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Help Wanted: An Economic Productivity Agenda to Boost Workers

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TOPLINE POINTS

- Average labor productivity is down 1.8% in the first two years of the Biden Administration and posted an even worse 2.1% annualized drop in Q1 of 2023. No other administration in modern history has begun with such a dismal performance of labor productivity.
- Low productivity is not a failure of workers—it is a failure of policy that is actively blocking workers from attaining higher levels of prosperity.
- Steady productivity growth is necessary to produce sustained, non-inflationary growth in real wages.
- To improve productivity and maximize worker paychecks, we need policies that allow Americans to access jobs where their economic contributions will be greatest. To start, that means fighting occupational licensing restrictions, punitive taxes, impediments to housing construction, poor school quality, and credentialing inflation.

Introduction

Labor productivity, which measures how much output in goods and services the economy produces per labor hour, has fallen by 1.8% during the first two years of the Biden Administration—the first time in modern history that a new administration has presided over such a decline (Bureau of Labor Statistics, 2023a). Moreover, there is no indication of an impending rebound, with the latest data showing that productivity fell during the first quarter of 2023 (Bureau of Labor Statistics, 2023b).

These numbers are alarming because steadily rising productivity is necessary to achieve enduring, non-inflationary wage growth—something workers are desperate for after two years of watching their purchasing power erode in the face of decades-high inflation (Bureau of

Labor Statistics, 2023c). Rising labor productivity means that workers and employers can negotiate over a growing pie; without it, different segments of the economy are pitted against each other, trying to claim their share of stagnant economic output (Bureau of Labor Statistics, 2023d). At the same time, productivity growth allows labor to be redeployed from existing production to new and more valuable ends, such as innovative and emerging industries. The alternative is a sclerotic and stagnant economy with diminishing prosperity and heightened tensions between stakeholders.

If America is going to sustain itself as the leading economic superpower and an engine of prosperity to people from all backgrounds, we must resuscitate stagnating productivity growth by removing the numerous policy barriers that get in its way.

An Overview of Forces Dragging Down Productivity

Labor productivity faces headwinds from several directions. Samples of these are briefly outlined below and will be elaborated on in future productivity-related work by the America First Policy Institute (AFPI).

One line of argument is that remote and hybrid work have not lived up to their promise as an efficient substitute for work in the office. Early in the COVID-19 pandemic, employees argued that the flexibility provided by working from home helped them work more productively. Undoubtedly, the ability to work from home during the period of pandemic lockdowns was superior to employees not working at all. Additionally, the coordinated investment in technological improvements to facilitate remote work likely made it a more viable business model for at least some types of work, as recent research has established (Davis et al., 2023). However, remote work makes employee monitoring more difficult, raises the prospect of greater distractions, and could present challenges to effective workplace team dynamics, particularly as workers cycle in and out of jobs where much of the team building had already occurred before the pandemic.

Potential issues associated with remote work are far from the only factor holding back productivity. In fact, the U.S. economy had been suffering from languishing productivity growth in the first half of the 2010s—averaging only 0.6% growth annually compared to an average of more than 2% in the post-WWII period (Bureau of Labor Statistics, 2021). As demonstrated by the productivity gains during the Trump Administration, our Nation can reverse many of the regulatory barriers that inhibit the free flow of workers to their most productive activities and thereby boost prosperity for the American people.

Regulatory Barriers

Out-of-control occupational licensing restrictions often have little basis in ensuring safety and quality and erect onerous hurdles to people looking to change their line of work or continue their existing line of work in a new city or state (West Virginia University, 2022). Impediments to construction, along with artificial requirements that drive up the cost of building (Herkenhoff, et. al., 2017)—often driven by NIMBY (not-in-my-backyard) and anti-energy ideological agendas—make it unnecessarily difficult for middle-class families to live in locations where their economic contributions might otherwise be greatest (American Economic Journal, 2019). That same anti-energy ideological fervor is the impetus behind efforts to divert capital from disfavored industries and firms toward businesses that prioritize politics over productivity.

Failing Education

Institutional capture of America's K–12 and higher education systems is also a significant threat to productivity. On the higher education side, artificial degree requirements foreclose entire lines of work from people without a college degree (Fuller, et. al, 2023). Simultaneously, credentialing monopolies known as higher education accreditors erect barriers to entry, thereby insulating existing institutions from competition that would otherwise impose price and quality discipline. Similarly, onerous education requirements in K–12 limit the supply of new teachers to those coming from approved pipelines (often exclusively colleges of education) and constantly get in the way of innovative alternatives to the traditional public school delivery model, to the detriment of students (National Association of Education Progress, 2023). K–12 curricula and graduation requirements, meanwhile, are generally built around a "college for all" culture that directs some underprepared students to colleges at the low end of the quality distribution when they would be better served by seeking an apprenticeship in the skilled trades or by seeking an industry-recognized credential. The result is catastrophic, with many students unprepared for high-productivity, well-paying jobs.

Anti-Growth Taxation

Uncompetitive, punitive taxation also acts as a constraint on productivity. A rich and growing body of empirical research points to high income tax rates as a drag on innovation and entrepreneurship across multiple levels of government (Hedlund, 2019). When workers know that the fruits of their future labor will be confiscated at higher rates, their incentive to acquire skills—that is, to invest in their human capital—diminishes, thereby exacerbating the skills gap. The scheduled expiration of key provisions of the 2017 Tax Cuts and Jobs Act (TCJA), such as permanent expensing, are also threats to productivity because they will reduce the incentive and ability of businesses to spend resources on productivity-enhancing investment.

Excessive and Misdirected Government Spending

Over the past several decades, not only has government spending as a share of GDP risen, but it has also shifted dramatically from true public investment—which at least has the *potential* to raise productivity, as in the case of the interstate highway system or space program—to redistributive transfer programs that discourage work and human capital investment. In fact, transfer payments as a share of GDP have more than tripled in the past 50 years (St. Louis Federal Reserve, 2023). In addition, the federal government increasingly plays the role of a central planner, purposely seeking to unlevel the playing field by funneling resources to preferred industries—particularly in the case of green energy—and away from disfavored industries. Even more egregiously, the federal government has often directed money to well-connected firms rather than those most productive for society. Over the past two years, the Biden Administration has doubled down on this failed approach of redistribution and malinvestment and even attempted to marry the two by relabeling social engineering policies as "human infrastructure" (Milligan, 2021) The intentionally misnamed Inflation Reduction Act is another example of gaslighting in action, given that its core approach is one of crony capitalism, punitive taxation, and inflationary overspending that will actually increase inflation.

The Way Forward

The above list only scratches the surface of the factors dragging down labor productivity. The key point to emphasize is that low productivity is not a failure of workers—it is a failure of policy that is actively blocking workers from attaining higher levels of prosperity. Essentially, anything that gets in the way of ensuring that the right workers are in the right jobs in the right firms with the right tools is a hurdle to productivity. The America First Agenda aspires to remove these barriers (America First Policy Institute, 2022).

An Initial Outline of an America First Agenda to Raise Productivity

Increasing Labor Flexibility and Removing Barriers

During an era when the U.S. is suffering from a labor shortage, and productivity is on a general decline, few regulations are more burdensome than arbitrary occupational licensing requirements. Unnecessary occupational licensing regulations hurt employers who are looking for qualified workers and American consumers who benefit from a more efficient economy with high-skilled labor production. States and localities should fix this problem by implementing a universal occupational licensing policy, which allows any licensed worker from another state to practice in their new home state as long as they are in good standing. The America First Agenda supports policies like this one that provide workers the freedom to use their skills to provide for their families in a fair and efficient manner.

This policy of workforce licensing portability has already been implemented in 18 states, and counties in states with universal reciprocity have seen an increase in their populations from border counties in states without a universal law (Deyo. & Plemmons, 2022). Reducing barriers to entry helps Americans who are willing and ready to work and allows workers to shift seamlessly to occupations and industries where they can be most productive.

Independent contracting also improves economic flexibility as independent contractors and workers can choose their hours and accept only the jobs they desire. A company hiring an individual to achieve specific tasks creates levels of productivity not found in full-time, salaried employment. The reason for this increased productivity is that the average level of productivity drops as the number of hours worked increases. The most productive way to address the issue of the gig economy is to leave the free market alone and allow businesses and workers to mutually decide what is best for themselves—full-time employment or a part-time contract. Unfortunately, the Biden Administration recently proposed a new rule that will make this form of self-employment much more challenging to attain (U.S. Department of Labor, 2022).

Another way to ensure efficient employment across the country is by cutting inflationary green energy housing regulations that make construction artificially more expensive. These new costs lead to higher housing costs, which distort labor markets by dispersing middle-income families and potential talent. Spatial misallocation of labor arises because high-productivity centers such as the New York City and San Francisco metropolitan areas have adopted stringent restrictions on new housing supplies, ensuring working-class earners cannot afford regional housing (Hsieh. & Moretti, 2017). Some of these regulations include green net-zero energy building codes and excessive environmental review processes. San Francisco also has excessive zoning restrictions, such as height limitations, that make creating more units infeasible. Removing regulations on homebuilding could increase labor efficiency and, thus, productivity.

Additionally, excessive hours spent on paperwork provide a barrier to an efficient and effective workforce. The Biden Administration has introduced more than 200 million additional hours of regulatory burden since taking office. Completing forms produces zero additional products or services for consumers. This means that an equivalent of more than 100,000 American workers realizes zero productivity despite being employed full-time. The America First approach to this issue would be to achieve more economic efficiency by reducing the number of paperwork hours needed for regulatory compliance, allowing them to dedicate more of their time and energy to productive, non-bureaucratic activity.

Addressing the Skills Gap

A healthy, high-performing economy needs workforce skills to meet its demands. Our Nation's leaders can help increase productivity in the American workforce by addressing the current skills gap, which is illustrated by the massive number of open jobs unfilled by currently unemployed individuals. This shortage of qualified workers is affecting every industry, and 10.1 million jobs in the U.S. are currently open, while 6.1 million workers are unemployed (Bureau of Labor Statistics, 2023e).

States have traditionally approached the education-to-workforce pipeline by creating or expanding new K–12 programs, often without examining how the programs are aligned with industry demand or vertically linked to postsecondary programs. Unfortunately, this approach has led to a resource allocation process in which institutions compete against each other rather than work with each other for resources and support to build student and worker success. In many states, agencies use different data to determine employer demand to identify and support workforce programs. As a result, one agency highlighting critical workforce needs can be entirely at odds with another agency. This siloed approach can have lasting effects on all learners.

Florida is a national leader in data collection, postsecondary acceleration, and industry credential attainment. Florida has made significant strides in creating a unified, high-quality workforce system through more coordinated oversight in data collection, analysis, use, and sharing to help the state identify, support, and promote high-quality workforce-related programs. In 2007, the state passed the Career and Professional Education (CAPE) Act. The act required that career and technical education (CTE) programs in middle and high schools be designed with input from employers and industry to ensure that students were learning and earning relevant knowledge, skills, and credentials aligned to industry needs (Senate Bill 1232, 2007). The CAPE Act also created a performance-funded incentive that allowed schools to generate additional funding when a student earned a qualifying industry certification. The industry certification had to ensure portability across state lines, be deemed high-quality, and provide evidence that employers needed the program and credentials.

Governor Ron DeSantis has stated that he wants Florida to be the first in the nation for workforce and technical education training by 2030. He issued an executive order requiring the Department of Education to review CTE programs at the K–12 and postsecondary levels to ensure that these programs are aligned with market demand (Executive Order 19-31, 2019). The order also called for investments to expand access to and attainment of postsecondary credentials. In 2021, Florida enacted one of the most significant and comprehensive reforms to further establish Florida as a national leader in education and workforce (House Bill No. 1507, 2021). In addition to the legislation, Florida has committed to investing almost $200 million to support implementing and updating its policies and programs. Simultaneously, the Florida College System created articulation agreements for qualifying industry certifications to create vertical linkages between K–12 CTE programs and postsecondary programs that allowed students to earn college credit. Together, these components secured a more responsive education system to workforce demand and gave students access to programs that would better prepare them for higher-skill, in-demand, and middle- or high-wage occupations.

More states than ever are now focusing on connecting and improving their education-to-workforce policies.

In 2020 Governor Bill Lee of Tennessee provided a legislative agenda to improve workforce and education alignment. The creation of Workforce 360 has helped to systematically align state agencies and educational institutions in order to deliver a highly skilled workforce (Mastered in Education, 2023). This project-based system identifies and tries to resolve workforce gaps through various state resources. There are tactical teams that address immediate workforce needs and also delve into longer-term strategic planning on workforce issues. Through the Workforce360° initiative, Tennessee aims to be the most aligned state in the country when it comes to connecting industry with workforce education.

And in 2018, Ohio mobilized K–12, higher education, community-based organizations, and local industry to help reach the goal of 65% of local adults earning a postsecondary credential by 2025 (Ohio Department of Education, 2018). Each of these state examples exemplifies a multistakeholder approach that includes policymakers—factors crucial to enacting change on a systemic level.

According to a Deloitte survey of more than 9,000 HR leaders, 73% believed that the employer is responsible for teaching new skills, or "upskilling," to its workforce. Employers can consider reskilling or upskilling any person within their organization despite experience, age, or education level (Ferguson., & Lucy., 2022). Offering programs like tuition assistance provides for a high return on investment and longer employee retention.

One method to close the skills gap is reducing the regulations associated with training workers. These regulations are particularly costly for small businesses, as the efforts to implement regulations are often the same for companies with five employees as they are for those with 500. This removes an incentive for small businesses to participate in the educating and training of laborers, who could become more productive with proper training (Faulkender, 2022).

Another option is apprenticeship programs, which offer the opportunity for individuals to receive hands-on experience outside of a classroom by creating financial incentives for employers to sponsor them. To expand these programs, which offer workers salary as they upskill, the Trump Administration created the Industry Recognized Apprenticeship Program (IRAP), which improved upon the already existing Registered Apprenticeship Program by creating third party recognition, increasing access to federal grants, and diversifying the industries that qualify for apprenticeship programs. The third-party recognition came from newly created "Standards Recognition Entities", which included businesses, non-profits, educational institutions, and unions. These groups were required to adhere to Department of Labor regulations but still had far greater flexibility than the Registered Apprenticeship Program. Unfortunately, the Biden Administration, without providing evidence, rescinded the program out of fear that IRAP's were "duplicative [and] lower quality" (U.S. Department of Labor, 2022).

If the federal government uses taxpayer money, it should be invested in efforts that benefit the American people. One piece of pending legislation that does so by revamping workforce education is the American Workforce Act, which was proposed by Senator Tom Cotton (R-AR). This legislation provides high school graduates with a $9,000 workforce training voucher that they can use for education programs designed by employers for high-paying jobs in their industry (American Workforce Act, 2022). Prudent uses of American resources like this are how our Nation can shrink the skills gap and increase American productivity.

Efforts to address the skills gap will be incomplete without reforms to K–12 curricula. The Organization for Economic Co-operation and Development (OECD) has observed that the U.S. education system is an outlier: "All countries except the United States have some students enrolled in vocational upper secondary education. In the United States, there is no consistent nor distinct vocational path at upper secondary level" (2020, p. 244-246). By establishing an array of differentiated educational pathways and graduation requirements, and by building deliberate connections at technical colleges (including opportunities for students to take high school courses on their campuses), educational leaders at the state level can ensure that students are leaving high school with a clear career trajectory, whether via a four-year institution, an apprenticeship in the skilled trades, or by way of shorter-term professional training programs.

Enacting Pro-Growth Tax Reform

Another way to induce economic growth and productivity is tax reform. Americans need a tax code that promotes innovation and encourages capital investment. The first step is to solidify the economic gains already achieved under TCJA. These gains helped ignite an economic boom that led to the typical household experiencing a $6,000 income increase in 2019 relative to 2016.

In addition, TCJA included expensing provisions that allowed companies to write off their investments in tools and equipment fully within the year the investment was made (as opposed to writing it off over a longer period). Expensing incentivizes business investment, which in turn, provides workers with productivity-enhancing tools and equipment. The expensing provision, however, is scheduled to phase out in 2023 under current law.

Income taxes are also a very relevant component of this discussion, as the economic and workforce benefits of entrepreneurialism are undermined by short-sighted policies. For example, according to a National Bureau of Economic Research study, the number of inventors decreases when income taxes increase. In a simulated study, when inventors are taxed at 40% instead of 0%, the total number of inventors decreases by 48% (Bell et al., 2019).

Innovation is the basis for increasing productivity, but innovation needs to be leveraged by existing and new businesses before more productivity is seen. A Federal Reserve study shows a strong negative connection between state income taxes and business creation and growth. Each percentage point increase in state corporate taxes results in a 3.7–4.4% decrease in employment among startups (Curtis., & Fields., 2018)

American entrepreneurs and workers need a tax policy that puts them first. Allowing earners to keep more of their income incentivizes more income-generating activities.

Conclusion

When unrestrained by bureaucracy and burdensome policies, the American workforce has achieved successes previously unseen in human history. The past few years have presented significant challenges that have led to a current downturn in productivity, but the policies prescribed in the America First Agenda can help restore the American worker and entrepreneur to record levels of success. The Center for the American Worker at AFPI is committed to advancing the policies outlined in this paper, along with other initiatives that promote pathways to American productivity and prosperity, including workforce development and modernization, enhanced educational alternatives, tax and regulatory reform, increasing the supply of housing, and effective public-private partnerships.

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