounts or managing many different accounts. Independent workers who do not have a formal employer typically lack access to less-expensive group-based health insurance, disability insurance, and retirement savings accounts. Policymakers should make it easier for individuals to pool together to purchase group-based insurance by expanding the concept of association health plans so that workers will have access to choice-based and portable benefits that meet their needs.

Social Security Reforms to Remove Disincentives to Work at Older Ages. The majority of Americans claim Social Security benefits before they reach Social Security's normal retirement age, and by doing so, they are subject to Social Security's retirement earnings test that takes away 50 cents of every dollar they earn over about $19,000, until they reach normal retirement age (currently 66 and 10 months). Although benefits are later adjusted upwards to effectively give back these taxes, workers perceive the test as a 50 percent tax and thus it serves as a significant deterrent to work. Yet, health improvements and less physically demanding jobs mean that most Americans can continue to work, making positive contributions to the economy and boosting their and their family's financial well-being.[44] Policymakers should let workers opt out of Social Security's earnings test, which would not only encourage more work, but

42 Mason M. Bishop, "Utah Department of Workforce Services: A System Integration Model," American Enterprise Institute, August 2020, https://www.aei.org/wp-content/uploads/2020/08/Utah-Department-of-Workforce-Services.pdf?x91208 (accessed October 22, 2021).

43 Rachel Greszler, "Mike Lee's Bill Would Boost Paid Family Leave Without Growing the Government," The Daily Signal, April 11, 2019, https://www.dailysignal.com/2019/04/11/mike-lees-bill-would-boost-paid-family-leave-without-growing-government/.

44 Rachel Greszler, "Rescuing Entitlements and Pensions: Study Shows Americans Can Work Longer," Heritage Foundation *Issue Brief* No. 4539, April 6, 2016, http://thf-reports.s3.amazonaws.com/2016/IB4539.pdf.

could actually generate Social Security savings.[45]

Other reforms that would reduce the disincentives to work at older ages include shifting the benefit formula so that workers would accrue benefits based on each year they work, as opposed to averaging their benefits across all years (which disproportionately benefits high earners with fewer years of work),[46] and allowing workers the option to receive a lump sum delayed retirement credit.[47]

Enact a Responsible Federal Budget. Since March 2020, the federal government has added $5.4 trillion in debt—the equivalent of about $42,000 per household, bringing total per-household debt in the U.S. to $220,000. Adding Social Security and Medicare's unfunded liabilities brings the per-household total to about $480,000.

This is clearly unsustainable and most troubling is the fact that instead of looking to reduce spending and the debt, policymakers are debating another $4.6 trillion in tax-and-spending packages.

The longer that Congress waits to confront the U.S.'s undeniably unsustainable fiscal outlook, the more severe the consequences will be, including large and abrupt cuts in government services and promised entitlement benefits, low or no wage growth, and a labor market where workers will be lucky to have a job.

Summary

There is something very wrong with today's labor market, including 10.4 million job openings compared to 8.4 million unemployed workers, over four million workers quitting their jobs per month, and a decrease in labor-force participation in September. The lack of willing workers is contributing to supply shortages and rising prices. And government policies are a significant part of the problem.

If there is anything that the past year-and-a-half has demonstrated, it is that government central planning—regardless of its intents—results in all sorts of unintended consequences. That is because individuals, families, and employers are far better than politicians at making decisions that impact their everyday lives and those around them.

Yet, instead of looking at what policymakers can do to limit the consequences of their mistaken policies, liberal lawmakers want to pass 2,500 pages worth of additional dictates on how people live their lives, how businesses run their operations, who is entitled to what income—all while pumping $3.5 trillion in government spending into an economy already wrought with shortages and rising prices.

This is the wrong approach. Policymakers should focus on empowering individuals and families to live and work in the ways that they desire. That includes getting rid of policies that are discouraging people from working and removing barriers that are making it harder for business owners to grow and succeed. Lower

[45] Rachel Greszler, "Seven Hard Truths Americans Should Know About Social Security in 2021—and Five Ways to Strengthen Social Security," Heritage Foundation *Issue Brief* No. 5212, September 3, 2021, https://www.heritage.org/sites/default/files/2021-09/IB5212.pdf.

[46] Charles Blahous, "Make Social Security Fairer to Workers," Morning Consult, October 22, 2021, https://morningconsult.com/opinions/make-social-security-fairer-to-workers/?fbclid=IwAR12_NYh6aeJ8HmmJejwl5YbQ70_gQlmjyLjC3Xlmc7qRvGQVwI-trRSMEM (accessed October 22, 2021).

[47] Olivia S. Mitchell, "Why a Lump Sum Payment Should be Part of Social Security," Market Watch, April 11, 2016, https://www.marketwatch.com/story/why-a-lump-sum-payment-should-be-part-of-social-security-2016-04-09 (accessed October 22, 2021).

taxes, fewer regulations, more flexible job opportunities, accommodating benefit options, less-expensive educational choices, and work-oriented welfare programs would all help increase employment and incomes.

Testimony Highlights

What Is Currently Holding Workers Back?

- Overhang from generous unemployment insurance benefits
- Expanded Obamacare subsidies
- Childcare struggles (but maybe not unique to COVID-19)?
- Monthly child payments?
- COVID-19-related welfare expansions and regulations

What Policies Will Not Help, But Will Likely Hurt Employment?

- Unconditional monthly child payments
- Expanded Obamacare subsidies
- Housing and other expanded welfare benefits
- Government paid family leave
- Forced unionization
- Barriers to flexible, independent work
- Failing federal job-training programs
- Higher corporate income taxes
- Pushing parents into work
- Vaccine mandates

What Would Increase Employment and Incomes?

- Productivity gains
- Lower taxes on work
- Fewer regulations and lower taxes on employers
- Work-oriented welfare
- Integrate workforce services
- Flexible, accommodating paid family leave
- Portable benefits
- Social Security reform to remove disincentives to work at older ages
- A responsible federal budget

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