The Puzzle of Job Vacancies

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Chairman Tiberi, Ranking Member Heinrich, Distinguished Members of the Committee, thank you for the opportunity to testify today. I am a senior fellow at the Manhattan Institute, where I direct the Institute's economics portal, Economics21. I am a former chief economist of the U.S. Department of Labor, and a former chief of staff of the Council of Economic Advisers. I am an adjunct professor of economics at George Washington University, where I teach Labor Economics and Public Policy.

I am especially honored to testify today because the mismatch between vacancies and available labor is an important policy question. At the same time that students are graduating with an average of $30,000 in debt, according to the New York Federal Reserve, and facing unemployment, jobs in industries including financial services, healthcare, and welding remain unfilled.

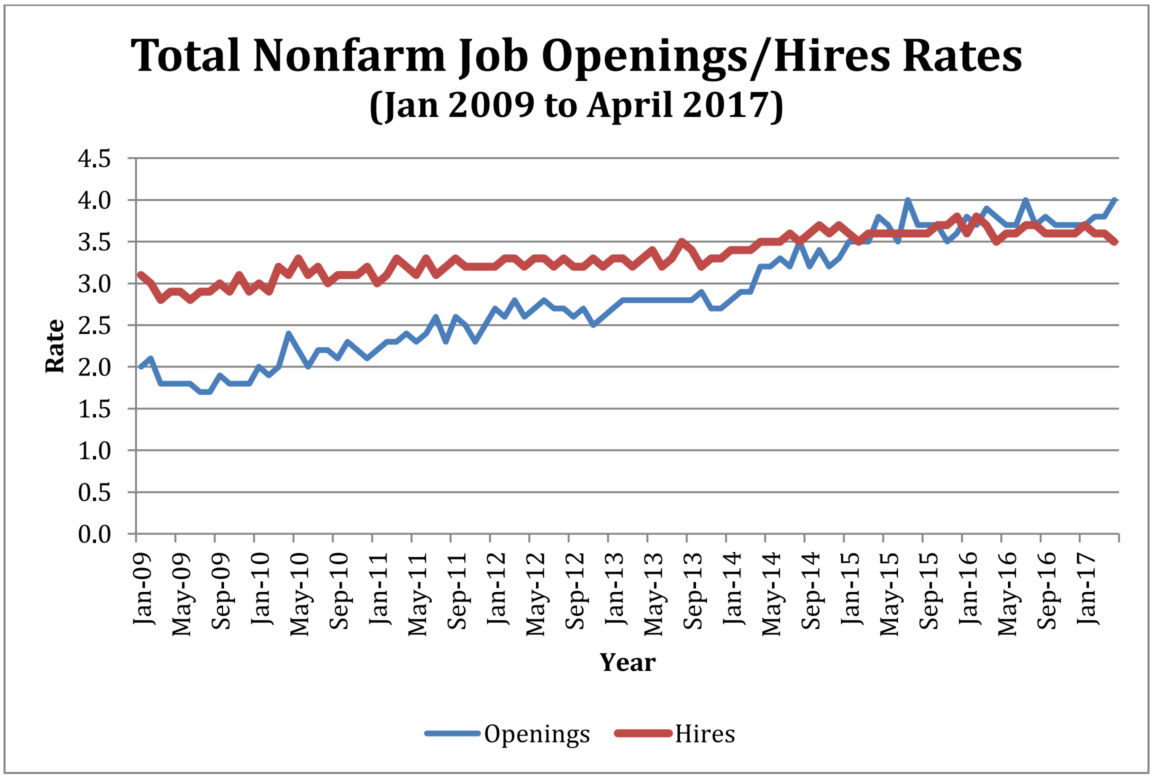
My testimony is divided into four parts. The first part of the testimony describes the problem of unfilled job vacancies. The second part discusses how guiding students towards community colleges can reduce costs of education and train students for available jobs. The third part describes the experience of the United Kingdom in getting people back in the labor force. The final section presents recommendations.

The Problem: Unfilled Job Vacancies

Although the unemployment rate has been steadily declining since the Great Recession, part of the decline has been due to the shrinkage in the labor force participation rate—which is one of the reasons that the unemployment rate has contracted. This decline, from about 66 percent in 2009 to less than 63 percent today, has left many prime-age men and women on the sidelines, out of the labor force. Since 2007, participation rates have declined by four percentage points for men and by two percentage points for women.

When the recession ended in 2009, the hiring rate was 1.1 percentage points higher than the job openings rate.[1] People were unemployed because jobs were not available. Since then, the job openings rate has been gradually rising. In April 2017, the hiring rate was 0.5 percentage points lower than the job opening rate. This is illustrated in Table 1.

Table 1



Source: Bureau of Labor Statistics (2017). "Job Opening and Labor Turnover Survey," https://www.bls.gov/jlt/

These averages mask regional differences. The Midwest and the Northeast have fared worse than the U.S. average.

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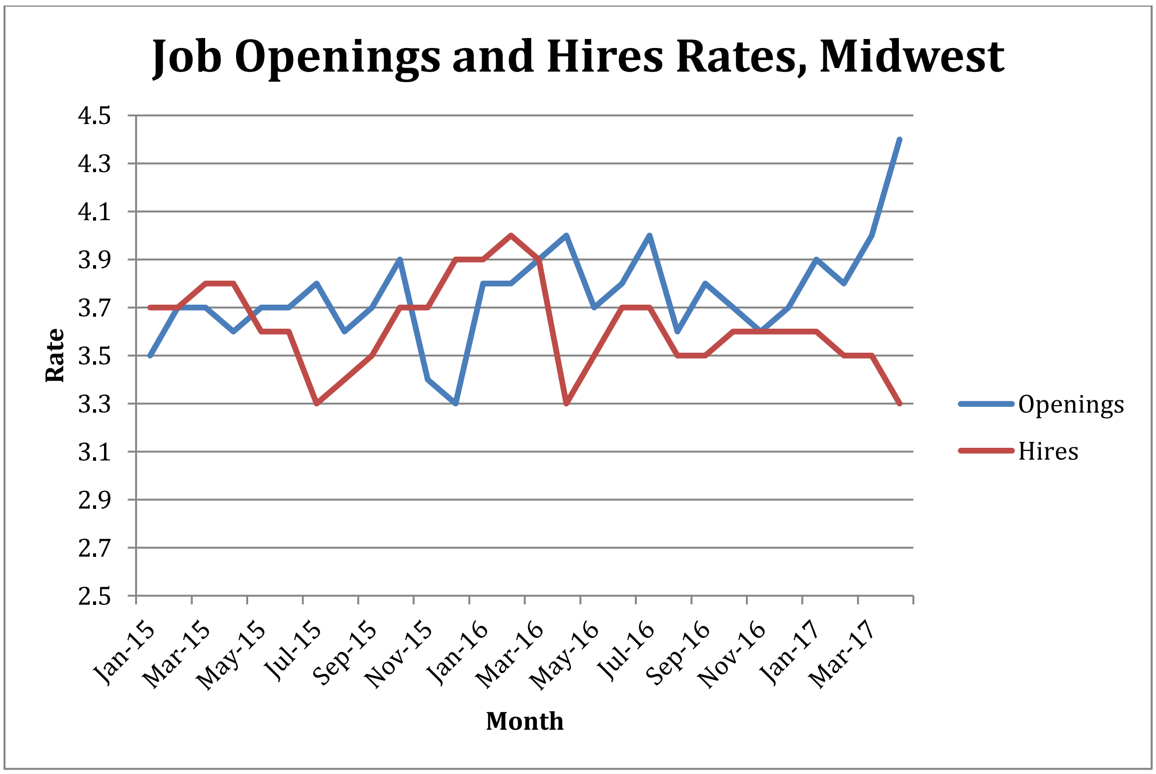
[1] The hires rate can be higher than the job openings rate, according to the Bureau of Labor Statistics, because the two rates are calculated slightly differently. The hires number is the cumulative number of hires for the entire month, and to get the rate, BLS divides the hires number by the employment number. To calculate job openings, BLS uses the total number of job openings that are available at the end of the month, so the number is not cumulative. The job openings rate is calculated by dividing the sum of job openings and employment by employment.

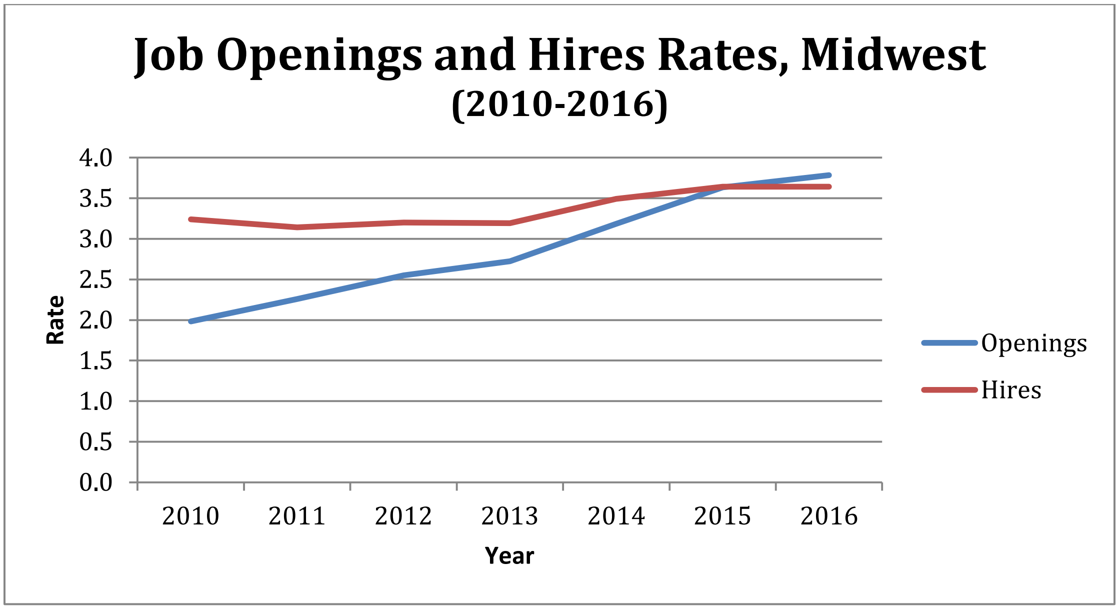
Consider the Midwest. As can be seen in Table 2 and Table 3, over the past year the rate of job openings has been above the rate of hires. The job openings rate has increased from 4.0 percent in April 2016 to 4.4 percent in April 2017, and the hires rate has stayed the same, at 3.3 percent. Now there is more than a full percentage point difference.

Table 2



Source: Bureau of Labor Statistics (2017). "Job Opening and Labor Turnover Survey," https://www.bls.gov/jlt/

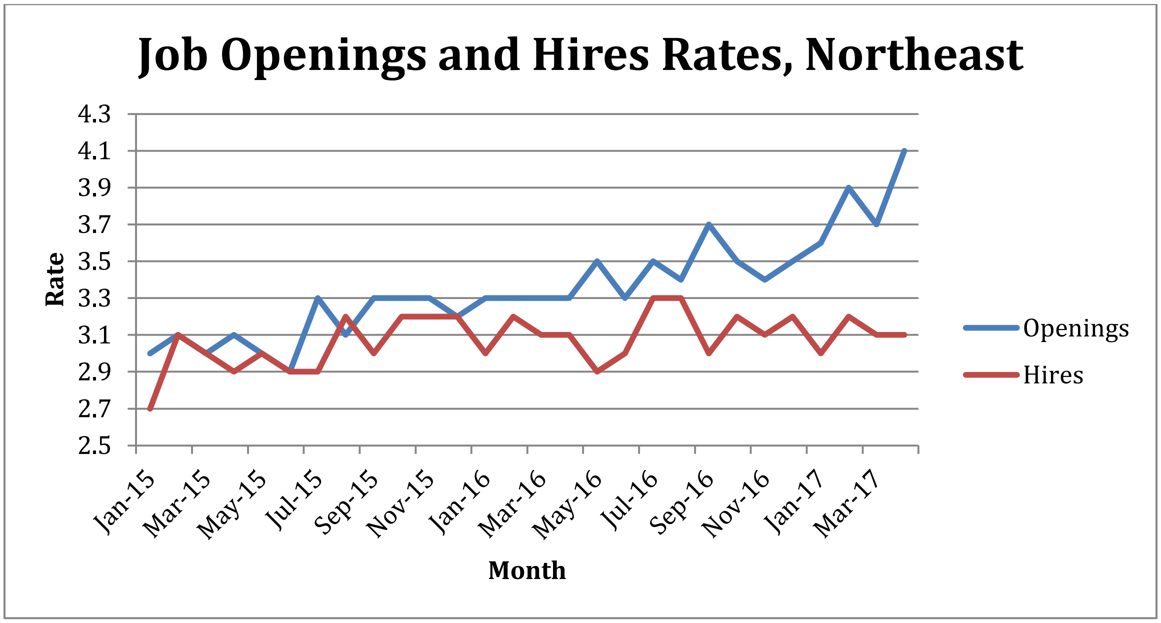
Table 3



Source: Bureau of Labor Statistics (2017). "Job Opening and Labor Turnover Survey," https://www.bls.gov/jlt/

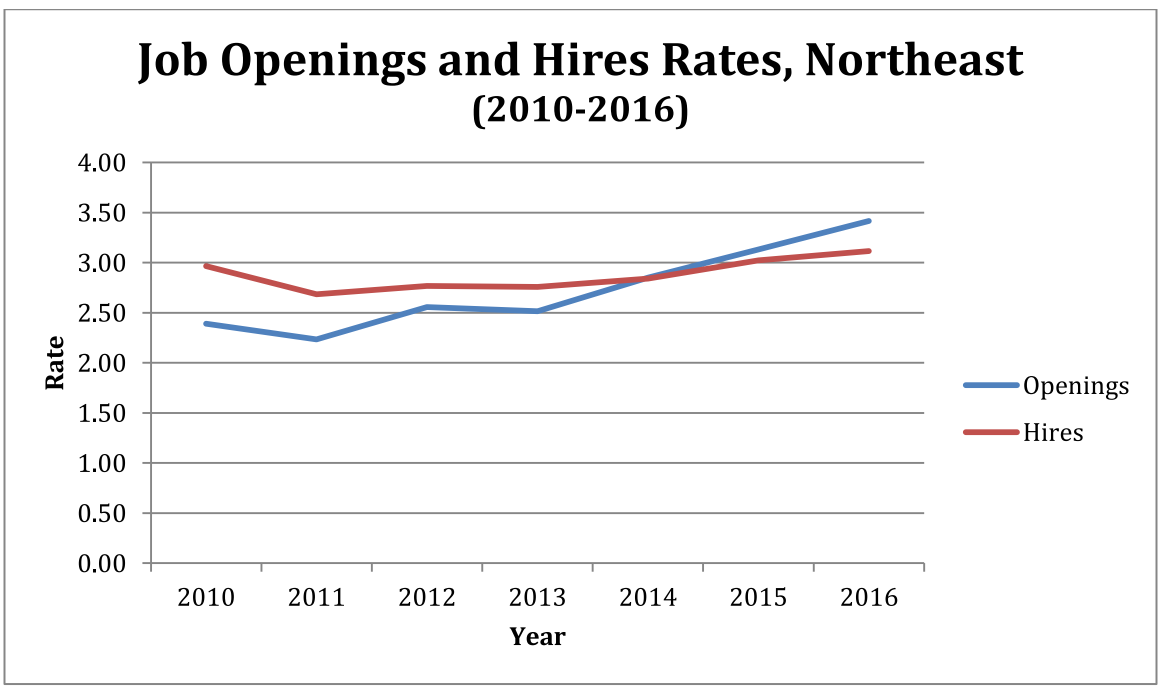
The Northeast shows a similar divergence, about a percentage point, between hires and job openings. Rates start diverging in the fall of 2015.

Table 4



Source: Bureau of Labor Statistics (2017). "Job Opening and Labor Turnover Survey," https://www.bls.gov/jlt/

Table 5



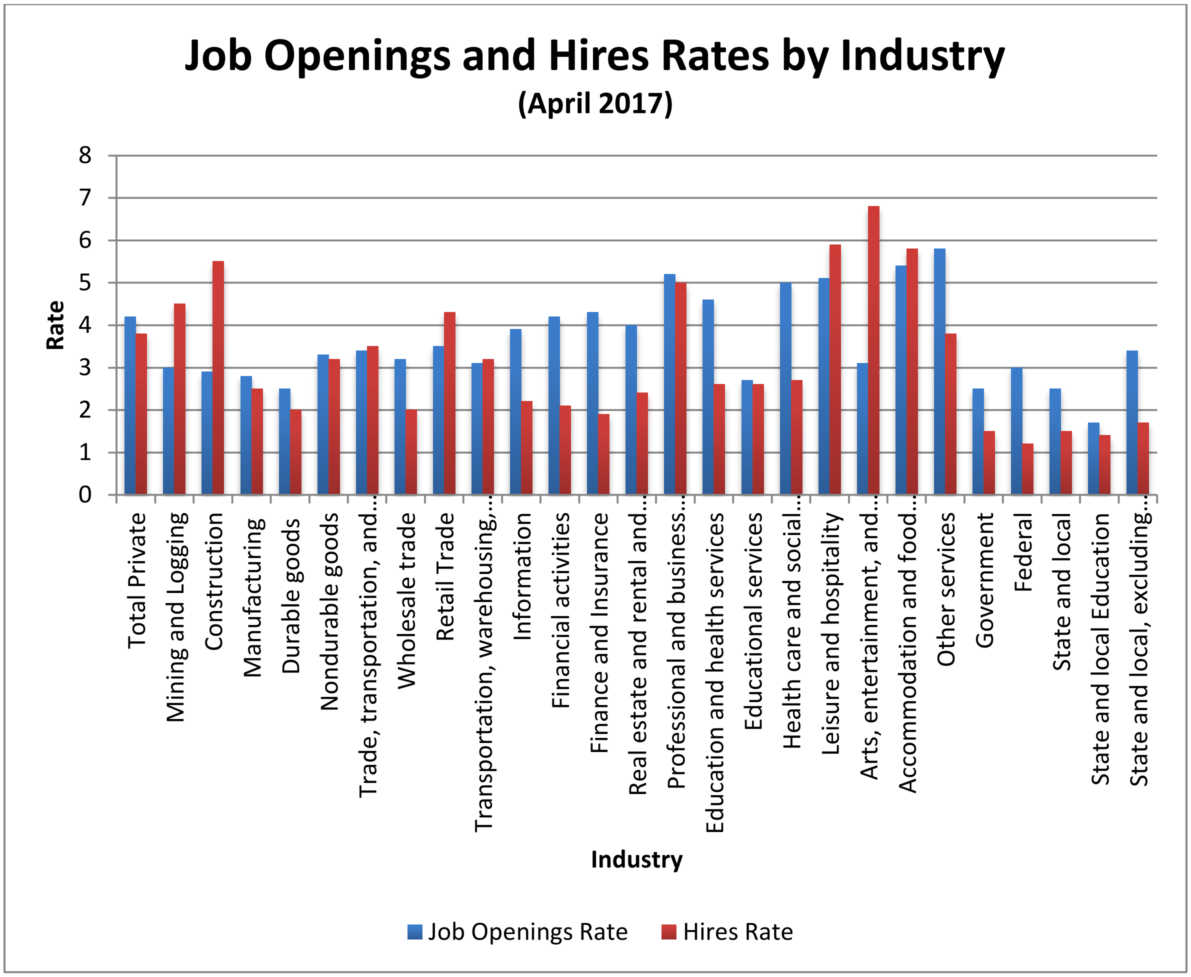
Source: Bureau of Labor Statistics (2017). "Job Opening and Labor Turnover Survey," https://www.bls.gov/jlt/

As well as regional variations, different industries exhibit different patterns, as can be seen in Table 6.

Financial activities, which include the subcategories of real estate and rental companies and finance and insurance, have higher job openings rates than hiring rates. Similarly, the information, services, and health care and social services show a large number of unfilled vacancies.

One way to solve the mismatch would be to improve training by using community colleges. This will be discussed in the next section. We can also learn from the United Kingdom's experience and put in place systems to encourage people who are receiving benefits to take jobs when they are offered.

Table 6



Source: Bureau of Labor Statistics (2017). "Job Opening and Labor Turnover Survey," https://www.bls.gov/jlt/

The Role of Community Colleges

Community colleges can increase the earnings power – and thus, the upward economic mobility – of their students. I performed research using data on individual students from the State of Florida in 2009, following students with different grades and educational choices over time to see how much they earned.[2] These results have been extended and confirmed by a study published

[2] Diana Furchtgott-Roth, Louis Jacobson, & Christine Mokher (2009). "Strengthening Community Colleges' Influence on Economic Mobility." *Economic Mobility Project*.

by the Community College Research Center of Columbia University in April 2017.[3] To maximize students' opportunities, the American Association of Community Colleges has implemented a Pathways Project in 30 colleges to guide students into better-earning careers.

Community colleges have several roles. The first is helping students complete the coursework necessary to transfer to four-year colleges and attain bachelor and graduate degrees. The second role is helping students complete career and technical courses, which can lead to high paying jobs even without four-year college degrees.

Using an analysis of a large, detailed database covering the schooling and employment of 84,000 Florida students who left the 12th grade in 2000, my coauthors and I showed that jobs in many high-return fields such as health care, building trades, and protective services are accessible to community college students with low high school GPAs. By providing career and technical courses, community colleges play a vital role in increasing the earnings of students who would have difficulty boosting their career by completing demanding academic programs required to enter many high-return fields.

Community colleges can boost the earnings of their high-performing, low-income students by helping them attain associate degrees and transfer to 4-year colleges. They can also boost the earnings of low-income students with all levels of high school performance who do not transfer to 4-year colleges by helping them to complete high-return courses and attain certificates and associate degrees. However, community colleges could have even greater success in increasing economic mobility if steps were taken to reduce impediments that prevent students from fully developing skills of value in the work place.

Certain concentrations lead to much higher returns than others. Students who complete substantial numbers of courses in career and technical fields have much higher earnings than students who complete a comparable number of credits in

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http://www.pewtrusts.org/en/research-and-analysis/reports/0001/01/01/strengthening-community-colleges-influence-on-economic-mobility

[3] Davis Jenkins, Hana Lahr, & John Fink (2017). "Implementing Guided Pathways: Early Insights From the AACC Pathways Colleges."
http://ccrc.tc.columbia.edu/media/k2/attachments/implementing-guided-pathways-aacc.pdf

the arts and sciences alone. This is true for students who obtain both two-year and four-year degrees, students who complete two-year degrees alone, and for students who obtain certificates.

The primary personal impediments that prevent high- and low- performing community college students from completing more high-return courses are lack of information about the returns to various fields of study, the aptitudes needed to do well in different courses, their own aptitudes, and the characteristics of jobs they could enter after completing different sets of courses.

That is why personalized guidance such as the AACC Pathways Project has the potential to make a substantial contribution.[4] The analysis of this effort, by David Jenkins, Hana Lahr, and John Fink, published in April, shows that students benefit from information about the educational options open to them; the consequences of their choices in terms of their effect on completing a program leading to higher earnings, the time and cost of completing the program, and the need to enhance their academic preparation; sources of financial aid; and sources of supportive services.

Telling students about their options and potential future earnings can lead them to alter their course selection to greatly increase their success in completing programs and enhancing post-college earnings. Helping students discover interesting programs that lead to better jobs provides motivation necessary for students to remain in college and obtain valuable certificates and degrees rather than leave school with no credential.

Progressing further through college does not invariably make students better off in terms of future earnings. It depends on the fields of study selected. Students who obtain certificates have much higher earnings than students who obtain two-year degrees in a low-return concentration and do not continue to obtain four-year degrees. Students who obtain terminal two-year degrees in moderate or high-return fields have higher earnings than students who obtain four-year degrees in low-return fields.

[4] Ibid.

These results suggest that community college students can substantially raise their earnings by establishing a base on which to build. They can earn two-years' worth of credits and then subsequently obtain four-year degrees. Or they can earn one years' worth of credits and then complete a certificate or two-year degree in a career or technical field.

Often the goals that are given the greatest attention are those that would improve educational achievement and earnings, but require that students complete more courses, complete courses that are more academically challenging, and by implication, require overcoming family and financial impediments to attend four-year colleges and attend school full-time.

Key concentrations such as information technology and engineering require strong performance in STEM-related courses. Nevertheless, there are some segments of high-return concentrations that do not strongly depend on having high levels of academic skills, such as courses that prepare students for some of the "helping" occupations in healthcare and education—occupations that now have vacancies.

In sum, an important and widely-recognized way for community colleges to further boost students' earnings is to help more high-performing community college students transfer to four-year colleges. An even more vital and less widely-recognized way for community colleges to increase students' earnings is to help them select suitable high-return courses that would increase the likelihood they would leave school with valuable workplace skills. Additional funding is needed to provide more slots in high-return courses.

Comparing the United States and the UK Experience

Since 2000 the United States and the United Kingdom have seen an increasing divergence in the labor force participation rates. The 2016 UK labor force participation rate for people between 15 and 64 years old was 77.6 [5] compared to 73 percent in the United States.[6]

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[5] OECD (2017), Labour force participation rate (indicator). Doi: 10.1787/8a801325-en (Accessed on 30 June 2017)

[6] OECD (2017), "Main Economic Indicators - complete database", *Main Economic Indicators* (database). http://dx.doi.org/10.1787/data-00052-en (Accessed on 05 July 2017)

In 2001, the United Kingdom and United States both had labor force participation rates for prime age workers—defined as those ages 25 to 54—of 84 percent. Since then, the UK rate has increased to 86 percent[7] and the U.S. rate has declined by more than two percentage points to fall below 82 percent. [8]

What is the United Kingdom doing that the United States could emulate? A big reason for the change in the LFPR over the past two decades, and especially since 2010, is the Welfare Reform Act 2012.[9] This act overhauled the welfare system in the UK by creating one benefit known as Universal Credit. The program replaced the working tax credit, the child tax credit, housing benefit, income support, income-based job seeker's allowance, and income-based employment and supportive allowance.

The goal of this new program was to transition people into work by "reducing the support a person receives at a consistent rate as earnings increase." The program has been phased in from 2013 to 2017. In 2013, no new applicants were placed on the old welfare programs. Once everyone from the old system has been transitioned over to the new system, the old system will be abolished completely. While transitioning over to the new system, interim measures of support are provided.

In 2017, 530,000 people are currently on Universal Credit. [10] Out of these, 200,000 (38 percent) are employed. Most claimants on low incomes will still be paid Universal Credit when they first start a new job or increase their part-time hours. They receive a single monthly household payment, paid into a bank account in the same way as a monthly salary.

In order to get Universal Credit, people must show that they are actively looking for work by registering with employment agencies and applying for jobs. More important, when they are offered a job, they cannot turn it down. If people refuse job offers, their payments are reduced.

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[7] Ibid.
[8] Ibid.
[9] Library of Congress (2015). "Great Britain: Welfare Reform Act 2012." https://www.loc.gov/law/help/welfare-reform/great-britian.php
[10] Department for Work & Pensions (2017). "Universal Credit Statistics." https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/618482/universal-credit-statistics-to-11-may-2017.pdf

The number of people on benefits has been declining. In 2016, 3.7 million were on key out-of-work benefits, compared to 5 million in 2011. [11]

Employment for those aged between 16 and 64 has increased from 71 percent in 2012 to 75 percent in of 2017.[12] Unemployment, for people 16 and over, has also largely decreased during this time period from 8 percent to 4.6 percent.[13] The economic inactivity rate (not working and not seeking or available to work) for people aged 16 to 64 has decreased by 2.4 percentage points since 2012. More people are searching for jobs than before.

[11] "The Key-out-of-Work benefits data provides counts of working age claimants of the following key benefits; Bereavement Benefit, Disability Living Allowance, Employment and Support Allowance, Incapacity Benefit, Income Support, Jobseeker's Allowance, Universal Credit, Carer's Allowance and Widow's Benefit" (Source: DWP quarterly stats summary may 2017)
[12] Office for National Statistics (2017). "Employment rate (aged 16 to 64, seasonally adjusted)." https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/timeseries/lf24/lms
[13] Office for National Statistics (2017). "Unemployment rate (aged 16 and over, seasonally adjusted)." https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx/lms

Table 7

Comparison of American and British Labor Force, 2000-2016 Ages 15 to 64						
	Labor Force Participation Rate		Employment Rate		Unemployment Rate	
Year	UK	US	UK	US	UK	US
2000	75.5	77.2	72.4	74.1	5.6	4.0
2001	75.3	76.8	72.6	73.1	5.0	4.8
2002	75.3	76.4	72.6	71.9	5.2	5.9
2003	75.3	75.8	72.8	71.2	5.0	6.1
2004	75.3	75.4	72.9	71.2	4.7	5.6
2005	75.4	75.4	73.0	71.5	4.8	5.1
2006	75.7	75.5	72.8	72.0	5.4	4.7
2007	75.5	75.3	72.7	71.8	5.3	4.7
2008	75.8	75.3	72.7	70.9	5.7	5.8
2009	75.7	74.6	71.1	67.6	7.7	9.4
2010	75.4	73.9	70.4	66.7	7.9	9.8
2011	75.5	73.3	70.3	66.6	8.2	9.1
2012	76.1	73.1	70.9	67.1	8.1	8.2
2013	76.4	72.8	71.5	67.4	7.7	7.5
2014	76.7	72.7	72.8	68.1	6.3	6.3
2015	76.9	72.6	73.6	68.7	5.5	5.4
2016	77.6	73.0	74.4	69.4	5.0	4.9

Source: OECD (2017). "Main Economic Indicators- complete database," Main Economic Indicators (database), http://dx.doi.org/10.1787/data-00052-en (accessed on 05 July 2017).

In contrast, in the United States, almost 60 percent of nonworking men[14] are on federal disability benefits, 13.2 percent are on food stamps[15] and 25 percent are on Medicaid.[16]As these benefits have increased, fewer Americans are working. One disincentive to working is that low-income Americans face extraordinarily high marginal tax rates, often well in excess of 40 percent. Each dollar of income for a low-income individual may mean the loss of substantial federal benefits. These losses of benefits are a perverse form of taxation, discouraging poor Americans from finding work and improving their economic condition. These high marginal tax rates at the bottom discourage labor force participation.

Most of the decline in labor force participation is from those under 54, not from older Americans. One cannot say that all of the decline was due to benefits, but they may have contributed.

University of Chicago economics professor Casey B. Mulligan, provides new evidence that increases in federal benefits since 2007, such as unemployment insurance, the Supplemental Nutritional Assistance Program (formerly food stamps), and other means tested programs, have discouraged people from working. [17]

When individuals receiving these federal benefits begin to work, they lose benefits and effectively incur a high federal marginal tax rate. These high marginal tax rates are caused by phaseout levels of benefits at different income levels. Mulligan shows that federal benefits have contributed to a decline in the labor force participation rate. The ratio of people with jobs or looking for them to the population of working age (now 62.7 percent) peaked in 2000 and then gradually declined about one percentage point until 2007. Since 2007, when benefits were increased, the ratio declined by almost four percentage points.

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[14] Social Security Administration (2016). "Annual Statistical Report on the Social Security Disability Insurance Program, 2015." https://www.ssa.gov/policy/docs/statcomps/di_asr/2015/index.html

[15]United States Department of Agriculture (2017). "Supplemental Nutrition Assistance Program (SNAP)." https://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap

[16] Medicaid and CHIP Payment and Access Commission (2016). "MACStats: Medicaid and CHIP Data Book." https://www.macpac.gov/wp-content/uploads/2016/12/MACStats_DataBook_Dec2016.pdf

[17] Casey Mulligan, *The Redistribution Recession: How Labor Market Distortions Contracted the Economy* Oxford University Press, 2012.

Mulligan also documents the effects on the labor force of the Affordable Care Act.[18] He explains that the likely effects will be reduced employment. Some employees will have to work more, and others less, with an average reduction in employment of 3 percent.

Mulligan's work adds to a body of prior studies by Urban Institute fellow Eugene Steuerle and others that document disincentives to marriage among the poor and middle classes due to phaseouts of multiple benefits. The disabled, who fear the loss of Medicaid, face a particular disincentive to work, according to testimony by Steuerle before a House Committee on Ways and Means hearing.[19]

One factor in the decline in the share of the population available to work is the increase in benefits between 2007 and 2009, some of which continues today. These include expanded eligibility and benefit levels for food stamps and disability insurance; the Affordable Care Act, with subsidized premiums; subsidies for continuation of employer-provided health insurance; and means tested mortgage modification.

What is troubling is that as the economy gradually improves, the labor force as a percent of the population is shrinking. With the population aging and a smaller share of younger workers, this trend will lead to steadily higher federal and state tax burdens on the young, even if Congress reduces taxes and modifies Social Security and Medicare benefits for future retirees. This is also a problem in Japan and Europe, where the ratio of the retired to the working is rising.

Since the Great Recession, programs have expanded in two ways. Eligibility has increased, and the programs have become more generous. By consolidating these programs and returning them to pre-recession levels, the employment rate would likely rise by eliminating some of the disincentives for people to work. An even more beneficial approach to these programs would phase them out gradually as Americans enter the labor market and find work. There is no magic formula for exactly how to phase out benefits as income increases, but a good

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[18] Casey Mulligan (2014). "The Affordable Care Act and the New Economics of Part-Time Work," *Mercatus Center*.

[19] C. Eugene Steuerle, "Statement of C. Eugene Steuerle on Marginal Tax Rates, Work, and the Nation's Real Tax System," Joint Hearing of the Subcommittee on Human Resources and Subcommittee on Select Revenue Measures, House Committee on Ways and Means, June 27, 2012.

rule of thumb would be to provide incentives for Americans receiving benefits to seek work rather than avoid it.

Constraints on Growth

In addition to removing artificial obstacles to labor supply, it is also important to remove constraints to economic growth and therefore to labor demand. Chairman Tiberi, as you stated so clearly in your Report on the 2017 Economic Report of the President, published in February, "The failure to surge back has left the economy below its potential output."[20] This failure has also reduced the demand for labor, discouraged people from working, and left them sitting on the sidelines.

This "failure to surge back" is due to policies from the Obama Administration and its appointees that have constrained the economy and have lowered investment and productivity.

According to the Bureau of Labor Statistics, labor productivity grew at an average rate of 1.1 percent from the end of 2007 to the third quarter of 2016, far below than the 2.3 percent rate from 1947 to 2007 or the 2.7 percent rate from 2001 to 2007.[21] The lackluster recent productivity growth means that the rate would have to grow to 11 times the rate experienced during the last five years in order to return the series to the long-term historical trend.

David Byrne of the Federal Reserve Board, Stephen Oliner of the American Enterprise Institute, and Daniel Sichel of Wellesley College show that mismeasurement of the prices of high-tech products masks the extent to which those prices have actually fallen over time.[22] Their adjustments show prices falling much more rapidly, and imply a different composition of recent productivity growth, although it is important to note that they still find slowing

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[20] Joint Economic Committee, *Report of the Joint Economic Committee on the 2017 Economic Report of the President*, February, 2017, page 5.
[21] Bureau of Labor Statistics (2017). "Labor Productivity Growth Since the Great Recession." United States Department of Labor. https://www.bls.gov/opub/ted/2017/labor-productivity-growth-since-the-great-recession.htm
[22] David Byrne, Stephen Oliner & Daniel Sichel (2017). "Prices of High-Tech Products, Mismeasurement, and Pace of Innovation." National Bureau of Economic Research. http://www.nber.org/papers/w23369

productivity growth and are skeptical that the slowdown is an artifice of measurement problems.

This means that multifactor productivity growth in the high-tech sector has remained robust, but in other sectors it has fallen precipitously. The authors are optimistic that this pattern of multifactor productivity growth implies that a new wave of productivity growth driven by developments in the digital and technology spheres could be coming, although they caution that policies that deter investment could attenuate future increases in productivity growth.

These include policies of the Federal Reserve, tax policy, and the growth of the administrative state's regulations. I have written extensively about these constraining policies over the past eight years, and I will briefly review each in turn.

I will begin with the Federal Reserve, because most people believe that the Fed is responsible for economic growth. No matter that the Fed cannot move the economy forward alone. Yet the Fed has substantial influence and has failed in its mission.

After the recession the Fed took swift action to lower interest rates and supply liquidity to the financial system. But policies that were appropriate in a time of recession were not necessarily appropriate four, six, or eight years later. The Fed's continued low-interest and high-balance sheet policy has not led to growth rates much higher than two percent.

The Federal Reserve Board's low-interest rate policy discourages savings and encourages people to take high risks, and dampens bank lending. It is especially harmful to seniors, who are forced to take on further risk in order to achieve required levels of income in retirement. This does not lead to a healthy economy. Now the Fed is gradually raising interest rates, but these remain at historical lows.

The Fed's low interest rate policy is only part of its accommodative stance. It holds over $4 trillion on its balance sheets, funds that were accumulated during its cycles of quantitative easing after the 2007-2008 recession. During the Fed's program of "quantitative easing" after the Great Recession, the Fed was purchasing $85 billion a month in Treasuries and mortgage backed securities.

Mickey Levy, chief economist for the Americas and Asia, Berenberg Capital Markets and a member of the Shadow Open Market Committee, testified on unwinding the Fed's balance sheet before the House Financial Services Committee in April. He said, "The Fed's excessively large balance sheet does not serve any positive economic purpose, but has many downside aspects. It does not stimulate economic growth or increase bank lending. It exposes the government and taxpayers to potentially costly interest rate increases."

The Fed should develop a plan to gradually reduce its balance sheet in order to get rid of distortions and increase certainty in financial markets. This could begin with halting reinvestment of the funds of its maturing assets, which would immediately begin to shrink its portfolio.

Tax policy is another policy area that constrains growth. The average tax rate of businesses in Organization for Economic Cooperation and Development countries is 25 percent, compared to 35 percent for the United States. Canada's corporate tax rate is 15 percent. This means that our companies have an incentive to invert their ownership—to be owned by foreign companies.

For example, Burger King, the fast food chain, merged with Canada's Tim Horton's, a doughnut chain, in order to access Canada's lower taxes.

In America corporate profits are taxed three times, once at the business level, another time when they are distributed to individuals, and a third time at death. The high corporate tax discourages investment. The gap between American and foreign rates is widening, as foreign countries are lowering their rates even as the U.S. rate stays the same. In order to raise U.S. levels of investment, the corporate tax rate should be reduced to the range of 15 percent to 20 percent, as President Trump and House Speaker Ryan have proposed.

The high corporate tax rate results in double taxation of income for equity financing—raising capital by selling shares. When corporations take on debt in order to increase investment, the interest on the loan is tax-deductible. This is not true for equity financing. The returns to equity financing are taxed three times. They are taxed once at the corporate level through the corporate tax, once at the individual level, through individual taxes on dividends and capital gains, and once at death, through estate and inheritance taxes.

After all these taxes are taken into account, the tax rate on equity can reach well over 50 percent, depending on the extent of the estate tax. This encourages firms to take on debt for financing, which is distortionary.

Not only is the U.S. corporate tax an outlier, but U.S. corporations are taxed on their worldwide income—a path taken by only 7 of the 34 OECD countries (including the United States).[23] This places America at a competitive disadvantage.

A global (or worldwide) tax system is uncompetitive with high tax rates because it imposes a high income tax rate on all profits, regardless of where they are earned. If an American company operates in the United States and Canada, its domestic affiliate pays U.S. taxes of 35 percent and its foreign affiliate pays U.S. taxes at 35 percent and Canadian taxes at 15 percent. America allows companies to deduct the taxes paid to foreign governments from U.S. taxes owed to the Internal Revenue Service, but this means that corporations always pay the full U.S. rate and are unable to take advantage of low-tax jurisdictions.

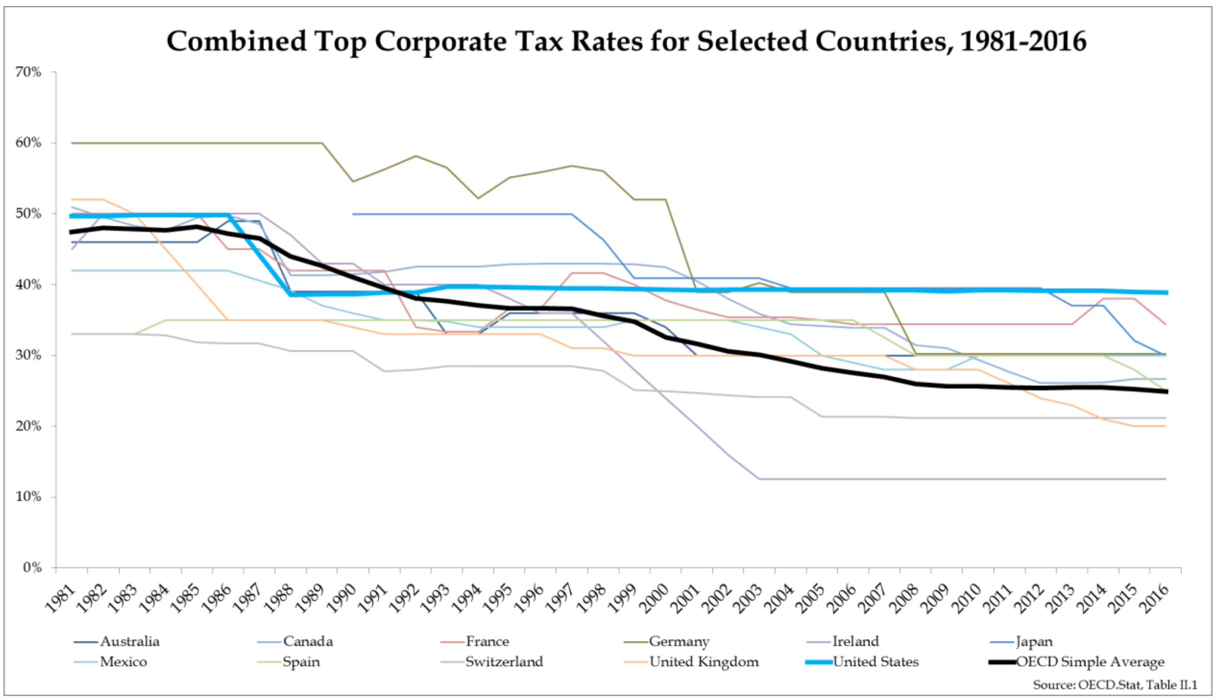
In contrast, a territorial tax system, common to most of our competitors, taxes only the income earned domestically. Our American company operating in Canada and the United States would pay U.S. taxes on its domestic income and Canadian taxes on its Canadian income. In this way companies can take advantage of low-tax jurisdictions. Business decisions can be made more efficiently, since bringing profits back domestically will not result in those profits being taxed again – thus, capital can go where it is most needed.

America raised just under $300 billion from the corporate tax in 2016,[24] according to the Office of Management and Budget, around 9 percent of all revenue, and the tax costs millions to administer. Most important, it effectively discourages investment in the United States.

[23] Kyle Pomerleau (2015). "Worldwide Taxation is Very Rare," *Tax Foundation*. https://taxfoundation.org/worldwide-taxation-very-rare
[24]Office of Management and Budget (2017). "Table 2.1--Receipts by Source: 1934-2022," https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/hist02z1.xls

American companies hold offshore about $2.6 trillion of earnings from foreign operations.[25] No one knows how much would be repatriated with a lower U.S. tax, but it would be higher than it is now, adding to investment and employment. These are funds that, given proper incentive, can return to America and be used for capital projects, dividends/share repurchases, consumption, or job creation – all of which represent a boost to the weak economy.
It is difficult to overstate the importance of a sensible tax system to economic growth. Real GDP grew at an annualized rate of 1.4 percent in the first quarter of 2017.

Table 8



Source: OECD (2017). "Statutory Corporate Income Tax Rate," Tax (database). https://stats.oecd.org/index.aspx?DataSetCode=Table_II1

Another major constraint on growth is regulation. Some economists have attempted to measure the burden of regulation either in terms of costs or in

[25] Thomas A. Barthold (2016). "Barthold Letter to Brady and Neal," *Joint Committee on Taxation*. https://waysandmeans.house.gov/wp-content/uploads/2016/09/20160831-Barthold-Letter-to-BradyNeal.pdf

terms of pages in the Federal Register.[26] Neither of these is a particularly useful measure. It is practically impossible to measure correctly all the costs of regulation because such an estimate involves measuring indirect effects that can stretch across time and across national boundaries. All estimates of the costs of regulation that I have seen are low because of economists' inability to measure these indirect effects.

The number of pages in the Federal Register does not indicate the burden of a regulation. Some pages could be helpful, by giving clear instructions as to how to comply. Some pages could reverse prior regulations. What is needed is a better method of measuring the costs and benefits of regulations, and also of preventing executive branch agencies from going beyond the wishes of Members of Congress.

Congress needs to ensure that government agencies live up to the highest standards of cost-benefit analysis. If the cost of doing business in America unnecessarily rises as a result of burdensome regulations, all Americans suffer. For instance, EPA's regulations will adversely affect Americans living in energy-producing states, and Congress should be particularly careful about these geographic effects.

Cost-benefit analysis performed by government agencies is especially important because the government is imposing regulations on the public, and the public has nowhere else to go. If a private company errs in its cost-benefit calculations, it may make an investment that turns out to be unprofitable. The company may even go out of business, with management, employees and shareholders suffering financial and job losses. But if a government agency makes mistakes in cost-benefit analysis, the entire country potentially loses, and no government employees lose their jobs.

The Environmental Protection Agency has admitted that its regulations reduce employment. EPA's Stationary Sources report for the carbon rule spells out some job losses. According to the report, "The EPA recognizes as more efficiency is

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[26] Clyde Wayne Crews (2015). "Ten Thousand Commandments 2015." *Competitive Enterprise Institute.* https://cei.org/10kc2015

built into the US power system over time, lower fuel requirements may lead to fewer jobs in the coal and natural gas extraction sectors…"[27]

The EPA estimates that the rule could result in a net decrease of approximately 31,000 full-time jobs in 2030 for the final guidelines under the rate-based illustrative plan approach and approximately 34,000 full-time jobs under the mass-based approach. In addition, 52,000 to 83,000 jobs would be lost in 2030 due to lower demand from the higher electricity prices.

These job loss projections are likely to be a substantial underestimate.
The economic consulting firm NERA estimated that the EPA's carbon rule alone would cause delivered electricity prices to rise by an average of 17 percent. Over a fifteen-year period, this would increase consumer energy costs by a cumulative $479 billion.[28] Reducing ozone and mercury would increase the costs still further. Rather than continuing the trend of manufacturing returning to America, the EPA's rules would reverse it by discouraging energy-intensive manufacturing.

Environmental rules are just the tip of the regulatory iceberg. The Affordable Care Act discourages employers from hiring because firms with fewer than 50 equivalent workers are exempt from having to provide health insurance to their employees. Labor regulations raise the cost of hiring, leaving the lowest-skilled worse off. Those with higher skills are more fortunate, but still pay a penalty—they get jobs, but the cost of employing them is subtracted from their wages.

Conclusion

Matching workers to job vacancies is of the utmost importance, and there are many ways that this could be done. On the labor supply side, education could be better targeted at low-skill workers in order to prepare them for high-return jobs. Eligibility for benefits could be reduced to 2008 levels, to encourage people to re-enter the workforce. On the labor demand side, government policy could be

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[27] U.S. Environmental Protection Agency (2015). "Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units." http://www.epa.gov/airquality/cpp/cpp-final-rule.pdf

[28] David Harrison Jr. et al. (2014). "Potential Energy Impacts of the EPA Proposed Clean Power Plan." *NERA Economic Consulting.* http://www.nera.com/content/dam/nera/publications/2014/NERA_ACCCE_CPP_Final_10.17.2014.pdf

better targeted at growth by reducing the constraints to expanding GDP. The Fed could raise its interest rates, Congress could reduce corporate tax rates, and Members of Congress could exercise more authority over burdensome regulations put in place by the Executive Branch.

Thanks for allowing me to testify. I would be glad to answer any questions.