

Testimony Before the House Committee on Education and the Workforce

“Unleashing America’s Opportunities for Hiring and Employment”

By

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March 28, 2023

Chairman Foxx and distinguished members of the Committee thank you for the opportunity to testify on this issue of major importance to the country: How do we get American workers back in to the labor force. In compliance with Truth in Testimony, I attest that neither I nor my employer receive any funding from the United States federal government.

One of the great conundrums of the current U.S. economy is that some two to four million American workers are demographically missing from the workforce even two years after the Covid crisis has ended. That is to say, if we had the same labor force participation rate of working age Americans today as we did in January of 2020 before Covid hit these shores, we would have some two to four million more Americans working depending on the labor force gauge used.

This is a problem today for the overall U.S. economy because there are roughly 10 million job openings in the United States with only about five million Americans looking for jobs, and thus even if every American not employed and looking for a job filled a position, there would still be nearly five million job openings. This problem would be lessened greatly if the Americans who could be – and I would argue SHOULD be working – and are not.

The decline in the workforce has extreme negative economic effects. It reduces national output, it increases payments of government benefits, and it reduces American competitiveness while raising prices of goods and services -for example construction costs. If the goal is to get economic growth up to 3% or so from the current path of growth of about 1.6%, we will need to dramatically increase the number of Americans who are working.

The absence of work is also bad for those who are not working and for their families and communities. Work is highly associated with better health, longer life expectancy, happiness, and improvements in family conditions. Children and spouse of someone who is working are better off. Divorce rates and child abuse are higher among families with at least one working spouse than households with no one working.

There is dignity and self-worth from working.

There are myriad reasons why the labor force participation rate has fallen – especially among working age men. These include early retirement, fear of Covid, disability, the worsening skills deficit, the wealth effect from the massive increase in asset values, such as stocks and homes, over the past four decades, which has enabled millions of Americans an amount of wealth so that they no longer have to work because of their financial situation.

Most of these factors are out of control of Congress and public policy. But my own research as well as the findings of my colleagues at the Heritage Foundation and the Committee to Unleash Prosperity finds a very high connection to the decline in the workforce and government benefits paid to those who don't work. Washington continues to pay many millions of Americans roughly equal to, or in some cases MORE money for not working than working.

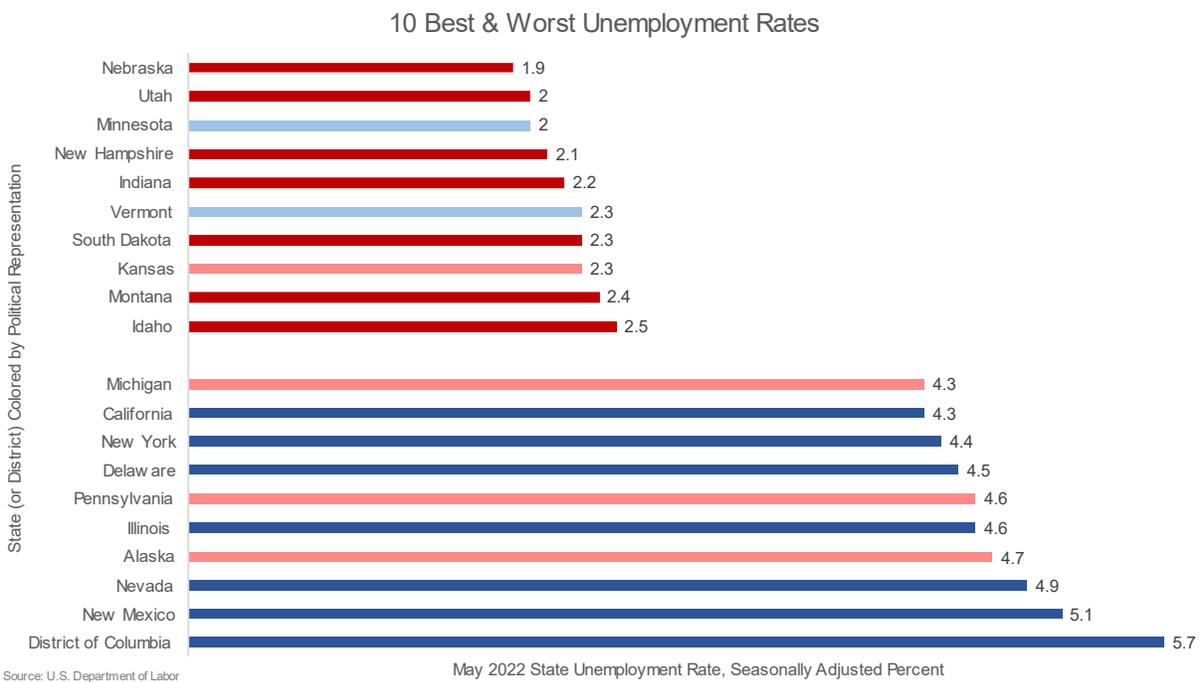
This was a major problem through 2021.

Our study at the Committee to Unleash Prosperity co-authored with Casey Mulligan of the University of Chicago, and Heritage economist E.J. Antoni found:

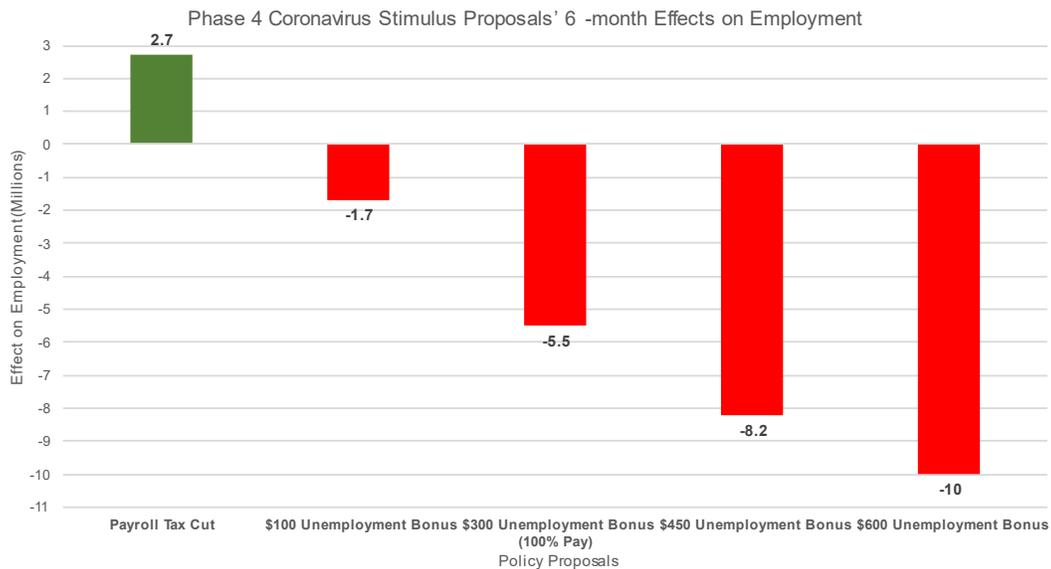
Because of the \$300-a-week bonus unemployment benefits enacted in March 2021, along with other expansions of welfare benefits and cash payments unrelated to work:

- In 21 states and DC, households can receive wage equivalent of \$25 an hour in benefits with no one working.
- In 19 states, benefits are equivalent to \$100,000 a year in salary for a family of four with two unemployed parents.
- In all but two of the blue states, \$300 Supplemental Unemployment Insurance benefits plus other welfare pay more than the wage equivalent of a \$15 minimum wage.

We found that blue states with high unemployment benefits had unemployment rates about two percentage points HIGHER than red states that immediately ended the supplemental \$600 and \$300 a month Unemployment benefits. These higher unemployment rates in blue states persist to this day.



One major mistake during Covid was Congress’s decision to raise the unemployment benefits rather than cutting the payroll tax. The heroes of Covid were the nurses, doctors, trash collectors, construction workers, grocery store clerks, delivery people, truck drivers, and so on who continued to work during Covid, keeping us fed, healthy, and providing our basic necessities during the crisis. Instead of rewarding the people who DID continue to work, we foolishly did exactly the opposite and rewarded people with higher government payments for not working. As the chart below shows, we would have had about six to eight million more Americans working if we had cut the payroll tax rather than offered up to \$600 a month additional payments for not working.



Our 2021 study estimated that during the COVID lockdowns and with supplemental unemployment benefits of up to \$600 a month, food stamp expansions, child tax credit payments, and other special Covid-related benefits to families without anyone working could exceed \$120,000 in many states. Those extra benefits had a highly negative effect on labor force participation, particularly in the states with the highest benefits after lockdowns were lifted.

The good news is that supplemental unemployment benefits and an array of other federal welfare programs that were expanded during Covid and paid people not to work, such as the child credit, have mostly expired. But we are STILL paying Americans NOT to work through dozens of other federal programs.

Our latest study finds that existing unemployment benefits and the dramatic recent expansion of ObamaCare subsidies, a spouse would have to earn more than \$80,000 a year from a 40 hour a week job to have the same after-tax income as certain families with two unemployed spouses receiving government benefits. In these states, working 40 hours a week and earning \$20 an hour would mean a slight REDUCTION in income compared to two parents receiving unemployment benefits and health care subsidies.

This study also finds:

- In 24 states, unemployment benefits and ACA subsidies for a family of four with both parents not working (and collecting UI) are the annualized equivalent of at least the national median household income.
- In 3 states, unemployment benefits and ACA subsidies for a family of four with both parents not working are the annualized equivalent of a head of household earning at least an income of \$100,000 .

- In 14 states, normal unemployment benefits and ACA subsidies are the equivalent to a head of household earning \$80,000 in salary, plus health insurance benefits.
- This is a higher wage than is earned by the median secondary school teacher, electrician, trucker, machinist, and many other jobs.
- A family of four with income over \$227,000 qualifies for ACA subsidies in all states and families earning over \$300,000 a year still qualify for ACA subsidies in 40 states and DC.

Fig. 1: Highest Benefit States for Not Working and Median Income Plus Benefits for Selected Occupations

State/Occupation	Earned Income Equivalent
Washington	\$122,653
Massachusetts	\$117,063
New Jersey	\$108,857
Minnesota	\$98,915
Montana	\$95,265
Hawaii	\$91,757
Colorado	\$91,281
Oregon	\$86,454
Rhode Island	\$85,605
Utah	\$84,751
North Dakota	\$83,537
Pennsylvania	\$82,888
Connecticut	\$82,809
Kentucky	\$80,979
Wyoming	\$79,294
Illinois	\$79,199
Texas	\$73,977
Kansas	\$73,665
Iowa	\$73,455
West Virginia	\$73,031
Oklahoma	\$72,936
South Dakota	\$72,095
Maine	\$71,757
California	\$71,063
Median Household Income	\$100,372
Median Secondary School Teacher Salary	\$87,661
Median Construction & Building Inspector Salary	\$87,406
Median Electrician Salary	\$85,137

Median Firefighter salary	\$71,893
Median Heavy Haul Trucker Salary	\$68,504
Median Machinist Salary	\$67,979

I am not against “safety net programs” that are designed to keep families out of poverty.

But the expansion of assistance, especially in subsidized health insurance to families with children and no parents working, can mean that families can earn as much or more income from receiving government assistance than the median household does from working. Unemployment insurance benefits are time limited, but for the period when the benefits are provided, returning to work may not pay for many households.

Fig. 4: Salary and Wage Equivalent of Maximum Unemployment Insurance Benefits and ACA Subsidies, Annualized Basis

Two Unemployed Parents with Two Dependent Minor Children¹

State	Earned Income Equivalent	Hourly Wage Equivalent
Washington	\$122,653	\$31
Massachusetts	\$117,063	\$29
New Jersey	\$108,857	\$27
Minnesota	\$98,915	\$25
Montana	\$95,265	\$24
Hawaii	\$91,757	\$23
Colorado	\$91,281	\$23
Oregon	\$86,454	\$22
Rhode Island	\$85,605	\$21
Utah	\$84,751	\$21
North Dakota	\$83,537	\$21
Pennsylvania	\$82,888	\$21
Connecticut	\$82,809	\$21
Kentucky	\$80,979	\$20
Wyoming	\$79,294	\$20
Illinois	\$79,199	\$20
Texas	\$73,977	\$18
Kansas	\$73,665	\$18
Iowa	\$73,455	\$18
West Virginia	\$73,031	\$18
Oklahoma	\$72,936	\$18
South Dakota	\$72,095	\$18

¹ The parents are aged 60 and the children are 15 and 17 years old. Only half of the ACA subsidies are counted.

Maine	\$71,757	\$18
California	\$71,063	\$18
New Mexico	\$69,501	\$17
Vermont	\$69,384	\$17
Nevada	\$69,185	\$17
Nebraska	\$69,035	\$17
Ohio	\$66,506	\$17
Idaho	\$64,435	\$16
New York	\$63,127	\$16
Alaska	\$62,408	\$16
Delaware	\$60,875	\$15
Arkansas	\$60,758	\$15
District of Columbia	\$60,113	\$15
Virginia	\$57,744	\$14
Maryland	\$56,178	\$14
New Hampshire	\$55,210	\$14
Indiana	\$54,980	\$14
Missouri	\$52,795	\$13
Wisconsin	\$51,974	\$13
Georgia	\$51,749	\$13
North Carolina	\$51,352	\$13
South Carolina	\$51,346	\$13
Alabama	\$51,304	\$13
Michigan	\$50,177	\$13
Louisiana	\$44,609	\$11
Arizona	\$44,271	\$11
Tennessee	\$43,244	\$11
Florida	\$43,036	\$11
Mississippi	\$37,486	\$9

Welfare Reform is Urgently Needed – Immediately

In 1996 Congress enacted the most comprehensive and pro-growth welfare reforms in American history. This was a bipartisan bill enacted by a Republican congress and signed into law by Democratic president Bill Clinton. The backbone of those reforms was the combination of strict work/and skills development requirements for employable adults receiving benefits and time limits on receiving benefits.

Here were the results according to Brookings Institute scholar and one of the chief architects of that bill, Ron Haskins.

“If the 1996 reforms had their intended effect of reducing welfare dependency, a leading indicator would be a declining welfare caseload. Caseloads began declining in 1994 [when states began enacting reforms] and declined more rapidly after the federal legislation was enacted. Between 1994 and 2004

the caseloads declined by 60%. The number of families receiving cash benefits hit the lowest level since 1969, and the percentage of children on welfare was the lowest since 1967.

Although caseload decline is an important outcome measure of the 1996 reforms, how families fare after welfare reform is an important measure as well. The next important measure is whether mothers leaving welfare were working. There is an abundance of evidence on this question. One line of evidence comes from more than 40 states studies conducted since 1996 of adults who left welfare. On average these studies show that a little less than 60% of the adults leaving welfare were employed at any given moment and that over a period of several months or longer about 70% HELD AT LEAST ONE JOB. (emphasis added)."

From 1993 to 2000 the portion of single mothers who were employed grew from 58 to 75%, an increase of almost 30 percent. Even more pertinent to assessing the effects of welfare reform, employment among never-married mothers, most of whom join the welfare rolls within a year or two of giving birth, grew from 44% to 66%. Employment changes in this short a period of time are unprecedented in Census Bureau records.

Although child poverty rate dropped during the 1960s and the early 1970s, after that it drifted upward. However, between 1994 and 2000, child poverty fell every year and reached levels not seen since 1978.. By 2000, the poverty rate of black children hit the lowest level ever recorded. The increase in total income [from work] accounted for this improvement.

The pattern [from welfare reform] is clear, earnings up, welfare down."

Conclusions

A key policy question these days that has befuddled federal lawmakers is why so many millions of Americans have not returned to the workplace in the post-Covid era. How do we make work pay?

There are many structural reforms that are necessary in our economy – from budget and tax policy reforms, to an expanded legal immigration system, to better educational opportunities, to improved and expanded skills development programs, to teaching young people the value of work, to incentivizing older Americans to work more years – but the one change that Congress could enact NOW, that would immediately fill jobs and increase labor force participation of employable and non-disabled adults would be to STOP PAYING AMERICANS NOT TO WORK.

All government payment programs should have attached a legally-enforced work requirement for all non-disabled adults. As an exchange for benefits Americans should be required to be working or in a skills development program. Benefits should be temporary so that welfare does not become a way of life.

Furthermore, when the economy goes into recession, instead of raising unemployment benefits to those who are not working, we should honor work by reducing payroll taxes for those who are contributing to our economy.

Thank you for the honor to testify before the Education and the Workforce Committee.