



The Honorable Chairperson Brad Roae

The Honorable Chairperson John Galloway

Via Electronic Delivery

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RE: Current Workforce Participation in Pennsylvania

Thank you for the opportunity to provide testimony to the House Commerce Committee on this important and pressing issue.

Pennsylvania's economic recovery from the COVID-19 pandemic is ongoing and will continue for many months, and possibly years, to come. The supply and demand shocks in early 2020, the rapid rise in unemployment in the spring of 2020 and the temporary closures of many businesses to mitigate the pandemic have generated labor market shifts that will affect the commonwealth's economy and workforce for some time.

Today, Pennsylvania employers, like employers across the United States, are experiencing record-high job openings. There are no silver bullet solutions to filling these vacancies. The roots of this problem run wide and deep. Some of the challenges are new and directly stem from the conditions created by the pandemic. Others have affected our economy and workforce for decades. To address the concerns of businesses that are struggling to recruit and retain workers and to meet the needs of workers who are reentering the workforce after being unemployed during the pandemic or shifting occupations or industries, will require a multifaceted approach that focuses our efforts in five distinctive ways:

- 1- Workers need new mechanisms to navigate through and gain the skills that they need to effectively meet employer needs in this emerging labor market.
- 2- Businesses will need to invest in their human capital systems in the same way that they invest in their other critical capital systems (i.e., financial and equipment) if they wish to remain competitive in today's labor market.
- 3- Workforce development systems will need to become increasingly nimble and flexible and must be more responsive to the changing needs of industry and workers.
- 4- Workforce development partners, including businesses and organized labor, will need to recognize the added value of skills-based hiring systems to address rapidly emerging industry needs and employment opportunities.
- 5- Employers will need to recognize that workers are evaluating job opportunities based on a broad set of job quality metrics, including but not limited to healthcare benefits,

retirement benefits, paid time off, sick leave, child care supports, transportation factors, scheduling guarantees, stability of income, and wage/salary levels.

In this testimony we present some of the many variables that have contributed to the record job openings, the economic trends that have manifested from these variables, and suggested actions that businesses and the General Assembly can take to help fill these vacancies and produce the robust labor force and economy that Pennsylvania needs.

Many variables led to the abundance of job openings

The Department of Labor & Industry (L&I), economists, organized labor, workers, and businesses (as well as their representative organizations like the National Federation of Independent Businesses) in agreement: there are a variety of factors that are 1) preventing workers from reentering the labor force and 2) resulting in historically high numbers of unfilled jobs.

Child Care

First, factors related to the pandemic have kept certain populations of workers out of the labor force. The absence of adequate and reliable child care continues to hold many workers back, particularly women. By early 2021, three million women had left the U.S. workforce during the pandemic, many of them to care for children and some of them to care for sick or indigent family members. Even before the pandemic, Pennsylvania and other states across the nation experienced a shortage of affordable, available, and accessible child care. This shortage was made substantially worse during the pandemic, as many child care providers closed temporarily, some permanently, and all had to adjust their staffing and child ratios to mitigate the spread of the virus.

Additionally, the prevalence of virtual classrooms and hybrid models of instruction in school districts required that many parents either remain at home with their children during the virtual school day or exhaust paid and unpaid time off when schools closed due to virus outbreaks. While Pennsylvania school districts are resuming in-person instruction this fall, in May 2021 approximately 70 percent of Pennsylvania public school students attended school districts that remained partially or fully closed to in-person instruction, and some parents are still selecting virtual options. The burdens of child care will continue to fall disproportionately on women, which may prevent their full participation in the paid labor force.

Workers are changing occupations and industries

Second, many workers have decided to, are considering, or already have changed industries or occupations. The pandemic has led many workers to reconsider their place in the workforce. A recent survey by Bankrate found that **55 percent** of workers currently in the workforce (employed or actively looking) anticipate looking for a new job in the next twelve months.¹ A

¹ <https://www.bankrate.com/personal-finance/job-seekers-survey-august-2021/>

poll conducted by the *Washington Post* found that **one in three** workers under the age of 40 have considered changing their occupation or industry during the pandemic, and **one in five** workers overall have, as well.² The Bureau of Labor Statistics tracks “quits rate,” or the percentage of workers who leave their current job each month. Since April 2021, workers across the country have left their jobs at historically high rates—4 million in April, 3.6 million in May, 3.9 million in June.³

Some of these workers sought new positions that preserved the work-from-home conditions they grew accustomed to during the pandemic. Others left positions in industries plagued by low pay, poor workplace culture, and inflexible and irregular schedules. They may have taken new jobs in industries with stable income, health and childcare benefits, regular schedules, and improved workplace cultures. This is particularly evident in the restaurant and hospitality industry, where a recent *Wall Street Journal* article found that workers who were laid off or left the restaurant industry during the pandemic are not returning.⁴

Additionally, the New York Times reported that millions of Americans have retired since the pandemic began, many involuntarily and will not return to the workforce.⁵

Skills and opportunity gaps persist

Third, the challenge of record high numbers of unfilled jobs is tied to a skills gap that predates the pandemic. The disinvestment by employers in their human capital after the Great Recession, particularly in training programs and skills development, continues to influence the labor market, as employers before and after the pandemic continue to struggle to find skilled workers.⁶

Reliance on the workforce development system and institutions of higher education to produce “ready-made workers” has grown. Additionally, the pandemic may have exacerbated the skills gap, so employers now more than ever need to invest in their workforce to equip workers with the skills businesses require to be successful.

As a result, the skills gap that existed in many cases prior to the pandemic have been further exacerbated. A substantial number of the employers who are unable to find sufficient workers have cited the lack of skilled workers as a key problem. According to the July 2021 NFIB Small Business Economic Trends (SBET) report, 49 percent of small business owners have jobs they could not fill in the current period—43 percent of those small business owners said the jobs they

² <https://www.washingtonpost.com/business/2021/08/16/us-workers-want-career-change/>

³ <https://www.bls.gov/news.release/jolts.nr0.htm>

⁴ Heather Haden, Te-Ping Chen, and Lauren Weber, “Customers are back at restaurants and bars, but workers have moved on,” *Wall Street Journal*, July 13, 2021. <https://www.wsj.com/articles/customers-are-back-at-restaurants-and-bars-but-workers-have-moved-on-11626168601>

⁵ <https://www.nytimes.com/2021/07/02/business/economy/retire-early-pandemic-social-security.html>

⁶ Eric Morath, “Millions Are Unemployed. Why Can’t Companies Find Workers?” *Wall Street Journal*, May 6, 2021.

<https://www.wsj.com/articles/millions-are-unemployed-why-cant-companies-ind-workers-11620302440>

could not fill were for skilled workers. A smaller percentage, 25 percent, of small businesses struggled to find unskilled workers.

However, NFIB also noted that few small business owners have HR staff in place to help them navigate their local labor markets and as such are at a distinct disadvantage in their inability to apply the human capital development practices, such as skills-based hiring, or avoid the pitfalls of using wages as a proxy for job quality in a highly competitive labor market, when this is a key desire of workers today.

The practice of offering hiring bonuses to new employees and less frequently offering retention bonuses or higher wages to existing employees may contribute to this shortage of skilled workers. As noted previously, workers are quitting jobs at historic rates. Some take new jobs with consistent hours, wages, and benefits in other industries, but it is probable that many are leaving for new jobs in the same industry that offer a wage and work environment that leads to the quality of life that they would like. As one employer recently noted in a Federal Reserve Bank of Dallas survey, “We are losing employees to higher-paying employers. There is a lot of poaching going on.”⁷ Another employer reported that even when federal benefit programs ended in Texas, retaining workers remained difficult: “[workers] know they can get hired again by walking down the street. Hire three, lose four. Hire two, lose one.” Competition with other businesses with signing bonuses and wages, as well as workers choosing higher quality jobs, and not unemployment benefits, are factors driving the volume of job vacancies.⁸

Little evidence that additional unemployment benefits are to blame for job openings

We agree with the businesses, economists, and the NFIB that there are many factors keeping workers from entering the labor force. There is little evidence, however, that unemployment benefits are a major factor keeping people out of the labor market. To be sure, businesses report that they feel that unemployment benefits are the barrier to them finding enough workers. As NFIB’s most recent report notes, employers do consistently rank enhanced unemployment benefits as a reason for their challenges finding enough workers. The Federal Reserve Bank of Dallas’s June 2021 survey also found that of “impediment[s] to hiring or recalling workers” employers perceive “generous unemployment benefits” as one of the most significant barriers.⁹

The economic data and surveys of actual workers, however, do not support this belief. A Federal Reserve Bank of San Francisco study concluded that the Federal Pandemic Unemployment Compensation (FPUC) \$300/week supplement “likely had small but noticeable effects on job search and worker availability in early 2021.” Studies by the JPMorgan Chase Institute and the University of Chicago similarly concluded that the effects of the FPUC supplements on job search activity and worker availability were slight. And as the federal pandemic unemployment

⁷ www.Dallasfed.org/research/surveys/tmos/2021/2106.aspx#tab-comments

⁸ www.dallasfed.org/research/surveys/tssos/2021/2107.aspx#tab-comments

⁹ dallasfed.org/research/surveys/tbos/2021/2106q.aspx

programs have not prevented workers from looking for work, neither has the cessation of these programs alone encouraged workers to look for work. A recent study by economist Arindrajit Dube of low-wage workers in nineteen of the states that elected to end the federal unemployment programs in June supports this. Of the workers who earned benefits in April but were not receiving unemployment benefits in August, **only one in eight had found a job by August**. In other words, the “generous unemployment benefits” were not the barrier preventing most, or even a sizeable minority of workers, from reentering the workforce. Other barriers persisted and prevented or discouraged workers from reentering the workforce. The most significant effect of eliminating the federal benefits to these workers was to reduce spending by 20 percent, which may damage local economies.

Experts agree: many factors discourage workers from reentering the labor market and “generous unemployment benefits” are not near the top of the list. Co-president of the JPMorgan Chase Institute Fiona Greig has noted that many factors are preventing workers from reentering the workforce, particularly childcare issues and fears of contracting the virus or spreading it to vulnerable populations, including children. Economist and Nobel Laureate Paul Krugman concurs that multiple factors beyond benefit amounts are discouraging workers. In August, Krugman wrote that “the reluctance of some Americans to return to work reflects multiple factors — things like perceptions of risk, lack of childcare and...the fact that during the pandemic some workers came to realize how much they had hated their old jobs.”¹⁰

This is not just the experts who say this; the workers do, too. Workers cite other factors as more substantial barriers to reentry to the workforce, factors like childcare, health concerns, and the desire to change industries or occupations. The Indeed Hiring Lab Job Seeker Survey found in June that workers cited unemployment compensation benefits last among their reason for not urgently searching for work, behind COVID fears, care responsibilities, and other family income or financial resources.¹¹

Recent evidence has shown clearly that ending unemployment benefits is not a silver bullet to solving the problem of so many open jobs. Unemployment benefits are but one of many factors workers consider when deciding when, where, and how to enter the labor market. The federal benefits are not an on-off switch; and turning them off will not fill all the open jobs, or even most of them, immediately.

According to the Bureau of Labor Statistics’ August 20, 2021 release of state-level data, the 26 states that ended some or all of the federal benefits in June or July had similar, and perhaps

¹⁰ Paul Krugman, “How Not to Create Jobs,” *New York Times*, August 24, 2021. <https://www.nytimes.com/2021/08/24/opinion/jobs-unemployment-benefits.html>

¹¹ Nick Bunker, “Indeed Job Seeker Survey June 2021: COVID Concerns and Financial Cushions Make Job Search Less Urgent,” *Indeed Hiring Lab*, June 29, 2021. [Hiringlab.org/2021/06/29/indeed-job-seeker-survey-june-2021/](https://hiringlab.org/2021/06/29/indeed-job-seeker-survey-june-2021/)

lower, job growth rates to states that kept benefits. **Again: the states that cut benefits had similar or lower job growth than states that maintained the benefit programs.** Additionally, the five states with fastest job growth in July retained most federal benefits and four of the five retained all of the federal benefit programs. Vermont, Hawaii, North Carolina, and Rhode Island maintained all federal benefits and saw robust job growth. Alaska ended the FPUC payments but maintained PUA and PEUC.

The outcomes of the additional unemployment benefits will soon be removed from the conversation as they are set to expire on September 4, 2021. We will continue to evaluate how the end of the federal unemployment programs will affect the labor market.

No silver bullets

One of the main objectives of the Department of Labor & Industry is to ensure that businesses have the workforce they need to succeed in Pennsylvania and that workers have the skills they need to thrive in stable, family-sustaining jobs here. The historically high volume of job openings is of concern to the Department. We are eager to work with businesses, labor, and our partners in the workforce development system to alleviate the stressors that are holding businesses and workers back from opportunities and success.

We agree with the NFIB that workers consider many factors when deciding when and how to reenter the labor force, including child care, housing security and transportation availability, and health concerns regarding COVID-19. To address the concerns of many employers who have struggled to attract and retain sufficient workers to survive and thrive through this economic recovery, businesses should address these factors that workers take into consideration when evaluating the quality of a job and whether they can, or should, take it.

Opportunities for businesses to act

This is a highly competitive labor market, one in which businesses are competing against each other in unprecedented ways for skilled workers. Employers have always had two options; to address their human capital needs: they can build or buy. Current conditions suggest that employers can no longer simply “buy” the talent they need – now is the time to build. By investing strategically in recruiting, training and retaining the workforce that they need, business can traverse the existing labor market and build a workforce that has the skills that they seek.

Below are opportunities where businesses can take action to recruit, train, and retain a stable, resilient, and skilled workforces.

- Provide onsite childcare or subsidies that help employees pay for childcare.
- Pay a competitive, family-sustaining wage of at least \$15 per hour.
- Offer benefits that support work-life balance such as quality, affordable healthcare, paid vacation time, paid sick time, and paid family and medical leave.
- Make sure employees are safe by following CDC guidelines, requiring masking and social distancing at worksites, and establish workplace policies that encourage employees

to get vaccinated. COVID-19 is a reason employers are currently struggling to fill vacancies.

- Elevate community engagement practices. There is a clear link today between being socially responsible and being an employer of choice.
- Develop recruiting practices that are both broad and deep. Employ DEI strategies that respect the potential contributions of all and allow for workers who have some skills but may need some training to be effective in an organization.
- Make sure credentials are not being used as a proxy for the soft skills an organization is seeking. Engage skills-based hiring practices instead of degree-based hiring to broaden the base of qualified applicants.
- Offer a clear, supported career pathway for entry- and mid-level employees. This may mean providing training on site or funding mechanism such as tuition reimbursement to help advance workers' education in skills utilized for current work.
- Participate in earn and learn strategies, such as a pre-apprenticeship and registered apprenticeship models so workers can learn a new skill and gain credentials while earning a living, and employers get the customized and loyal workforce that they need.
- Incentivize employees to stay for the long-term by investing in quality retirement plans.
- End the use of non-compete agreements to encourage a fluid, competitive labor market.

Opportunities for the legislature to take action

The legislature can also help businesses recruit and keep the talent they need by passing legislation that makes Pennsylvania attractive for families to move to and remain long-term. The following is a list of family-supporting legislation.

- Increase the Pennsylvania Minimum Wage to \$15 per hour, support HB 345 and SB 12.
- Create a state Paid Family Medical Leave standard, such as the bi-partisan sponsored SB580 in the 2019-2020 session, so that workers do not have to quit their jobs to care for their families.
- Create a Paid Sick Leave standard so that workers do not drop out of the workforce because of illness or a family member's illness, support SB 13.
- Incentivize employers to create or expand childcare centers.
- Fund workforce strategies that train workers to fill the skills gap and transition into High Priority Occupations, a list of which can be found on L&I's website: <https://www.workstats.dli.pa.gov/Products/HPOs/Pages/default.aspx>.
- Develop better marketing to connect businesses to PA CareerLink® and their local Workforce Development Boards so they are aware of all the resources that are available.
- Fund a program, like Goldman Sachs 10,000 Small Businesses, to teach business owners the value of managing their human capital.

Thank you for the opportunity to provide testimony on this important issue. The Department of Labor & Industry looks forward to working with the General Assembly, workers, and the business community to ensure that the economic recovery from the COVID-19 pandemic is robust, resilient, and total.

Sincerely,

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