I am very pleased to have this opportunity to speak before the Subcommittee on Oversight, of the House Committee on Workplace on Education, on the issue of worker shortages in the U.S. labor market.

The perception that the U.S. is suffering from a serious worker shortage, and one that will grow worse in the future, reflects the very tight labor markets that we are currently experiencing, along with projected demographic changes over the next several decades (such as the aging of the workforce) that will make some groups of workers even less available than they are currently.

Below I list several major points that I'd like to make on this issue, along with some elaboration of each point.

1) **The benefits generated by tight labor markets for the U.S. economy and workforce over the past several years have been enormous.** Unemployment rates are at their lowest levels in 30 years, while the percentage of the overall population that is working (especially among women) is at an all-time high. Both employment and wage increases have been greatest among groups that had suffered setbacks in earlier years—i.e., the young and the less-educated, minorities, and those more generally with low wages. A strong labor market has helped reduce welfare rolls and raise employment rates among current and former welfare recipients, and it has also contributed to a dramatic drop in crime rates across the country. All of this has occurred without any perceptible loss of output or employment growth due to worker shortages, and without any visible sign of accelerating core inflation to date. Strong productivity growth has enabled the economy to generate substantial real wage growth without generating more inflation.

2) **Private sector labor markets have ways of reducing or eliminating shortages, certainly in the long run and even the short run.** The higher wages and benefits generated by tight labor markets tend to reduce worker shortages over time by reducing the number of workers that employers seek, on the one hand; and by drawing a variety of new workers into the labor force, on the other. The groups who will drawn into the workforce in greater numbers over the next several decades should include housewives, students, and the elderly, among others. Participation and employment rates might also continue to rise among disadvantaged workers, as they have during the 1990’s. Other private sector innovations, such as a greater use of "temp" agencies, internet-based recruitment, and greater possibilities for "telecommuting", have apparently helped employers deal with shortage conditions to date and should continue to do so in the future.

3) **Despite these successful adjustments, very tight labor markets do entail some real costs to employers and some risks to the economy.** In a recent survey that I administered to several thousand employers, roughly 80% reported at least some difficulty hiring qualified workers—and 40% reported great difficulty. Employers in manufacturing, whose skill needs have risen dramatically in the past two decades, often report the greatest difficulties; while small employers in other sectors, such as retail trade and construction, report considerable problems as well. These conditions are likely most serious in the Midwest, where unemployment rates have fallen to 3% or less in several states. And, while tight labor markets have not yet contributed to rising inflation or constrained output, there is at least some risk that these problems could yet emerge, especially if productivity or labor force growth falters; these conditions could threaten the sustainability of our economic expansion over time.

4) **Even while worker shortages seem to characterize many sectors and local areas, some groups of workers continue to suffer very low employment.** For instance, unemployment rates among African-Americans continue to be in the range of 8%, and for African-American teens in the range of 25%. High school dropouts and residents of poor inner-city or rural areas often have very low employment rates as well. And, while employment among women who have left the welfare rolls is substantial, up to 40% are still not employed at any point in time.
5) Public policy can and often does play an important role in assisting the private sector's adjustments to tight labor markets, especially by helping to draw more underemployed workers into the labor force and to match them to employers with the greatest hiring needs. In particular, public policy can: a) Help smooth the transition from school to work for non-college bound young people, which should help provide them with the kinds of job-related skills and early work experience that employers value; b) Help match workers to employers with great hiring needs, particularly by providing information about available job openings and job search assistance; c) Help employers to retain effective workers, once they've hired them; d) Help provide training to disadvantaged or dislocated workers—especially training that meets the needs of employers in particular local areas; and e) Help meet transportation and child care needs that currently limit the ability of various low-income workers to participate more fully in the workforce.

Perhaps the best mechanism available for accomplishing many of these goals is the new Workforce Investment Act. Through their employer-led local Workforce Investment Boards and "one-stop" centers, employers in any local area can receive information about their local labor market, generate specific job candidates, and invest in training for the skills that they consider most necessary. Recent efforts by the Department of Labor to improve the quality of the local labor force data available to each board, and the development of internet-based job-matching devices (i.e., America's Job Bank and America's Talent Bank) in the Employment Service, could prove particularly useful. Ensuring that WIA is effectively implemented, and that it has sufficient resources to meet the needs of all workers who could benefit from it, should remain an important policy goal.

Other successful private-sector intermediaries, such as the Welfare-to-Work Partnership and the Center for Employment and Training, have demonstrated an ability to perform many of these functions as well, and these deserve continued public support. The Welfare-to-Work funds that have been awarded and distributed to many other private and public groups will hopefully play some role as well in this process, as will various existing and newer programs for youth. Careful evaluation of the many diverse efforts that are currently being undertaken in this area will help us to identify the most cost-effective approaches that can be replicated elsewhere. Finally, several states (such as Wisconsin and Michigan) have developed their own innovative programs that assist low-income workers in the labor market, often through the provision of child-care and other supportive services. The states can thus play an important role in the process of overcoming labor market barriers, and the federal government should be supportive of this role.

6) Some particular groups of workers and employers have special difficulties in the labor market, and greater efforts to support them could further ease the worker shortage. For instance, many small employers have the greatest difficulty finding and retaining qualified workers, yet many are not familiar with new recruiting techniques or intermediaries in their local areas who could assist them in this process. Thus, greater outreach to and technical assistance for small businesses in this regard are in order. To date, we have not really identified very successful models of job retention assistance (as opposed to job placement and job training) for employers; greater efforts are needed here as well, perhaps through more public support for on-the-job training of less-educated workers in these establishments. Among the workers who have the most difficulty gaining any employment at all are low-income males, especially ex-offenders, who often need special assistance and credentials from training and work experience programs before many employers will consider hiring them. Finally, we need to further develop our system of training and work experience for non-college-bound youth, so that they enter the workforce with the necessary job-related skills to find employment quickly and retain it whenever possible.