

BUSINESSES CAN ADOPT CREATIVE SOLUTIONS TO ADDRESS WORKFORCE SHORTAGES

“Economic growth is a function of gains in the number of workers and their productivity. More workers mean more output, income, and consumer spending. These trends, in turn attract more employers and workers, fueling a virtuous cycle of growth.... But analysts agree that for the US economy to expand faster, it is going to need more people working. ‘Without people, you can’t have jobs, and without jobs, you can’t have an economy,’” said Mark Zandi, Chief economist at Moody’s Analytics.”

Recently I spoke with a Manufacturer & Business Association (MBA) member who has a service business operating in various locations throughout Pennsylvania. At the time, he had 20-30 open positions for service technicians. “Help Wanted” signs are posted in stores, restaurants and more and in some locations, you may notice that hours and days of operation are shortened all due to lack of staff. So where are all the workers and how did we get here?

Here is what the national picture looks like. The U.S. has a very tight labor market according to the U.S. Department of Labor, Bureau of Labor Statistics (BLS). The number of job openings was 10.4 million on September 30, and as of October 31 the number of unemployed was 7.4 million. That equals 1.4 jobs for every person counted as unemployed. Pennsylvania also has a very tight labor market. For the same time periods the number of job openings was 420,000 and the number of unemployed was 378, 000. That equals 1.1 jobs for every Pennsylvanian counted as unemployed. There are not enough workers.

Part of the reason for tight labor markets in the US and Pennsylvania are the impact of three major demographic trends.

- The U.S. labor force participation rate has declined from 66.8% in September 2001 to 61.7% overall. “Pennsylvania’s labor force participation was 61 percent in October... The 10-year high for the labor force participation rate in Pennsylvania was 63.7 percent last occurring in November 2012.”
- The U.S. birthrate has declined from 15 births per 1000 people in 1989 to 12 in 2021 and is forecast to shrink to 11 over the next 3 decades.
- How often do we hear about the retirement of the baby boomers? Since 2011, 2 million baby boomers per year left the workforce across the US. In 2020, it spiked to 3.2 million and is projected to continue for the next 20 years.

...Adapted from The Keckley Report, October 10, 2021

Similarly, Pennsylvania, like the U.S., has a long-term demographic problem that is negatively impacting growth. **Pennsylvania is expected to have a flat population growth**, with those in younger age groups decreasing and those in older groups increasing....*Adapted from “Five Year Projection, Economic and Budget Outlook for 2021-2022 to 2026-2027,” Independent Fiscal Office (IFO), November 15, 2021*

The baby boomers are a big factor in Pennsylvania. “From 2015-2025 the number of retirees is estimated to increase by 637,000 residents or 29.2%. **We have a workforce that we think could contract over the next decade and that is a major driver of economic growth: From 2015-2025 the working age population (20-64) will contract by 252,000 residents. (-3.3%)”** ...*Matthew Knittel, Director, Independent Fiscal Office, 2021 Demographic Outlook.*

There is a long-term shortage of workers throughout the economy for a number of reasons and it can’t all be attributed to demographic trends.

The COVID-19 pandemic has side-lined many workers because they fear the virus. This is especially true for women who have dropped out of the workforce for several reasons: lack of adequate childcare, or they care for vulnerable family members, or they may be home-schooling.

- There are numerous incentives that encourage people not to work. Some have a savings cushion and may not need to work, and others have decided that one income is adequate.
- There is a long-standing, continued focus on college degrees at the expense of blue-collar work.

How is all of this impacting business? The big companies such as Walmart, Aldi, Amazon, CVS, Dollar General and Burger King are hiring thousands of workers and luring them with increased wages, richer benefits, signing bonuses and increasing other non-wage compensation.

It is challenging for small and medium-sized businesses to compete for with larger companies for the same pool of workers. According to a recent National Federation of Independent Business report, 51% of small businesses said they couldn't fill job openings in September — a record number for the second consecutive month. This is also up one percentage point from August and above the historical average of 22% dating back to 1986, per the NFIB report.

While the state and the country have worker shortages, what about western Pennsylvania? Next to the high cost of health insurance for employees, the need for workers is one of the most common issues raised by Manufacturer & Business Association (MBA) members. When were they asked in MBA's January 2021 Government Affairs Survey "What issues could help your business in the short-term?" the top reply was "Access to a pool of qualified workers."

First-hand comments were gathered from other businesses. MBA and two other business organizations held a Business Issues Forum in September. The Forum created a venue where thirteen state lawmakers heard directly from businesses regarding their top issues. Business representatives from large gas and oil corporations, public utilities, to small software firms and manufacturers of cycling clothing responded to the question "What keeps you up at night?" Of five issues shared by all, the top issue was the inability to find workers and the lack of a prepared workforce. Some common statements:

- Senior employees are leaving the workforce and their institutional knowledge is lost forever.
- Young people prefer to work part-time rather than full-time.
- Many potential employees do not have the mind-set and are not ready to work and require training.
- Many potential employees cannot pass a drug test.
- Many employers believe there is no available pool of workers.

LONG-TERM PROBLEM: How can we fix this workforce shortage in Pennsylvania? Economics equals the number of people working and their productivity. Given the poor demographic outlook it is important to consider creative ways to build the workforce – we have to figure it out. For example, that can mean finding ways to make existing workers more productive, re-thinking credential requirements for hiring, and locating and training underutilized workers. To keep Pennsylvania competitive, public policy must focus on expanding the labor force and filling job openings. The Commonwealth can't achieve strong economic growth over the long-term without an expansion of the labor force.

The question of whether or not workers will eventually return - a significant economic risk - is unknown. Another unknown is the impact of the Build Back Better Act. It may expand or extend federal programs, a factor that may slow the growth of the workforce.

The bottom line is there are not enough people in the Pennsylvania workforce pipeline.

INNOVATIVE SOLUTION: The tight job market has employers looking beyond their traditional labor pools. Many employers have increased efforts to hire people with criminal records, disabilities, or other nontraditional backgrounds. Former inmates can be a talent pool for smaller firms who are more severely impacted by a shortage of workers. They are an underutilized resource and can be trained and rehabilitated for a productive re-entry into the community and the workforce.

- It is hard to believe but in Pennsylvania nearly one in three – or three million – people have a criminal record. Many have only minor convictions, while others have been arrested but never even convicted of a crime. *Why Clean Slate?* <https://mycleanslatepa.com/>
- And across the U.S. nearly one in three US adults – or 70 million Americans – have a criminal record. A criminal record poses a significant barrier to employment, even when the record includes only a misdemeanor arrest or conviction. **Nearly 70 million Americans have criminal records. We must give them a second chance,**” Craig Arnold and Jamie Dimon, CEO, JPMorgan Chase, *CNN Business Perspectives*, April 27, 2021.

A number of large, prominent corporations have successfully hired and are committed to expanding opportunities to employment for people with criminal records and have formed the Second Chance Business Coalition. Some of the businesses include Best Buy, CVS, DICK’S Sporting Goods, Home Depot, Kroger, McDonald’s, Microsoft, PepsiCo, Target, Verizon, Visa, Walgreens, and Walmart.

PROBLEM: Now is the time to create second chances in Pennsylvania. Where do we start to create a non-traditional pipeline of workers? While we do not have accurate figures for the pandemic years, it’s important to understand that training for the incarcerated is not available in all facilities. There were roughly 46,000 inmates in 2018-2019 and as of December 2019, there were only 5,789 inmates in Pennsylvania prisons who had earned vocational certifications.

SOLUTION: We can start by focusing on education and job readiness. Corrections facilities should provide access to relevant training for the incarcerated while they are in facilities and make sure they are up to date with technology. Technology training should be available at all facilities. They can be trained in many facets of the computer which can lead to all types of jobs including Help Desk, IT support, programming etc.

PROBLEM: Although there is a shortage of skilled and willing workers, how do we incentivize employers who are reluctant to hire ex-offenders? Some may have tried unsuccessfully in the past and may not be willing to try again. Many will be uncertain and legitimately concerned about the “what ifs.” Employers most strongly justify not hiring ex-offenders because they would be vulnerable to negligent hiring lawsuits, as most insurance companies do not cover people with criminal records for workplace misconduct.

Advice from an experienced MBA employer

“Successful hiring of any employees or contractors is all the same. Set your standard for hiring, have several people interview the prospects, do the background checks and references to make sure they meet your standard; then pick the best candidate. Have a supervisor/mentor and a probation period. Pay a living wage, offer benefits and you will have the same success in hiring ex-offenders as any employee.”

I have over 100 contractors. Some are ex-offenders. The success is often better with ex-offenders as they really want to start a path to a good life for themselves and their family. Many are star performers. Some have had just minor issues from several years ago. I have found that ex-offenders are as good employees or contractors as the general population.”

SOLUTION: What would really alleviate the unease for employers’ is a financial incentive and more important, liability protection for hiring an ex-offender. Providing narrow liability insurance to employers who hire individuals with criminal records will expand the workforce pool and provide such individuals with job training and stable, long-term employment.

A Northwestern University 2017 study https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2851951 finds that—despite more difficulty obtaining legitimate employment—once hired, employees with criminal backgrounds are much less likely to quit their jobs, have longer job tenure, and no more likely to get fired or commit workplace misconduct than their non-ex-offender counterparts.

Therefore, pursuing innovative reforms to offer liability coverage will diminish barriers to hiring ex-cons—benefiting both community employment and public safety. Such liability protection, which could be implemented through legislation or a trial study/grant, will require clear definitions and parameters, including:

- Employers would be protected from lawsuits based *solely* upon an employee's criminal record.
- An employee's criminal record can only be introduced into a liability suit if the conviction was directly related to the nature of the employee's work and conduct forming the basis of the suit. In other words, liability would not protect employers who knowingly deploy employees whose underlying criminal offenses reasonably preclude work safety.

PROBLEM: Once reluctance to hire is overcome, how do employers find ex-offenders to hire and other helpful resources?

SOLUTION: Educate employers about the many resources and dedicated organizations such as Allegheny County Anchored Reentry Consortium (ACAR) that take care of the many practical issues faced by ex-offenders.

- Educate employers about the numerous success stories across the country and right here in Pittsburgh.
- Educate employers to successfully hire and train ex-offenders and integrate them into their workforces.

Where is help from government needed?

- Provide funding to incentivize employers' hiring and training of ex-offenders
- Provide ex-offenders a means to work-off fees and charges which can be very expensive. Court fees can range anywhere from \$2,500 - \$10,000. This is crucial because a driver's license cannot be obtained until all fees and charges are paid.
- Further pursue occupational licensure reform.

A 2021 Success Story

The employer is extremely happy with his new hire who is meeting his expectations at 100%. The employee now has his own apartment and is successfully managing a \$15 million project. The employer understands that the employee will require close mentoring for an extended period of time. He also knows the employee is uncomfortable in some social settings such as in group meetings where he is unaware of the social norm. That problem will be worked through. The employee's approach to his work is very thorough and highly detailed and the employer will use that skill to his advantage.

...Reported from an MBA member employer after a 30-60-90-day trial test period.

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