

## Small Business and the American Worker

March 6, 2019

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Chairman Rubio, Ranking Member Cardin, thank you for the invitation to testify today. I want to start with the crucial role that small businesses plays in the economy.

New businesses are typically small businesses and new businesses fuel our growth. Start-ups and young businesses are responsible for most of our growth in new net jobs. New companies are at the forefront of innovation, both in terms of introducing new products and services and showing us how to use technology to do things better. New businesses rely on a high-skilled U.S. labor force to be able to hire the people they need to bring their ideas successfully to the market.

Many new businesses will thrive because the productivity gains allowed by technological change create the opportunity to offer better, faster, or cheaper goods and services. So I applaud the Small Business and Entrepreneurship Committee for recognizing that the promises and challenges of artificial intelligence, and other forms of technological change, are the promises and challenges of our future small businesses. And their success, or lack of success, will determine the future path of U.S. economic growth.

Let me address the primary concern that most people have for American workers: that technology will eliminate jobs.

Rather than eliminating many types of jobs, technological change will change the tasks that workers do in jobs. MIT researchers have shown that most jobs have some tasks that are suitable for machine learning and few, if any, jobs are composed of tasks in which a machine could effectively do the tasks typically done by workers. What this means is that employers and workers will need to redesign most jobs to take advantage of the comparative advantage of human workers.

Jobs will change due to technology, but the fundamental question that remains is whether we will have enough jobs.

In the past, technological change has not led to increased unemployment, but it has led to declines in work effort. We no longer send children into factories, but allow them to concentrate on the joys of childhood and investing in the skills that will help them succeed as adults. We no longer expect to die on the job, but hope for a period of retirement free from poverty. These declines in work effort have not been catastrophic—rather, they have been

choices to live a better life. In other words, historically we have had as much work as we have wanted, which has been a declining amount.

The most important thing I want the committee to keep in mind is that the purpose of economic progress, of technological advancements, is to allow Americans to lead a better life, even if that means that people are working less. The important issue is whether people can work as much as they want to or need to in order to live a fulfilling life.

Many people want to be able to stay home from work when they are sick or when they need to care for a sick child, parent, or spouse. Many want to be able to stay home and spend time with a new child. And some people want to be able to take a vacation or work a shorter work-week.

These choices are plausible in a wealthy society, but they are only feasible if the gains from economic growth are widely shared. Our recent experience on this front explains why people are concerned. The share of income held by the top 1% of the population has risen to nearly 20 percent, from around 10 percent in 1980, while the share going to the bottom 50 percent of the population has fallen to 12 percent from 20 percent in 1980. This has occurred as labor's share of national income has declined from around 63 percent at the end of the 1990s to around 56 percent currently.

Real GDP per capita grew to \$56,717 in 2018, from \$46,497 in 2000. Yet, almost none of this growth is seen in median household income, which has largely stagnated (over the same period it grew by 2 percent).

In recent decades, we have failed to ensure that the benefits of technological advances are broadly shared. Therefore, the concerns that continued technological progress will yield gains that are not fairly distributed is a realistic fear.

How can we help businesses recruit the workers that they need and also ensure that we share the gains from technology are broadly shared? I want to offer three answers for you today. First, increase education. Second, pass a Federal policy that gives all workers access to paid sick and family leave. And third, build greater trust.

## 1. Education

New businesses need skilled workers and workers need the opportunity to build the skills that increase their productivity and allow them to earn higher wages. In the 21st century we are hearing the same arguments about college that we heard about primary school in the 19th century and high school in the 20th century—that not all kids can or should get additional education. Yet bolstering the skills of American workers has long been the foundation upon which American growth has been built.

The rate of return for investing in a college education is at an historically high level. College graduates earn 65 percent more than high school graduates and are roughly half as likely to experience unemployment.

In order to continue to have a successful and innovative economy, we need to make college more affordable and accessible to more people. Young people are enrolling in college at increasing rates, a positive trend that we should facilitate. We need to ensure that college is affordable and that students can complete the programs that they begin. The challenges of financing higher education lead too many students to lose momentum and fail to graduate. In addition, there has been an increase in older adults returning to school in order to bolster their career prospects. Older students often have other barriers to successfully completing college or other training programs such as affordable childcare and housing for a family. Our programs to help students must adapt to consider the growing share of students who are not supported by parents, but are themselves parents supporting children.

Apprenticeships and other on-the-job training during school hold the possibility of preparing students for the world of work, while keeping them engaged, motivated, and confident enough to complete their studies. Many people learn better through situated learning by actively participating in the learning experience, such as that which occurs during apprenticeships. The United States faces two pressing challenges in developing apprenticeship programs. The first is that there are far too few apprenticeship slots. The second problem is that apprenticeships need to move beyond the trade occupations, which is a shrinking share of the economy, into services which are growing.

The U.S. economy is a service-based economy. Construction and manufacturing jobs, a focus for many apprenticeship programs, are a mere 13 percent of all jobs in the economy. 84 percent of workers employed in the private sector in the United States work in the service-producing sector. A third of our exports are services, such as business and professional services like consulting, computer services, and financial services. In order for apprenticeships to succeed in training workers for the jobs of the future, our apprenticeship programs need to expand into the types of jobs workers are more likely to be hired into.

## 2. Paid Sick and Family Leave

Let me turn to the topic of paid sick and family leave. As a wealthy society, it is clear that we can afford to have people stay home when they or a loved one is sick or to care for a new child. Moreover, these policies are not as costly as many falsely believe.

Paid sick leave encourages workers to stay home when they are sick. With contagious illnesses, a paid sick leave policy can create a healthier workforce, improving overall productivity. Studies have shown that paid sick days do not lower business profits.

Sick leave policies that allow workers to stay home to care for a loved one may not directly benefit their employer, but such policies do yield gains to society. Children are less likely to attend school while ill, reducing the spread of illness to others affecting teachers, children, and their parents. Older people who are cared for may be less likely to be hospitalized, reducing the need for costly medical care. These benefits are what economists call positive externalities and the only clear way to get the benefits of these externalities is through government action.

Similarly, parental leave policies generate benefits for society by providing health and development benefits to children that last throughout their lives. Moreover, research shows that paid parental leave policies keep women attached to the labor force, resulting in higher wages and employment in the long run. Additionally, research shows that nearly a third of the gap between US women's labor force participation and that of other countries is due to the lack of family friendly policies like paid parental leave in the United States.

Many businesses have discovered the cost of losing women when paid maternity leave is unavailable and have voluntarily expanded their parental leave policies. However, paid family leave cannot be left for businesses to voluntarily choose. Like paid sick leave, the benefits of access to paid family leave are bigger for the economy and society as a whole than for any one business. All children should have access to the benefits of paid parental leave in order to ensure equality of opportunity in the United States. Ensuring equal access to paid parental leave requires a Federal policy.

### 3. Trust

The last thing that I want to touch on is the importance of trust to the economy and to our lives. While the rule of law is essential to a well-functioning economy, so is basic trust. Trust in our government, trust in our businesses, and trust in our fellow citizens. Trust facilitates cooperation; it allows us to take a chance on a new worker, a new product, an unknown business. Yet trust is in steep decline in the United States.

Trust in government is at a historic low for all age groups. But it is not just government that people are no longer trusting. Interpersonal trust has also declined substantially. That lack of trust is one reason people oppose paid sick leave—after all how can you trust an employee to only take a paid sick day when they are truly ill? But a similar question can be asked about trusting your worker to put in their best effort. And that latter question goes more directly to the heart of business success and the future of economic growth.

Employers must trust their employees. Without trust, costly monitoring is required. Technology has enabled some increase in monitoring, through programs that block employees using accessing certain websites and ones that monitor their keystrokes. However, technology on net is likely to make it more difficult to monitor workers. The challenge for employers is that technological change is making more of the tasks that are most suitable for humans, also tasks that are less easily monitored. How can businesses solve this problem? By building loyalty, by building trust with their employees.

When workers trust their employers will be honest and fair, when they believe that their employer is doing the right thing by them, they do the right thing by their employer. For example, research shows that workers who trust their employer report other workers for stealing or slacking off on the job, providing a form of group monitoring. More generally, research has shown that intrinsic motivation can be more powerful than extrinsic motivation and intrinsic motivation thrives in an environment of trust.

Policies like paid sick leave and paid parental leave, access to training and education, all help build a society with higher levels of trust. You can help build trust today by showing the American people a government that they can trust to work hard to find solutions for American families. The policies you choose can build trust by creating an infrastructure that ensures that our prosperity is broadly shared.