EXAMINING THE SMALL BUSINESS LABOR MARKET

HEARING
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SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX, AND CAPITAL ACCESS
OF THE
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Questions for the Record:

None.

Answers for the Record:

None.

Additional Material for the Record:

None.
EXAMINING THE SMALL BUSINESS LABOR MARKET

WEDNESDAY, SEPTEMBER 7, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX, AND CAPITAL ACCESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:04 a.m., in Room 2360, Rayburn House Office Building, Hon. Dave Brat [chairman of the Subcommittee] presiding.

Present: Representatives Brat, Kelly, Evans, and Murphy.

Chairman BRAT. Thank you all for showing up and being prompt and more on time on than us Members of Congress. Glad to have you all with us. I looked at all your backgrounds and resumes, and it is going to be a great panel. And so I am looking forward to discussing the issue and having a great conversation.

And so with that, I will call this hearing to order and get us started. Thank you all for being here.

Today the labor market is facing significant challenges. The labor force participation rate is at 40-year lows not seen since the Jimmy Carter era. Many are calling for the Federal Government to allow mass immigration of foreign workers. However, displacing American workers is counterproductive and misses the point.

The problem is much deeper and more fundamental. Our K-12 education system fares poorly in some respects compared to other industrialized countries. I taught Econ 101 for 20 years in Virginia. Kids are coming out of high school not knowing what a business is. They don't know what an entrepreneur is. They don't know a price from a profit from a cost. And we have to change that. That is adding to the skills mismatch that I think we are all probably going to be discussing today.

And then some people want to use immigration to solve those complexities complex, right? And so I always start off that we have always been a country of immigrants, we welcome all immigrants.
Most immigrants that come in south of the border, predominantly Catholic, fine people. That is not the debate at all. The issue coming in is people make about 20 grand, pay some income tax, a little bit of Federal income tax, FICA. If you have got two kids in school, it is 26 grand, and you are upside down.

And so we have got labor market problems we have got to solve, K to 12 skills mismatch, welfare system issues. It is tied to immigration. That is in the news. Many businesses are struggling to find and hire qualified employees. That is true I think across the country in every district.

Last month I heard this in person when I traveled around my district, met with dozens of business leaders. They told me all too often they cannot find a qualified skilled workforce to fill job vacancies and this hinders their ability to grow their business. And that is why we have been growing at about 1 to 2 instead of 2 to 3, and if you get tax cuts, maybe shooting for 4.

In just the past year, the number of job vacancies grew from 5.5 to 6.2 million. Job vacancies, 6 million, which is the highest in this century. Although large businesses may have the resources to staff recruiting departments and offer better wages and benefits, resource-strapped small businesses are left at a significant disadvantage. And that is our job in this Committee, is to pay attention to small business.

For example, according to a recent survey by the National Federation of Independent Businesses, NFIB, 87 percent of small businesses looking to hire workers reported few to no qualified applicants.

Next to tax and regulatory burdens, finding qualified workers has become one of the top concerns for small business owners, if not the top.

This morning we will hear from a distinguished panel of witnesses who will give their perspective on small business labor market issues and hopefully solutions. We will dive deeper into how the labor market affects economic growth, how we can help Americans acquire in-demand skills, and how to get disenfranchised workers participating in the labor market.

I appreciate the witnesses being here today. I look forward to your testimony.

I now yield to the ranking member and my good friend for his opening remarks.

Mr. EVANS. Thank you, Mr. Chairman.

America’s economy has improved since the economic downturn 8 years ago and most signs of economic gain are promising. Yet significant labor market challenges still exist for small business owners. Even though the United States is experiencing lower unemployment, small employers widely report difficulty finding qualified and skilled workers.

The gap between the employer needs and worker skills, the imperative to close it has been recognized as an important challenge by many business leaders, educators, and policymakers. However, the solutions are not simple.

This gap between the employer needs and the worker skills, known as the skills gap, is a particular challenge for small firms. They face greater barriers to developing a skilled workforce than
their larger counterparts, including fewer financial resources to assist in hiring, retraining, and developing advanced skills.

For businesses, this reality has dire consequences. Unfilled positions mean they cannot take on more customers and risk losing business to competitors who can fill those positions. The manufacturing and the construction sector, in particular, is facing challenging obstacles due to this deficiency. If we aren’t able to meet the demands for trained workers, our country will not be able to compete globally.

This troubling trend lacks the attention it deserves, and small businesses deserve a better deal. Part of that plan requires targeted postsecondary education, such as skill certificate systems which can help small firms secure qualified employees to help them grow. Novel partnerships among industry, educators, and policymakers are also playing a role by preparing the workforce and incentivizing school completion. Such direct career paths between students and employers are vital.

Too many American workers in small businesses have been left behind. That is why creating incentives for training certification and apprenticeship programs lead to a better America. We should leverage the tools available to us in order to help small businesses’ owners thrive with a strong workforce.

Today’s hearing offers us the opportunity to discuss the challenges and solutions to help our Nation’s job creators prosper. Prudent investments in training and education will also lead to higher consumer confidence and demand.

I look forward to hearing from our witnesses on how we can ensure America’s small businesses are prepared to move our economy forward. I look forward to hearing and thanking the witnesses for being here.

Thank you, Mr. Chairman, and I yield back the balance of my time.

Chairman BRAT. Thank you.

If Committee members have an opening statement prepared, I ask they be submitted for the record.

I would like to take a moment to explain the timing lights for you. You will each have 5 minutes to deliver your testimony. The light will start out green. When you have 1 minute remaining, the light will turn yellow. Finally, at the end of your 5 minutes, it will turn red. I ask you try to adhere somewhat to that time limit. We are going to probably run an informal shop here today and just have a nice conversation. But if your opening remarks can stay in that ballpark, that would be great.

Our first witness is Dr. Michael Farren, a research fellow at the Mercatus Center at George Mason University. Dr. Farren’s research focuses include labor and economic development issues. He received his bachelor’s, master’s, and doctorate from the Ohio State University. I am from Michigan, footnote.

Thank you for being here this morning, and you are recognized for 5 minutes. Thank you.
Mr. FARREN. Thank you very much, Chairman Brat, Ranking Member Evans. And thank you for allowing a Buckeye to address you today.

I appreciate the opportunity to discuss the skills gap with you. And what I would like, if possible, for you to take away from this, my presentation today, is the economic perspective in addressing social problems in that the best way to address social problems from an economic perspective is to either reduce the cost of the social problem—or the social value—or to increase the cost of the social problem.

So in the case of training, if we have a skills gap and job applicants applying to businesses, then what we should do is reduce the cost or find ways to reduce the cost of acquiring new skills.

What this does is it allows for a bottom-up approach for individual people to figure out the exact way to solve the individual problems facing them and the individual problems facing businesses rather than a targeted mandated approach that says, okay, I think we need specifically more science and math, so we are going to fund more science and math in particular. But businesses know what they need better than we here in Washington. So we should give them the ability to figure out what that is particularly.

So along these lines, I have two policy proposals that might help address the skills gap problem. The first is to reform the Tax Code, and that is to allow for tax deductions in training investments to be counted exactly the same way that tax deductions for factory investments or machinery investments are done. So I am saying that to treat human capital investments the same way that we treat physical capital investments.

Currently, businesses can take a tax deduction on improvements in machinery or tools or additional training for workers in their current job. However, they can’t take tax deductions specifically for to train workers into a brand-new job. And so removing that will lower the cost of training someone exactly into the exact job the company needs and, as a result, should go a long way to actually addressing the skills gap, because companies won’t have to wait for the exact right worker to come along. They can find a high quality applicant and then train them directly into position.

It also makes training investments less risky for workers, because you are never quite certain if you are going to get a job when you engage in training prior to the fact. But if you already have a job and the workplace, the company is training you exactly in the
way that you need to be trained for the job, you are pretty certain that your training is going to be valuable to the company.

Secondly, something that I think is a good idea is to take a new look at disability aid programs and potentially redesign them. The important thing that we should do is to keep their valuable safety net for people who are unable to work, but look at whether they may be causing unintended consequences and inspiring people to stay out of the labor market longer than they otherwise would.

So recent research by Scott Winship with the Mercatus Center and my own research going forward looks at this and finds that the level of inactivity in the labor market has increased over time. So that is the number of people not working and who are not even looking for work.

In particular, over the last 50 years, the rate of inactivity in prime-age men, men between the age of 25 and 54, people who you would expect to be working, has more than tripled. Today we have over 7 million men who are not working and not even looking for work. And the major part of this increase has come because of men saying that they are disabled and physically unable to work, which is surprising given that the health of the general society and the number of workplace injuries has declined over time.

So to the extent that programs are not giving people an incentive to rejoin the labor force after they have healed and they could potentially is a problem, might be part of the skills gap problem. And importantly, a lot of these workers are in the later half of their career and so they have built up skills and experience that they could be teaching to younger workers. So if we address the problem this way, we might be able to address the future skills gap problem at the same time.

So in conclusion, I would advise hopefully an economic approach to solving problems, looking at the costs of a problem, but also addressing the potential mismatch of allowing for training programs to be treated the same way as physical capital investments in factory machinery and redesigning disability aid programs.

Thank you very much.

Chairman BRAT. All right. Thank you very much, Dr. Farren. I appreciate the testimony.

I remember after the financial crisis the inactivity piece. Greenspan and Bernanke were asked: What do you think the greatest harm from the financial crisis was? And they didn’t say the trillions lost in equity. They said loss of skills.

Mr. FARREN. Yes.

Chairman BRAT. Right? Folks being out of the labor market for a while, and then reentry is going to be a problem. And so your testimony is right on the mark.

Our next witness is Bruce Seilhammer, Electrical Construction Group manager at SECCO, Inc., in Camp Hill, Pennsylvania. This morning, Mr. Seilhammer will be testifying on behalf of the Independent Electrical Contractors. At SECCO, Mr. Seilhammer oversees electrical construction projects for the company. He is also a preparation instructor for the Master Electrician’s Exam.

Thank you for being here this morning to share your perspective on skills, workforce training. And you may begin your testimony. Thank you.
STATEMENT OF BRUCE SEILHAMMER

Mr. SEILHAMMER. Thank you, Chairman Brat and Ranking Member Evans and the members of the Subcommittee. I am honored for the opportunity to testify before you today at this important hearing. And as you said, my name is Bruce Seilhammer. I am the Electrical Construction Group manager for SECCO in Camp Hill, Pennsylvania. And I am here in behalf of the IEC, the Independent Electrical Contractors, which I am currently serving as the national president, and I am also here on behalf of our chapter in Pennsylvania.

Based in Alexandria, our IEC association has over 50 affiliates, training centers, representing over 2,300 electrical and systems contractors nationwide. And our membership consists primarily of small businesses, with the average contractors having around 30 employees, 20 of which are typically the electricians in the field.

And our purpose really is to establish a competitive environment for the merit shop, a philosophy that promotes free enterprise, open competition, and economic opportunity.

Before getting into the workforce challenges faced by the industry, I thought I would give you a little bit of my background. I am currently a licensed master electrician, and I am also a veteran of the United States Air Force. And I give credit to the Air Force’s electrical apprentice program for the skills that have contributed to my successful career that I have today.

I have been with my current company, SECCO, for 24 years, and I have risen up through the ranks and become part of the senior team where I oversee about 40 of our 90 employees in the construction management position.

And for decades, IEC has been on the forefront of providing highly trained electricians in the industry, and we are known for our registered apprentice program. And it is an earn-while-they-learn, and they incur little to no debt and then enter into a job at a median salary of almost $53,000.

And, again, the IEC’s apprentice program is certified by the Department of Labor, the Office the Apprenticeship and State Apprenticeship Councils. And in addition, the American Council on Education has recommended our students that graduate from IEC are eligible for 40 semester hours, 40 credit hours for college credits. And so collectively, IEC will train over 10,000 electrical apprentices in 2017.

As you are probably aware, electrical contractors, like the rest of the construction industry, continue to struggle to find qualified candidates to fill openings. According to recent research from the Associated General Contractors, among the trades, electrician was the second hardest position for their members to fill. And this challenge is expected to continue for the coming years, estimating there will be about a 14 percent increased demand for electricians through 2024.

Construction employers as a whole are experiencing trouble hiring new workers, with an estimated 500,000 skilled construction jobs currently vacant. A number of those different factors have contributed to the workforce shortages.

One of those is what we talked about, is a lot of the folks have, in fact, left during the recession. In addition, much of the skilled
workforce is planning to retire in about the next 10 years. Three million of the current 14.5 million construction workers are looking to retire and leave the industry. And I think the average age right now of the construction worker is 54. That is a high average, right?

So, unfortunately, our industry can't keep up with the demand. The cultural shift in our country over the past few decades has definitely had an impact on this. A significant emphasis has been placed on young people to attend a traditional 4-year university, and a career in the trades is rarely discussed as an option. And parents have grown to believe that the primary pathway to a successful career and the American Dream is through a traditional college education.

Not helping matters is that many jurisdictions judge the success of their high schools on the number of students that attend college. So these guidance counselors and school officials have less incentive to suggest students consider entering an apprentice program like the IEC has to offer.

This, along with enormous subsidies by the government in the form of student loans, has made it easier for students to pay for college without fully understanding the massive debt they are incurring and no guarantee of a job that is going to pay off.

Another factor contributing to the construction industry worker shortage is the lack of exposure of young people to skilled trades early as a viable career path. Across the country, we are seeing less investment in vocational or career technical education, CTE programs in high schools. These programs offer students the opportunity to work with their hands early on.

And every day, the IEC chapters and contractor members aggressively search for people interested in entering our apprentice program. I can tell you at my company we work with local high school Vo-Tech programs and promote the opportunities that come with being an electrician. I personally sit on both of the occupational advisory committees for both of our Vo-Techs locally, and we are able to hire those folks and bring them on board.

I know I am running out of time. But, you know, to really address some of the labor shortages in the short term, some of the things that we will do as IEC members is we will share labor back and forth with our competitors and those kind of things and bring on temporary help. And there is a lot to do. And since all of the trades work together typically have some impact on each other.

So I can give you a prime example. We are on a project currently that is 2 months behind because the concrete guys didn’t have enough help. And you can’t put the rest of the building up without the foundation. And those are the things that we are constantly running into.

So I won’t drone on too long. But in closing, I just want to express our willingness to work with this Subcommittee and Congress and the ability to find practical solutions to address the workforce shortage. So I thank you for the opportunity today.

Chairman BRAT. Thank you very much, Mr. Seilhammer. We appreciate your testimony. And I have a couple of questions that you provoked some interesting issues for us.

Our third witness is Carlos Castro, president of Todos, Inc., in Woodbridge, Virginia.
Thank you for being with us.
This morning, Mr. Castro will be testifying on behalf of the National Grocers Association. Founded in 1990, Todos Supermarkets now has two locations in Virginia which employ roughly 170 people.
Thank you for being here this morning, and you may begin your testimony. Thank you.

STATEMENT OF CARLOS CASTRO

Mr. CASTRO. Good morning, Chairman Brat, Ranking Member Evans, and members of the Subcommittee. My name is Carlos Castro, and I am the owner of Todos Supermarkets, located in Woodbridge, Virginia. I have been asked to testify by the National Grocers Association on behalf of the independent supermarket community. The National Grocer Association is the national association representing the retailers and wholesalers that comprise the independent sector of the supermarket industry, including full service supermarkets, such as Todos, and multistate regional chains.

Todos Supermarkets was created in 1990 and aims to fulfill the needs of an increasingly diverse community. To help better serve our customers, we have expanded our offerings beyond groceries and offer money transfer services, notary, insurance, and tax preparation services. We even have a U.S. post office in house.

As the saying goes, good help is hard to find. But at Todos, we have placed an added emphasis on youth hiring practices that allow us to train workers and create an inclusive culture that allows us to retain our employees for the long run. Our various offerings have also allowed us to attract a diverse array of talent and keep our employees on their toes as our business continues to expand and change.

But costly regulations often take up too much of our time and resources and have served as a serious barrier to hiring. According to National Grocers Association survey data, the average grocer can expect to spend between $40,000 and $50,000 a year in regulatory compliance per store per year. In an industry with 1 to 2 percent profit margin, that is a significant amount of resources to be taken away from store improvements, additional staff, or expanded offerings.

The Affordable Care Act mandate on small business serves as a perfect example of regulations with good intentions that have created an additional burden for our businesses. Todos Supermarkets was committed to offering healthcare to employees before the healthcare law was implemented. We were not only proud that we could cover our employees with affordable healthcare, but it was a hiring incentive that improved both recruitment and efforts to retain hardworking employees.

Now that all businesses of our size must offer healthcare plans under the ACA, we can no longer use our healthcare program to differentiate our company, and our expenses have gone through the roof. If Todos had not diversified our offerings, we would certainly have been forced to close our doors due to the increasing financial strains regulations have caused.

Congress and the regulatory agencies have taken steps recently to lighten the burden on small businesses like mine. The recent
Federal District Court order overturning the Department of Labor overtime rule, as well as the decision by OMB not to implement the EEO-1 pay reporting regulation, have been a step in the right direction. While there is no one single regulation dragging the heaviest on small businesses, the sheer volume of regulation that require compliance is what is holding us back.

Finally, with a workforce and customer base that is heavily comprised of the Latino population, I feel compelled to address President Trump’s decision to end the Deferred Action for Childhood Arrival, DACA, program. Immigrants who come here children as part of families seeking a better life should not be punished for the decision of their parents. Some members of our team utilize the DACA program, and they are some of our hardest workers.

While I understand there is a good argument on both sides as to whether DACA passes constitutional muster, it is clear that the fate of 800,000 young Latinos is now in the hands of the legislature. I urge Congress to act swiftly to find a solution to this issue and to consider the potential harm that could come from failure to act, not only to our businesses but communities and families as well.

At Todos, we often say, if you have a positive attitude and work hard there is no limit to how high you can rise. With business, it should be the same.

I would ask our representatives to continue to look for opportunities to unshackle businesses from their heavy regulatory burden and let businesses like mine see how high we can go.

Thank you.

Chairman BRAT. Thank you, Mr. Castro. And your testimony shows how all these issues are interlinked, especially with the regulatory examples you gave. We appreciate your testimony.

And now I will yield to our ranking member for introduction of our final witness.

Mr. EVANS. Thank you, Mr. Chairman.

I am pleased to introduce Mr. Gardner Carrick. Mr. Carrick is the vice president of strategic initiatives at the Manufacturing Institute, a research and policy institute in Washington. He leads the institute’s research activities and the development of a national education data center to deliver outcome information on education programs.

He previously worked at the U.S. Department of Labor, where he worked to integrate the workforce development, economic development, and education strategies of a region to create a talent base for economic growth. He attended Carnegie Mellon University, which is in the great city of Pittsburgh. He received a degree in policy and management.

Welcome.

STATEMENT OF GARDNER CARRICK

Mr. CARRICK. Thank you. Chairman Brat, Ranking Member Evans, and members of the Subcommittee, thank you for the opportunity to testify today about the workforce challenges facing our small manufacturers.

As you said, my name is Gardner Carrick, and I am the vice president of strategic initiatives at the Manufacturing Institute.
We are affiliated with the National Association of Manufacturers, which is the largest industrial trade association and voice for over 12 million men and women that make things in America.

It is mission of the institute to attract, train, and develop the world class talent that manufacturers need to compete in a global economy. There are over 250,000 manufacturing companies in the U.S. today, and over 90 percent of them have fewer than 100 employees. They provide good jobs in every city, town, and community in the country. And today, manufacturing is enjoying a renaissance in the U.S.

Since the end of the last recession, manufacturing companies have added over 1 million jobs. And this year alone, companies have added nearly 140,000 new jobs. Those are really good numbers for manufacturing in the last 25 years.

While times are good for manufacturing in the U.S., there is a present and growing challenge for manufacturing companies: They are unable to find people with the skills for their open positions. According to the U.S. Department of Labor, there are nearly 400,000 open jobs in manufacturing. And a study done by Deloitte and the Manufacturing Institute estimated that there could be as many as 2 million unfilled positions by 2025.

So I thought I would use the reminder of my time today to talk a little bit about what manufacturers are doing to try to address this problem.

In Tucson, Arizona, a group of 20 small manufacturers formed an organization called the Southern Arizona Manufacturing Partners. Working with the local high school district, Pima Community College, and the workforce system, they created a 20-month apprenticeship-style program. This innovative program has enabled small companies to aggregate their skill demands and hiring requirements, and several dozen students are now participating in the program.

In another example, across 9 states and 20 community colleges there is a manufacturing-led program called the Federation for Advanced Manufacturing Education. Originally started by Toyota in Kentucky, hundreds of small companies now participate in a five-semester apprenticeship-style program where students spend 3 days a week at work and 2 days a week in school learning the skills to be an advanced manufacturing technician. This is an excellent example of how larger companies support and partner with smaller companies to create the benefits for the entire industry.

And, Congressman Kelly, Itawamba Community College is one of those participants.

There is also a long-term concern, though, and that is the number of young people willing to consider and pursue a career in manufacturing. This has been a multi-decade challenge for manufacturers, and the Manufacturing Institute is supporting programs that help students experience today's manufacturing in hopes that they will pursue careers in the industry.

Five years ago, the institute and NAM helped create a new nationwide showcase for our industry called Manufacturing Day. Companies would open their doors on the first Friday of October and invite the community in to see what manufacturing is really
all about today. That showcase has now grown to nearly 3,000 events and over half a million participants last year.

In southern California, a small aerospace part supplier called ACE Clearwater has made Manufacturing Day a really big deal for them. Last year, ACE had over 500 parents, teachers, and students participate. They brought out exhibits in 3-D printing, virtual reality headsets, and welding simulations and let the students really experience what state-of-the-art manufacturing is about.

And finally, in Pennsylvania there is a competition that pairs a team of eighth-grade students with a local manufacturer where they interview employees and executives and film the operations of the plant. The students then create and narrate a video about what is so cool about manufacturing.

The results in Lehigh Valley have really been stunning. This is where the program started. Last year, over 800 people attended an awards banquet where they gave awards to the best videos created. But most importantly, the manufacturing programs at the local technical high school have seen a 60 percent increase in enrollment since this program started 5 years ago.

The video competition has now gone Commonwealth-wide, with 200 middle schools partnering with 200 manufacturing companies to create videos in eight different competitions. A very, very interesting program to gain experience and interest in manufacturing for people just as they are starting to decide what career to pursue.

So, Mr. Chairman, the manufacturing sector has struggled to find the right workers, and it is really impacting our ability to grow. But companies large and small are creating and participating in programs that will solve this challenge.

Manufacturing Day is on October 6 this year. That is less than a month away. And I encourage all of you to try to attend an event that day and see what manufacturing is like in your district.

So thank you for the opportunity to testify this morning on behalf of U.S. manufacturers.

Chairman BRAT. Thank you very much, Mr. Carrick. We appreciate your testimony.

And so I will just lead off with a general question. This issue can get a little contentious, because there are always two sides, right? On the one hand, you are giving me just example, example, after example of $50,000 jobs which can’t be filled, right, in great career vocations, whatever. You mentioned there is a cultural shift. And on the other hand, there are plenty of examples. People say, “Hey, here is this job offer,” and people are lined up around the block, right? People can’t find jobs, right?

And so I taught college for a while, and I don’t know right, about the culture shift piece, or whatever. I am still kind of a free market guy at heart. There is something going wrong when you have got $50,000 jobs that aren’t getting filled.

I just want you to all kind of—what would you do if you are in our spot? Is it a cultural piece? Is it a skills piece. The schools—the programs you mentioned are great. I applaud all the folks who are doing it. And in our K-12 system we all do these little programs, but they are kind of Band-Aids, instead of just a whole systemic change in K-12.
Back when I went to K-12, the teachers, no matter what class you were in, if you are in English class, they would tell you about writing a business memo. But now everyone is just—the only metric that you are measured on is the SOL test score. And like you said, the measurement is getting kids to college. I think Mr. Seilhammer mentioned that.

And so if you were us or if you could wave a wand and change the cultural component, I mean, what is the big solution that has to happen? And think big. I mean, President Trump, he has got a bully pulpit, right? He ran a show called “The Apprentice,” right? I have I told his people, get out at that bully pulpit, right, and do the apprenticeship thing, right? I mean, this is huge.

But what would you do if you had carte blanche? Where is the biggest issue you see? If you all just want to kind of go quickly, starting with Dr. Farren and then just go right down the queue.

Mr. FARREN. Thank you, Chairman Brat.

...
those programs that Mr. Carrick talked about, things like that matter. Getting involved with the high schools matters.

And the other side of it, as Mr. Castro talked about, is getting rid of some of the regulatory stuff. I can tell you, in Pennsylvania, just locally, we are hamstrung by the ratios. We have to have three journeymen for one apprentice on a job site. That is three supervisors for one guy.

Well, let’s face it, the bottom is, when you have three people in charge, nobody is in charge, right? When everybody is responsible, nobody is responsible. So get rid of some of those regulatory things that are making us hamstrung.

Think about it. If it was a 1-1 ratio—or in Colorado, it is the other way, it is 3-1. One supervisor, three apprentices. Holy cow. We could put a whole bunch more people to work, couldn’t we?

Chairman BRAT. Right. Very good. My time has expired. I will now yield to the ranking member, Mr. Evans, for 5 minutes.

Mr. EVANS. Thank you, Mr. Chairman.

Mr. Carrick, are you familiar with a book called “Other Ways to Win”?

Mr. CARRICK. I am not.

Mr. EVANS. Okay. It was written by a gentleman by the name of Dr. Gray in Pennsylvania. I am going to piggyback a little bit on what the chairman raised on this larger issue. When he talked about other ways to win, he talked about we have sort of like a tradition thinking the way we approach.

And I am a strong advocate in the area of manufacturing, because in Pennsylvania, as you know, tool and die makers, and we are at that critical age of transition in population and how we make that particular transition.

So you point out an example. And I am familiar with Lehigh Valley and what has taken place there. The Delaware Valley Industrial Resource Center, is that a model that you think that could be used?

Mr. CARRICK. I do. I think they have done a lot of good work. The Pennsylvania MEP programs, including the Manufacturers Resource Center in Lehigh Valley and DVIRC in the Philadelphia region, both do a very good job.

Mr. EVANS. Right. Right. Right.

But do you see—because what I see is sometime taking examples and building on those type of examples. So can you speak to a little bit about the examples? Because we talk about looking at it from a national perspective.

Mr. CARRICK. Sure.

Mr. EVANS. And obviously the culture is different State by State, location by location. Can you speak little bit to that?

Mr. CARRICK. Sure.

So, unfortunately, the examples that I gave are the exception, not the norm. There are not enough of these across the country. I mean, that includes the apprenticeship approach, whether it is a formal register apprenticeship or a more informal system, or the ability to aggregate that demand in a region for small manufacturers so that instead of needing 2 jobs, the 10 companies combined need 20 or 25, and that gets a lot more attention.
So groups like DVIRC and Manufacturers Resource Center are there to actually play that sort of coordinator or hub role where they can speak for and aggregate the voice of manufacturers in a region.

Unfortunately, there are too few organizations like that across the country that are able to successfully aggregate those voices or help to navigate the education system. And, frankly, the manufacturers sometimes are unwilling or unable to navigate the educational bureaucracy to successfully set up apprenticeship programs. So groups like DVIRC are important for that.

Mr. EVANS. But my understanding, in Japan and in Germany they used teaching factories. Are you familiar with that?

Mr. CARRICK. I am. Unfortunately, those systems are different from the bottom up. And Chairman Brat mentioned waving a magic wand, right? So you would have to really change everything from the bottom up to recreate a German or a Japanese style program.

I think there is an opportunity for us to take what is great about America in terms of individual choice and the ability to pursue your dreams but still set up the right system such that individuals can actually achieve a skill set that enables them to live those dreams.

Mr. EVANS. But would you not agree, if we are going to—you know, the President talks about economic growth in the ballpark of 3, 4 percent. And, obviously, we haven't been able to get there.

Mr. CARRICK. Yes.

Mr. EVANS. So if we are going to get there, we are at a point where we do have to do something radical. Would you not agree?

Mr. CARRICK. I do.

Mr. EVANS. Okay. So that is kind of why I talk about Germany, I talk about Japan, and what they have done. I mean, clearly, some rethinking, redesigning in our thinking. Because if we don't, you know, we can kind of hodgepodge or we can kind of—do we kind of go for the gusto is the issue I am really trying to push and raise with you.

Mr. CARRICK. I would love to go for the gusto in terms of the intersection or the integration of companies with the education system. But we need to properly incentivize the companies to do so. And how that happens is up to you all. But companies take on a great deal of risk when they are training individuals, oftentimes only to see those individuals leave for other jobs.

Mr. EVANS. But that sort of fits back to what Dr. Farren talked about, is using the Tax Code as an example to make that structure change. I assume that is what you are referring to, right?

Mr. FARREN. Yes, Ranking Member Evans, that is exactly what I was referring to, allowing companies to do their own training and treating training as if it were investments in factory machines.

Mr. EVANS. Right. I mean, if we are going to change, and using the Tax Code, what I am understanding, using the Tax Code. I talked about Germany and Japan. But if you want to make that kind of change, you are going to have to do something if you are going to get the growth numbers that we talk about as a country.

Mr. CARRICK. Yes, sir.
Mr. EVANS. I thank you and yield back the balance of my time. Thank you, Mr. Chairman.

Chairman BRAT. Thank you very much.

I would like to recognize the gentleman from Mississippi, my good friend, Mr. Trent Kelly.

Mr. KELLY. And hopefully we won't need an interpreter for these guys, Chairman. Thank you, Mr. Chairman, and our ranking member.

This is a very important issue to me. And I come from an area that is booming right now. But we have still got a long way to go as far as creating workforce. And Itawamba Community College is a huge part of that, as are Northeast and Northwest Community Colleges in different areas of my district. But we have a great community college system in Mississippi, which I am a product of and a graduate from the educational side. But there are two sides to it, and both of them are very, very valuable.

I grew up in a world where I often heard, “I am the first member of my family to graduate from college.” I grew up in a world where men were ashamed not to have calluses on their hands to a world now where men are ashamed to have calluses on their hands. That shows that they have to work hard for a living. But in the world that I grew up in, men were embarrassed not to have calluses on their hands.

So it is a traditional shift in what we think is important, and it should always be about a ways to an end. Whether you get a college degree or a trade and skill or an apprenticeship, it should be about what do I want to do, and it should be about earning power. And we have lost that and turned that where people just think they need a college education and that college are now just the end. It is like, if I get a college education, I am successful. No, you are not. That is a ways to an end.

And so how do we shift that—and I want each of you—to shift that where we as Americans now put the earning power and the skills that that person brings to the table and we put that on a higher plain than we have a college education where everyone thinks they need one and deserve one today?

And we will start with Mr. Carrick and come back the other way, since we have left out other folks going the other way.

Mr. CARRICK. Sure. I think that that is based on some 50-years-ago thinking, which was that—and it was only a very small, single-digit percentage of the population that earned a college degree. So that really was the ticket to a good job and steady wages and a successful life.

These days there are many different pathways, and it does not specifically include a bachelor’s degree. I mean, it includes an associate’s degree, it includes industry-based credentials, it includes an apprenticeship.

So understanding that the educational credential or the path does not—there is no single educational path that leads to success is the best way, I believe, to ensure respect for all educational pathways that can lead to good jobs.

Mr. KELLY. Mr. Castro.

Mr. CASTRO. Thank you, Mr. Kelly.
We have a gentleman that came to us 7 years ago through a program where I was reimbursed for the wages that I paid the gentleman that came along with another three workers that I acquired at that time through that program. He is the only one that stayed. Immediately we noticed he started to succeed in his ability to think and to thrive. So we pay a lot of attention to him like we do with anybody else.

But I am happy to tell you that he is making over $100,000 in our company. He doesn't have not even half of an associate degree. And I parade him—not just him, but the rest of the people that work with me that are in management, that I brought them from the ground up—because we are in an industry that people don't look up to when they are looking for a career or a job. People my age, they will say, “Oh, I used to bag groceries here and there.” You don't hear that anymore on younger people, you know, we have made it so easy.

But my point, when I go to talk to, whether they are elementary school students or high school students or grown up, it is all about your attitude and how to work that will get you wherever you are. And, of course, not to toot my own horn, I just tell them, this is what we have achieved as a family, and you can do so, too.

So we need to change that, and it has been said here all along, we need to change that culture. It is hard work that gets you wherever you want to succeed.

Mr. KELLY. I agree.

And that is my whole point, Chairman, is my dad had a high school education. He was plant manager and very regional in the furniture industry because he learned how to work every machine in that factory and he got the best at his job and he was a visionary. And he understood the engineering parts of it. He had an engineering mind better than some of the other people who had engineering degrees, even master's and further degrees.

We need to get back where it is not what kind of education, it is where you want to go and what best gets me that, and it is being a visionary and a leader and being the best at your job, whatever that trade or skill is, whether it is a college education or welding.

And I thank you, Mr. Chairman. I yield back.

Chairman BRAT. Thank you very much.

At this time, I would like to recognize the gentlewoman from Florida and my good friend, Stephanie Murphy.

Mrs. MURPHY. Thank you, Mr. Chairman.

And thank you all for your testimony.

You know, when I go out in my district and I talk to the employers in a wide cross section of businesses, whether it is construction, manufacturing, tech, healthcare, even call centers, the number one challenge that they tell me they have is recruitment and retention of qualified employees. And so I am particularly grateful for your perspectives.

I find it interesting that I am hearing that from employers in my district, because I have a district that has probably one of the most diverse and robust postsecondary education systems. We have the Nation’s largest university, the University of Central Florida, with over 65,000 students. We have a couple of community college institutions, Seminole State and Valencia College, and we have a great
liberal arts, Rollins College, and then a handful of career and technical education and private institutions. So a really diverse and robust education system. And yet still, when it comes to our labor force in the area, the number one issue is recruitment and retention of qualified workers.

So in Dr. Farren's testimony, you identified the two possible causes of this skills gap that could be related to our education system. And the first is the idea that the schools might not be teaching students the exact skills necessary for the work that the employers need. And the second is the guessing game that students have to play when choosing to invest in higher education, because they are unable to forecast what skills that will be needed by their employers in the future.

And in a 2012 McKinsey report, it found that 72 percent of higher education institutions believe that graduates are fully prepared for the workforce while only 42 percent of the employers agree. So that seems to indicate that there is a communications gap between higher education institutions and the industries for which the schools are ostensibly preparing the students.

I am working on a piece of legislation now to implement an employer needs survey in which we would collect voluntary feedback from employers across industries on workforce needs. And then this publicly available feedback would be provided to colleges and universities so that they can make adjustments to their curricula to ensure that the graduating students are ready to join the workforce on day one.

Could you all provide your thoughts on whether you think such a feedback loop would be valuable in closing that skills gap? And then do you think that higher education institutions would be willing to incorporate that kind of feedback into their curricula? And then, more generally, have you all had any experience working with institutions of higher education to help convey skills needs suggestions?

Thank you.

Mr. FARREN. Thank you, Representative Murphy.

So, yes, your idea dovetails very closely with my idea that we need to address the costs of acquiring new training. And I think that the survey that you propose could be very valuable. But perhaps, going back to my initial suggestion of simply allowing employers to take a tax deduction for training, it wouldn't have to be in-house training. It might be outsourced training. Essentially what you would be doing is creating markets for training new workers in the same way that has kind of already been discussed here, but more official markets for it.

And what that would do is create a price signal for the local secondary institutions to say, “Oh, we really need to respond to this new demand because there is profit in it for us to respond to that demand rather,” than them saying, “Okay, well, we think that our employers in our district need more math and science or welding,” or what have you, and trying to create programs for that, which is kind of a roundabout way of solving the skills gap rather than the direct way of say what you need and then go out and purchase what you need.

Mrs. MURPHY. Great. Thank you.
Any of the others witnesses have comments on that?

Mr. SEILHAMMER. Sure. I will comment about it a little bit.

You know, one of the things you asked about is, you know, you mentioned that the universities and so on, and then the career fields they go into, do they have the skills that they need. And what was that, 42 percent said no.

Well, I can give you a personal experience on that. My son, who, sorry to say, graduated from Penn State—actually, I am not sorry to say—but he graduated with an electrical engineering degree. At the same time he was going to school, he worked for our company for 9-1/2 years in the electrical field. And so he has now got a great opportunity. He has moved down to Nashville. He is working with a $30 billion global company. But he is in a group with 24 new engineers.

And I have asked him. I said, “So, you know, in the time that you are down there and you are going through this 3-months training program with the new engineers,” I said, “how many times did you reference the work that you did in college?”

“Zero.”

I said, “How many times did you reference the work that you have done in the field for the last 9-1/2 years?”

He said, “Daily.”

So there is a huge gap in what they think they need and what they really do need. And that is one of the great things about going to the Vo-Tech programs, is some of these folks that are already in the electrical program or the mechanics program, whatever they are doing, and getting in there and getting them—you know, we have got a—we had a young man that co-op’d with us. So while he is going through his senior year in high school last year, half a day he is coming to our shop and working in our prefabrication shop. He is getting experience with tools, terminology, the understanding of how things go together.

So we are doing our best. I mean, we are a small company. And kind of like Mr. Carrick said, you know, jeez, it would be nice if everybody was doing this. And then if you want to talk a little bit about where could the help be, well, we are a small company, we are footing the bill for this. And we pay for all of our apprentice classes and everything they go to, and their books. Holy cow, it would be nice to have a little help to do that for sure. I mean, fortunately, our company owner is huge on education, and he believes in growing people. And so there is a lot to be said for that.

Mrs. MURPHY. Great. Thank you. Thank you for sharing your personal story.

And I am out of time, so I will yield back.

Chairman BRAT. I think we can run an informal shop. If you want to—did you have any——

Mrs. MURPHY. Just if anybody else had any other comments, but other than that, yeah.

Chairman BRAT. Sure. Mr. Castro.

Mr. CASTRO. I have a comment. I was majoring in industrial engineering when I had to leave El Salvador due to a civil war. So I found myself here in D.C., actually in Georgetown, doing dishes and toilet cleaning and other kind of stuff. But it was fun, you know, make a buck.
But after I learned English and was able to enter Northern Virginia Community College, which I proudly serve on the foundation board nowadays, I didn’t know what to do. So I took some classes. One of the classes was called Career Awareness, if I remember it well, it was like a century ago.

But at the end of the class, I was so pleased that, you know, anything that I thought, it was completely wrong. The teacher told me, “You have a background in construction, you have a background in engineering. Construction is good here in the Washington area. I think your easiest way to progress is construction.”

And I did follow their advice, and I worked in construction for about 15 years, made my money there, and then we went into the supermarket business.

So I thought that. And everything I always, you know, trying to do whatever I can to help Northern Virginia Community College because they played a big role in finding my direction. So maybe we can do the same for other young adult people to help them find the right direction.

Mrs. MURPHY. Thank you.

Mr. CASTRO. Thank you.

Mr. CARRICK. So, Congresswoman, we have thought about what you are describing, and we think of it as a signaling problem.

Essentially, the way the market is set up is that employers indicate the skill set that they need through what amount to want ads, right? So I need a welder. Well, you need to unpack what it is that you need in that welder in order to actually tell the education system what skill set to train.

And then you need to aggregate those signals within a given regional economy so that it isn’t just 1 company or 2 companies, but it is 40 or 50 or 100 companies whose skill requirements and job demands are aggregated, such that they can then properly signal both the high schools and the community colleges and the universities and other private training providers that collectively we have a demand for 200 welders, 50 percent of whom require this skill set, 40 percent of whom require this skill set.

So I would say there is a need for better clarity in signaling. How we actually get there, I think, is the big question. So I am happy to discuss further as your bill proceeds.

Mrs. MURPHY. Great. Thank you.

Thank you, Mr. Chairman.

Chairman BRAT. Thank you, Stephanie.

Thank you, Dwight.

I want to thank the witnesses for your participation today. Up here it is kind of you have got to make some noise. And so I think it is valuable to schedule these hearings to remind us of the most important issues and just to keep it on our radar. And so don’t go away and be quiet. Keep making noise, spreading the new culture that we have got to gets to the kids.

That is the mystery, right? I mean, there is a $50,000 signal being sent out in economics land, right? And young people aren’t hearing that one.

And I will just close on a joke. When I taught the kids, I would always say, “What are your plans there, Ms. Johnson or Mr. Smith,
whoever, and what are you going to do when you are done with college?"

"Well, I am going to go skiing in Colorado for a year or something."

I am like, "Okay," right? I get done lecturing on the debt and all these issues and they are going to go off.

So there is a signal, right, the $50,000 signal is not hitting this generation for some reason. So I applaud you for all the good ideas. You all gave us very good ideas and input.

Mr. Seilhammer, quick question.

Mr. SEILHAMMER. If I could speak to that real quick. I had the fortunate ability a couple of years ago, I listened to Bill Bennett, who wrote "The Book of Virtues," and I got to listen to him at Messiah College in Pennsylvania.

Chairman BRAT. Yeah.

Mr. SEILHAMMER. And, you know, one of the comments he made—you talk about going back to fundamentals, and I share this at my commencement speeches that I have done this year—but one of the issues is, he says, you know, a lot of people are saying, jeez, we need better kids. And the truth and the fact is, no, we need better parents is what we need. So that is as fundamental as it gets.

Chairman BRAT. Yeah. That might be the signal strengthener that we need to put forward.

So on that note, I mean, help spread the word. Keep us all working together as a team.

I ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record. Without objection, so ordered.

Chairman BRAT. This hearing is now adjourned, and thank you all very much. And thank you to the staff who always makes this possible.

[Whereupon, at 11:05 a.m., the Subcommittee was adjourned.]
Good morning, Chairman Brat, Ranking Member Evans, and distinguished members of the House Small Business Committee’s Subcommittee on Economic Growth, Tax, and Capital Access.

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

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

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

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

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

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

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

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The ideas presented in this document do not represent official positions of the Mercatus Center or George Mason University.
IS THERE A SKILLS GAP?
The first question that needs to be addressed is what is meant by a “skills gap” and whether one actually exists in the first place. This is important because the determination of what skills are missing depends on whom you talk to. The skills gap is often conceived of as being a lack of technical knowledge, such as familiarity with computer software or healthcare training. For example, the National Federation of Independent Business reported that 45 percent of small businesses surveyed in early 2017 were unable to find qualified job applicants. In addition, a 2016 survey released by workplace analytics firm PayScale and executive development firm Future Workplace found that a majority of hiring managers believed that recent college graduates lacked functional skills, such as critical thinking and writing proficiency. Furthermore, much discussion has revolved around a deficit in “soft” skills such as teamwork, communication, and work ethic.

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

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

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

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

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8 In defense of “millennials,” however, it should be considered whether every generation of managers might generally view the rising generation of youthful workers as being somewhat deficient compared to their own generation.
workers who have the right combination of skills—practical, tool-using abilities; IT expertise; and teamwork aptitude—needed to be effective in modern manufacturing.13

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

There is some evidence that many younger workers have indeed "guessed wrong." Over the past decades there has been a rise in "underemployment"—highly trained or educated persons working in jobs that do not require the college degrees or training certifications they possess.14 This suggests that many workers have indeed paid for education investments that, to some degree, were wasted.15

A contributing factor to the skills gap could be the declining labor force participation rate (LFPR). The national prime-age male LFPR has declined from around 96 percent in 1970 to 88.5 percent in 2016.16 Most of the decrease corresponds to more men reporting problems with physical or mental disability and a corresponding inability to work,17 if the men leaving the workforce are generally older and more experienced, especially in jobs that are increasingly technical-skill intensive like mining, manufacturing, and construction, then their absence might contribute to a skills gap, especially if they would have been responsible for training less experienced workers.

Forthcoming research from the Mercatus Center suggests that increased participation in state and federal disability benefit programs is correlated with the number of prime-age men reporting that disability prevents them from working. The increased participation in disability benefit programs has occurred despite falling mortality and injury rates and general improvements in health status for prime-age men.18 If government aid programs have contributed to reduced labor force participation, and if those workers leaving the labor force are more likely to be experienced or otherwise higher skilled, then such programs may bear some responsibility for the skills gap that employers face.

14 This situation might simultaneously indicate that employers in general did not need the number of workers with the given degrees or training certifications—that the skills were indeed valuable, but job seekers oversupplied the market. However, this explanation is essentially equivalent to saying that some workers, though not all, made the wrong education investment. On the other hand, it should be noted that advanced education, even if it is not relevant to the job in question, may be a signal to the employer of a generally higher-quality worker, giving those candidates who invested "wrongly" an advantage over other candidates who did not make the "wrong" decision.
15 Prime-age men—those between the ages of 25 and 54—are generally expected to have the highest LFPR. Women's prime-age LFPR peaked in the late 1990s and has slightly declined since that time. Scott Winship, "What's Behind Declining Male Labor Force Participation? Fewer Good Jobs or Fewer Men Seeking Them?" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, forthcoming).
16 It should be noted that some decrease in the prime-age male LFPR has been owing to men retiring early or leaving the workforce owing to family responsibilities, but increasing disability by far represents the largest driver of declining LFPR; Winship, "What's Behind Declining Male Labor Force Participation?"
17 Winship, "What's Behind Declining Male Labor Force Participation?"
SOLUTIONS TO THE SKILLS GAP

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

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

Agriculture represents a good example of how the application of increased knowledge and technology has revolutionized an industry and benefited the nation. In 1900, 41 percent of the US workforce worked in agriculture. By 2000 that share had fallen to 1.9 percent, even while productivity more than doubled in just the last 50 years of that time period.\(^{19}\) And similar to the changes in technology in the modern economy, agriculture shifted from using 22 million work animals in 1930 to using 5 million tractors in 2000.\(^{20}\) Now farmers are even using information technology to more accurately plant and water crops, as well as apply pesticide and fertilizer in more appropriate amounts, resulting in less waste and more sustainable farming practices.\(^{21}\) All of this has required farmers to be open to continuous updates to their knowledge and training.

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

1. Current tax law allows employers and employees to deduct the cost of training and education that makes workers more productive in their current positions. This is similar to the deduction allowed for purchases of physical capital that enable higher productivity. However, this deduction is specifically prohibited for investments in human capital that prepare a person to take on a wholly new type of work.\(^{22}\) This might help explain the fact that relatively few firms budget for employee training programs.\(^{23}\)

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\(^{18}\) The term “creative destruction” was popularized by Joseph Schumpeter: “The opening up of new markets, foreign or domestic, and the organizational development from the craft shop to such concerns as U.S. Steel illustrate the same process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.” Capitalism, Socialism, and Democracy (New York, NY: Harper and Brothers, [1942] 1950), 65.

\(^{19}\) US Department of Agriculture, The 20th Century Transformation of US Agriculture and Farm Policy, June 2005.

\(^{20}\) Ibid.

\(^{21}\) US Department of Agriculture, Farm Profits and Adoption of Precision Agriculture, October 2016.

\(^{22}\) Human capital is a general term for investments in education or training that make a person more productive, in much the same way that investments in physical capital (e.g., machines) can make a factory more productive.


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

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

CONCLUSION
It seems indisputable that a skills gap does exist in the labor market, but importantly, this issue is probably best characterized as being unique to each company. And since each individual firm has the best information on what particular skills it needs, the best path forward from a government policy perspective would be to change tax laws to encourage companies to invest in worker training.

Importantly, though, any tax code changes should be broadly based and available to all workers and employers, rather than favoring some industries or skills over others. Additionally, programs and policies that reduce the potential workforce available to employers should be reformed.

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

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

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

Testimony

of

Bruce L. Seilhammer
Electrical Construction Group Manager
SECCO Electrical Construction & Service
On behalf of the
Independent Electrical Contractors

Hearing

on

"Examining the Small Business Labor Market"

Before The
Small Business Subcommittee on
Economic Growth, Tax, and Capital Access

United States House of Representatives
September 7, 2017
Chairman Brat, Ranking Member Evans and Members of the Subcommittee, I'm honored for the opportunity to testify before you today at this important hearing, “Examining the Small Business Labor Market.” My name is Bruce Seilhammer. I am the Electrical Construction Group Manager for SECCO Electrical Construction & Service, based in Camp Hill, Pennsylvania. I'm here today on behalf of the Independent Electrical Contractors (IEC), of which I'm currently serving as president, as well as my chapter, Central Pennsylvania IEC, which is located in Mechanicsburg, Pennsylvania.

Based in Alexandria, Virginia, the Independent Electrical Contractors is an association of over 50 affiliates and training centers, representing over 2,300 electrical and systems contractors nationwide. IEC's membership consists of primarily of small businesses, with the average contractor member having around 30 employees, 20 of which are electricians. IEC’s purpose is to establish a competitive environment for the merit shop—a philosophy that promotes free enterprise, open competition and economic opportunity for all. IEC and its training centers conduct apprenticeship training programs under standards approved by the U.S. Department of Labor’s (DOL) Office of Apprenticeship. Collectively, in the 2017 school year, IEC will train more than 10,000 electrical apprentices.

Before getting into the workforce challenges faced by the electrical contracting industry, I though I'd give you a little bit about my background. I am a licensed master electrician and a veteran of the United States Air Force. As a young high school graduate, I was like many, unsure of my career path. Tired of the traditional classroom setting, I took an interest in joining the armed forces and ultimately joined the United States Air Force in 1982, entering their apprenticeship program for electricians. The on-the-job training (OJT) and related classroom instruction provided me the education and skills necessary to become a journeyman electrician. Upon my honorary discharge from the service in 1986, I then passed the Connecticut journeyman's test and received my license.

I give credit to the Air Force's apprenticeship program for the skills that have contributed to the successful career I have today in the private sector. I have been with my current company, SECCO, Inc., for 24 years and have risen through the ranks to become a part of its senior team, where I oversee over 40 of the company's 90 employees in a construction management position.

For decades, IEC has been on the forefront providing highly trained electricians to the industry through its Registered Apprenticeship program. An IEC apprentice is able to earn while they learn, incurs little to no debt and enters into a well-paying job upon graduation. According to the Bureau of Labor Statistics (BLS), the median salary for an electrician in 2016 was $52,720. IEC's apprenticeship program is certified by the U.S. Department of Labor's (DOL) Office of Apprenticeship and State Apprenticeship Councils for use in 38 states and the District of Columbia. In addition, the American Council on Education (ACE) has recommended that students that graduate IEC be eligible for 40 semester hours of college credit. IEC is also a member of DOL's Registered Appren-
ticeship - College Consortium (RACC), a national network of post-secondary institutions, employers, unions and associations working to create opportunities for apprentice graduates who may want to further enhance their skills by completing an Associate’s or Bachelor’s Degree. RACC members have their programs evaluated by a third party organization to determine the college credit value of the apprenticeship completion certificate. Given its experience and investment in apprenticeship, IEC continues to work with the federal government, as a LEADER (Leaders of Excellence in Apprenticeship, Development, Education, and Research) in DOL’s ApprenticeshipUSA program.

As you are probably aware, electrical contractors, like the rest of the construction industry, continue to struggle to find qualified candidates to fill openings all across the country. According to recent research from the Associated General Contractors, among all the trades, electrician was the second hardest position for their members to fill. This challenge is expected to continue in the coming years, with BLS estimating there to be a 14 percent increase in demand for electricians through 2024. Construction employers as a whole are experiencing trouble hiring new workers with an estimated 500,000 skilled construction jobs currently vacant.

A number of different factors have contributed to the current workforce shortages in the electrical contracting industry. One of those is the fact that many left during the recession and never returned. In addition, much of the skilled trades workforce is retiring or is approaching retirement. According to former BLS economist Joseph Kane, about three million of the current 14.5 million construction workers will retire or leave the industry over the next ten years. Unfortunately, our industry cannot keep up with the demand. The cultural shift in our country over the past few decades has definitely had an impact on this. A significant emphasis has been placed on young people to attend a traditional four-year university, and a career in the trades is rarely discussed as an option. Parents have grown to believe that the primary pathway to a successful career and the American dream is through a traditional college education. Not helping matters is that many jurisdictions judge the success of their high schools on the number of students that attend college. In areas where this is the case, guidance counselors and school officials have less incentive to suggest students consider entering an apprenticeship program, like IEC. This, along with enormous subsidies by the government in the form of student loans, has made it easier for students to pay for college without fully understanding the massive debt they are incurring and no guarantee of a job to pay it off.

Another factor contributing to the construction industry’s worker shortage is the lack of exposure of young people to skilled trades early as a viable career path. Across the country, we are seeing less investment in vocational or career and technical education (CTE) programs in high schools. These programs offer students the opportunity to work with their hands early on. They begin to understand what subjects interest them and these hands-on programs could influence their post-secondary education decisions. IEC views this as a missed opportunity to expose students to the skilled trades at an
influential time in their lives, and is why it’s critically important that Congress increase funding for CTE programs through mechanisms such as the Carl D. Perkins Act, which the House passed earlier this year.

Every day, IEC chapters and contractor members aggressively search for people interested in entering our apprenticeship program to become the electricians of the future. At my company, we work with local high school Vo-Tech programs to promote the opportunities that come with being an electrician, and I personally sit on the occupational advisory committee at both of our local Vo-Tech schools. Just this year, we hired four students from these schools and we’re looking for more. IEC’s chapters also recruit students by reaching out to tech schools, placing ads online, and contacting high schools to promote electrical contracting careers. In the past year, IEC National launched myelectricalcareer.com, which promotes electrical careers to young people through sites such as Facebook and Pandora.

When recruiting candidates for an electrician apprenticeship, IEC members have trouble finding people that are qualified to enter the program. Becoming an electrician requires a high school diploma or GED. Candidates also must possess solid math skills, and members continue to find that many interested in our opportunities do not possess the requisite mathematical ability to advance as apprentices. It’s also becoming more common that young people interested in an electrical career lack basic “soft skills” and don’t understand what it means to be punctual, communicate effectively, or act professionally in a work setting.

To address labor shortages in the short term, IEC members will sometimes take steps that are less than ideal. Some members will loan electricians to a competitor or will utilize temps, typically as a last resort. Regardless, it is currently difficult for IEC members to find qualified journeymen electricians. These workforce challenges we face hurt our member companies’ ability to expand and provide the services their respective communities need. Currently, my company has 28 electricians, but we could easily use five more journeymen. But with a limited availability of qualified electricians, we have to grow our own through apprenticeship. Unfortunately, we are hamstrung by the state of Pennsylvania, which requires we maintain a ratio of three journeymen to one apprentice on all our projects. Government-mandated ratios vary across the country, and serve as artificial restrictions that prevent us from training the future electrician and help to close this skills gap. On a broader scale, with hundreds of thousands of construction jobs going unfilled year after year, this type of restriction on the industry will eventually start to impact our ability to build, repair and maintain our country’s infrastructure, schools, businesses, factories and more. This inability to hire and train more people will have a detrimental effect, not only on the construction industry, but on the country as a whole, as repairing the country’s infrastructure will take longer and increase the cost to the tax payer.

Since all the trades work together or typically have some impact on each other on construction projects, the skilled worker shortage
faced by other trades can impact us as well, leading to missed completion dates and increased costs by having to work overtime. One project we are currently working on is two months behind schedule because the concrete crews were short on labor. One IEC member in Florida reports that 80 percent of their projects are delayed due to labor shortages. Unfortunately, this kind of delay due to a lack of qualified workers in the trades has become all too common in the industry.

By virtue of recent hearings, such as the one here today, IEC is optimistic that legislators are becoming more interested in developing public policy that will further assist the skilled trades close the skills gap and increase the number of men and women entering construction apprenticeships, like IEC’s. We are also excited by the Trump administration’s executive order, which seeks to double federal apprenticeship funding to $200 million, with a goal of creating 5 million apprentices in the next five years. However, we are concerned that language within the executive order will preclude the industry from benefitting. IEC believes the EO should cover construction, especially considering the significant labor shortages in the industry and the opportunity expanding construction apprenticeships affords to place people into quality, high-paying careers.

In closing, I want to express IEC’s willingness to work with Congress and the Trump administration to find practical solutions to address the workforce shortage faced by merit shop electrical contractors and the construction industry as a whole. Thank you for this opportunity today to explain the labor challenges IEC continues to address and I look forward to answering any questions you may have.
Prepared Testimony and Statement for the Record of
Carlos Castro, Founder, Todos Supermarkets

Hearing on
“Examining the Small Business Labor Market”

Before the
House Small Business Committee
Subcommittee on Economic Growth, Tax and Capital Access

September 7, 2017
2360 Rayburn House Office Building
Washington, DC
Good morning Chairman Brat, Ranking Member Evans, and Members of the Subcommittee. My name is Carlos Castro, and I am the owner of Todos Supermarkets, located in Woodbridge, Virginia. I have been asked to testify today National Grocers Association (NGA) on behalf of the Independent supermarket community. The National Grocers Association is the national trade association representing the retailers and wholesalers that comprise the independent sector of the supermarket industry, including single full-service supermarkets such as Todos, and multi-state regional chains.

Todos Supermarkets was created in 1990 and aims to fulfill the needs of an increasingly diverse customer base. To help better serve our customers, we have reshaped our offerings beyond groceries and offer money transfer, notary, and tax preparation services.

As the saying goes “good help is hard to find,” but at Todos, we have placed an added emphasis on youth hiring practices that allow us to train workers and create an inclusive culture that allows us to retain our employees for the long-run. Our numerous new offerings have also allowed us to attract a diverse array of talent and keep our employees on their toes as our business continues to expand and change. To help with difficult hiring and training challenges, NGA plays a key role in the supermarket sector by providing resources, educational training programs, and sharing industry best practices with its members that we need to hire, train and retain a highly qualified workforce.

But costly regulations often take up too much of our time and resources, and pose as a serious barrier to hiring new talent. According to NGA survey data, the average grocer can expect to spend between 40 and 50 thousand dollars a year on regulatory compliance per store, per year. In an industry with a 1-2 percent profit margin, that is a significant amount of resources to be taken away from store improvements, additional staff, or expanded offerings. Forty to fifty thousand dollars may not sound significant in Washington, but for an independent grocer, that can be enough to put a struggling grocer out of business, or prevent a competitive grocer from hiring new workers or renovating existing operations in order to keep pace with the competition.

The current regulatory environment has stifled innovation and small business growth by forcing us to focus resources on complying with the tidal wave of regulations, instead of our day-to-day operations. For the independent supermarket sector, it is often hard to keep up with the sheer volume of regulations that have been recently finalized, let alone worry about the number of potentially harmful regulations going through the rulemaking process. Regulatory agencies should focus on evaluating the rules that are currently on the books and ensure that they are necessary and effective, instead of churning out new regulations whose costs outweigh the potential benefits. NGA supports the recent Executive Order requiring agencies to cut two existing regulations for every new regulation they implement. We believe this directive will require regulators to do their due diligence and determine what rules
are truly in the public interest, and which ones have either out-lived their usefulness or have become a drag on economic growth.

Obamacare mandates on small business serve as a perfect example of a regulations with good intentions that have created an additional burden for our business. Todos Supermarkets was committed to offering health care to employees before the health care law was implemented. We were not only proud that we could cover our employees with affordable healthcare, but it was a hiring incentive that improved both recruitment and efforts to retain hardworking employees. Now that businesses of our size must offer health care under the Affordable Care Act, we can no longer use our previous health care program to differentiate our company from the competition, and our expenses have gone through the roof.

The revised joint employer standard from the National Labor Relations Board is another well-intentioned regulation that misses the mark. Holding businesses accountable for potential labor infractions committed by businesses with which they contract is taking enforcement too far and creates a dangerous precedent and standard that is impossible for businesses to maintain. It is challenging enough for businesses to comply with the mountain of regulations that face us, but penalizing businesses for the infraction of their potential contractors creates a precarious environment and disincentivizes businesses from contracting with outside operations.

Until the federal district court in Texas overturned the Department of Labor’s overtime rule, the rule presented a serious challenge to our business. The potential doubling of the salary threshold, and further automatic updates to the exemption threshold would have created an untenable situation for small supermarkets. At Todos, we believe in a philosophy of creating opportunities for our workers and fostering an environment that encourages our team members to remain with the company for years. However, we believe that the rule would have created a disincentive to working efficiently and effectively. It had the potential to have a substantial negative effect on morale as some workers would need to be reclassified as hourly employees, after having worked for years to earn a salaried status and getting to enjoy the additional flexibility this designation brings. We are thankful that the rule has been overturned, and will likely be reevaluated to take into account regional differences in average salary before being rewritten.

Todos was also pleased to see that the Office of Management and Budget (OMB) decided not to move forward with a regulation put forth by the Equal Employment Opportunity Commission (EEOC) regarding pay data. The regulation would have required that employers provide pay data for employees based on gender, race, ethnicity, etc., with the aim of discouraging pay discrimination. While Todos is firmly committed to paying our workers a living wage and in accordance with all federal pay regulations, the EEOC regulation would have captured data without context and could have made it appear as though an employer was participating in discriminatory pay practices despite variances in candidate experience, education level, or other candidate considerations.
Congress and the regulatory agencies have taken steps recently to lighten the burden on small businesses like mine. The recent court order to prevent the implementation of the overtime rule, and the decision by OMB to not implement the EEO-1 pay reporting regulation have been a step in the right direction. While there is not one single regulation dragging the heaviest on small business, the sheer volume of regulations that require our compliance is what holds us back. These burdens both increase the barrier to entry for entrepreneurs aspiring to enter the market and prevents existing businesses from expanding or improving their current operations. We must change the overall regulatory attitude to one of reevaluation instead of continued expansion.

Additionally, if Congress hopes to improve the current environment for small business, it should continue working towards tax reform. Congress took an important step in 2015, making a number of tax provisions permanent, such as Section 179, which provides small businesses with the flexibility they need to make large purchases and expense the cost of those purchases in the first year. However, Congress kicked the can down the road for many other tax provisions that are important to independent supermarkets.

Unfortunately, Congress has a tendency to pass retroactive fixes to the tax code, which hinders our ability to invest in our future with any degree of certainty.

As Congress turns its attention to tax reform this fall, we ask that Congress listen to the voice of small business. It is important to remember the fact that every period of sustained economic growth in our nation’s history can be attributed to the success of small businesses. With this in mind, I believe repeal of the estate tax is critically important. As my business grows and I approach the current threshold, I worry that I am going to have to pay the tax. The planning issues that surround this punitive tax draws resources away from hiring employees and investing in our business.

Congress must also ensure parity between pass-through entities, like Todos, and business that file as C-corps. In order to guarantee robust competition between businesses of all sizes, Congress should tax family-owned businesses fairly and equally, regardless of how we decide to file our taxes. Many NGA members also rely on key tax provisions such as the Last In, First Out (LIFO) accounting method and deductibility of interest expenses.

Finally, with a workforce and a customer base that is heavily comprised of a Latino population, I feel compelled to address President Trump’s decision to end the Deferred Action for Childhood Arrivals (DACA) program. Immigrants that come here as children as part of families seeking a better life should not be punished for the decisions of their parents. Some members of our team utilize the DACA program, and they are some of our hardest workers. While I understand there are good arguments on both sides as to whether DACA passes constitutional muster, it is clear now that the fate of 800,000 young Latinos is now in the hands of the legislature. I urge Congress to act swiftly in finding a solution to this issue, and to consider the potential harm that could come from a failure to
act—not only to our businesses, but to communities and families as well.

All supermarkets face a challenging landscape. The current market is saturated with competitors that already challenge each other to gain a foothold and turn a profit. Now, with goliaths such as Amazon, Target, and Walmart in the market, that challenge has become even more significant for smaller operators. However, history has shown that independent supermarkets are both resilient and flexible in keeping up with competition. I am confident in the ability of our company and other independent grocers to adapt and innovate in response to changing consumer demands and a fiercely competitive marketplace.

On behalf of Todos, the National Grocers Association, and the independent supermarket industry, I would like to reinforce our commitment to hiring, training, and retaining the best talent possible. We aim to provide our communities with service and products that are of the highest quality, and we know that this can only be achieved by hiring good people, and treating them like family.

At Todos, we often say “if you have a good attitude and work hard, there is no limit to how high you can rise.” With business, it should be the same. I would ask our elected representatives to continue look for opportunities to unshackle businesses from their heavy regulatory burden, and let businesses like mine see how high we can go.

Thank you,
Carlos Castro
Founder, Todos Supermarkets
Chairman Brat, Ranking Member Evans, and members of the Subcommittee on Economic Growth, Tax, and Capital Access, thank you for the opportunity to testify about the workforce challenges facing small manufacturing companies in the United States.

My name is Gardner Carrick and I am the Vice President of Strategic Initiatives at the Manufacturing Institute. We are affiliated with the National Association of Manufacturers, the nation’s largest industrial trade association and voice for more than 12 million men and women who make things in America.

It is the mission of the Institute to attract, train and develop the world-class talent that manufacturers need to compete in the global economy. In partnership with some of the country's leading firms, we identify trends and gaps in manufacturing skills and training and, working with partners around the country, we develop programs to close those gaps. Among our many initiatives, our Dream It. Do It. program has partners in 41 states and regions to develop interest in manufacturing skills among youth, and programs with educational institutions that cultivate their interest in manufacturing and ensure that the skills being taught are ones that are in need by manufacturers. Additionally, the National Association of Manufacturers recently launched a nationwide campaign to improve the perception of manufacturing via the recently announced “Creators Wanted” campaign, to improve the perception of manufacturing as a career path. The Manufacturing Institute will be engaged in this effort to help educate the public about manufacturing careers and to direct those who are interested to programs and activities to further their skills and toward high skilled jobs.

Manufacturing is a critical component of our nation’s economy. Companies in manufacturing produce everything you see around you. While everyone has heard of the biggest companies in manufacturing, it is small companies that are the backbone of the industry. The vast majority of manufacturing firms in the United States are quite small. According to the Top 20 Facts About Manufacturing published by the National Association of Manufacturers, in 2014, there were 251,901 firms in the manufacturing sector, with
all but 3,749 firms considered to be small. In fact, three-quarters of these firms have fewer than 20 employees. They provide good jobs in every city, town, and community across the country. And today, manufacturing is enjoying a renaissance in the United States.

Since the end of the last recession, manufacturing companies have added over 1 million jobs and in this year alone, companies have added nearly 140,000 new jobs. Companies are choosing to locate new operations in the U.S. and this is having a growth effect down the entire supply chain. And companies are optimistic about the future as well. According to the most recent Manufacturers’ Outlook Survey from the National Association of Manufacturers, 90% of companies are optimistic about their own company’s outlook.

While times are good for manufacturing in the U.S., there is a present and growing challenge for manufacturing companies—they are unable to find people with the skills required to fill their open jobs.

According to the United States Department of Labor, there are nearly 400,000 open jobs in manufacturing. This is up 13% from the end of last year, and 36% from just two years ago. Looking at the longer-term picture, a study done by Deloitte in partnership with the Manufacturing Institute estimated that, by 2025, there could be as many as 2 million unfilled positions in manufacturing. These jobs offer family supporting pay, generous benefits, and strong career growth potential. According to the Top 20 Facts About Manufacturing published by the National Association of Manufacturers, in 2015, the average manufacturing worker in the United States earned $81,289 annually, including pay and benefits. The average worker in all nonfarm industries earned $63,830. Looking specifically at wages, the average manufacturing worker earned over $26.00 per hour, according to the latest figures, not including benefits. These jobs need to be filled if the manufacturing sector and the U.S. economy is going to remain strong and globally competitive. Fortunately, manufacturing companies are stepping up to offer solutions to this challenge, in partnership with local high schools, community colleges, and technical schools.

The activities of manufacturers fall into two broad categories: 1) filling the immediate needs for skilled workers; and 2) strengthening interest in manufacturing careers to fill the long-term need for skilled workers. I would like to highlight a few examples of where smaller companies are engaged in these activities.

In the Tucson, AZ region, a group of twenty small manufacturers formed an organization called the Southern Arizona Manufacturing Partners. Working with the local high school district, Pima Community College, and the workforce system, the Southern Arizona Manufacturing Partners created a 20-month apprenticeship-style program. Graduating high school seniors interview with and are hired by one of the participating companies. They then enroll at Pima Community College in machining, electromechanical systems, or another industrial technologies program where they receive concurrent instruction in their new field of employment. This innova-
tive program has enabled small companies to aggregate their skill requirements and hiring demands and receive recognition and support from the local educational institutions and workforce services agency. The program has grown to where several dozen students now participate annually. The Manufacturing Institute has a strong partnership with Pima Community College and has supported this apprenticeship-style program from its inception.

In Tulsa, OK, coalition of workforce, education and industry partners dedicated to raising awareness of manufacturing careers joined the Manufacturing Institute's Dream It Do It program. As part of the Dream It Do It activities, a small auto parts manufacturer called APSCO created an internship program for high school students who are interested in a manufacturing career. Students from three area high schools tour APSCO's automotive parts fabrication and assembly facility in the fall and interested students are interviewed and selected for its Certified Production Technician internship program. Interns train as a production technician for three hours a day from January to May and are paid $10 an hour. 45 students participated in this past year's program and APSCO has coordinated with other small manufacturers in the region so that those students not hired by APSCO at the completion of the program have interview and employment opportunities at other local manufacturing companies.

Across nine states on the Gulf Coast and in the lower Midwest, there has grown a manufacturing-led program called the Federation for Advanced Manufacturing Education. Originally started by Toyota Motor Manufacturing in Kentucky, FAME is a five semester apprenticeship style degree program where students spend three days a week at work and two days a week in school learning the technical skills, manufacturing culture, and soft skills necessary to be an Advanced Manufacturing Technician. Though Toyota was the original sponsor, they opened the program to all companies and now hundreds of small manufacturers are participating with the twenty partner community colleges, hiring hundreds of new employees annually. And it is a model that is now expanding to include other in-demand positions within manufacturing. This is an excellent example of how larger companies support and partner with smaller companies to create an education, training, and employment program that benefits the entire manufacturing industry and the communities where they are located.

While these programs are training students and hiring new employees for immediate job openings, there is still a longer-term concern about the number of young people willing to consider and pursue a career in manufacturing. This has been a multi-decade challenge for manufacturers that is now a critical concern as total jobs in manufacturing have rebounded and continue to grow. The Manufacturing Institute has partnered on several research studies to inform the best strategies for attracting young people to our industry.

In a nationwide survey of high school students, the Manufacturing Institute, in partnership with the Educational Research Center of America, found that the overwhelming majority of them
selected their own experiences and interests as the most important factor in determining what career to pursue. And in a Public Perception of Manufacturing study, conducted by the Manufacturing Institute in partnership with Deloitte, Americans that were familiar with manufacturing were twice as likely to pursue a career in manufacturing or encourage their children to do so. These results suggest that the best way to encourage more Americans to consider careers in manufacturing is to provide them with experiences that increase their familiarity with today's modern manufacturing industry.

Allow me to highlight a few examples of small manufacturing companies that have done just that.

Five years ago, working with the Founding Partner, the Fabricators and Manufacturers Association, International, the Manufacturing Institute and the National Association of Manufacturers helped create a new nationwide showcase of our industry called Manufacturing Day. Companies would open their doors on the first Friday of October and invite the community to see what modern manufacturing looks like in their plant. That showcase has now grown to nearly 3,000 events and half a million participants.

In Southern California, a small aerospace parts manufacturer called ACE Clearwater has made Manufacturing Day a really big deal. Last year, ACE Clearwater had over 500 parents, teachers, and students witness and participate in modern-manufacturing. Exhibits like 3D printing, laser cutting and water jet demonstrations, hands-free computer interaction, hydro-forming, virtual reality headsets, and welding simulations were provided by ACE and sponsor suppliers to give attendees an in-depth understanding of state-of-the-art manufacturing. The event features at least 15 work centers where students learn all about the manufacturing process and new technologies that make manufacturing exciting and creative. At the conclusion of last year's event, nearly 50 participating community college students immediately applied for open positions.

In Mequon, WI, a small fabrication company called GenMet has been extremely active on workforce issues including serving on the Manufacturing Institute Board of Advisors. One of its most innovative programs is a teacher externship. Over the past few years, GenMet has hired three local high school teachers to work for the summer in its facility. As a result, these teachers have a better understanding of concepts they teach in their classroom using what they learned at GenMet. Teachers are able to use real-life analogies to explain to their students what they learned from their experience. By hiring teachers, GenMet can reach an entire classroom of students and help change the perception of manufacturing showing teachers what modern manufacturing looks like.

And finally, in Pennsylvania, there is a competition to create the best 2-minute video describing What's so Cool about Manufacturing. Started by the Manufacturers Resource Center in the Lehigh Valley as part of the Manufacturing Institute's Dream It Do It program, the competition pairs a team of eighth grade students with a local manufacturer where they interview employees and ex-
executives and film the operations of the plant. The students then create and narrate a video about why their company best describes What’s so Cool about Manufacturing. The community then votes on the videos through YouTube and the Manufacturers Resource Center hosts an awards banquet at the conclusion. The results in Lehigh Valley have been stunning, where last year over 100,000 votes were cast on YouTube, over 800 students, parents, companies, and community leaders attended the awards banquet, and most importantly, the local technical high school manufacturing programs have seen a 60% increase in enrollment since the competition began 5 years ago. The video competition idea has now spread across the Commonwealth and this year, 200 middle schools will partner with 200 hundred manufacturing companies in eight different regional competitions. It is an excellent example of how small companies can partner with middle schools to make a significant impact on a student’s perception of manufacturing just as he or she is deciding what to study in high school.

Mr. Chairman, the manufacturing sector has struggled to find the right workers and it is impacting our ability to successfully compete in the global economy and grow our industry. But companies large and small are creating and participating in programs that will solve these challenges. I am proud of the work of these companies and The Manufacturing Institute and the National Association of Manufacturers will continue to support these efforts in regions all across the country.

Mr. Chairman, Manufacturing Day is on October 6th, less than a month from now. I encourage you, the members of this subcommittee, and all the members of Congress to attend one of these events. Come see what modern manufacturing looks like and speak with some of the 12 million men and women that make American manufacturing strong.

Thank you for the opportunity to testify this morning.