



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

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

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

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

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

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

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

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

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

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

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

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

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

I look forward to participating in this important conversation.