The 21st Century Workplace: Preparing for Tomorrow's Employment Trends Today
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Testimony

Mr. Chairman, members of the Committee, I am honored to testify before your Committee today on the subject of the challenges of the 21st century workforce. America's dynamic workforce has always faced changes. Americans once worked primarily in agriculture, then in manufacturing, and now in services. Transition from declining to growing industries has been relatively easily achieved because of the flexibility of the U.S. economy and U.S. labor markets. As a result, the United States has one of the lowest unemployment rates (see Figure 1) and one of the highest rates of job creation in the industrialized
world. We are home to millions of entrepreneurs.

As we move further into the 21st century, challenges will come from many fronts. Two specific issues are the ageing of our workforce and increased global competitiveness, and these are the subject of my testimony today. These phenomena will be with us over the next few decades and we need to consider the best strategies for promoting the flexibility of our labor markets to deal with them. Today I will talk about some consequences of each of these changes.

America's Ageing Workforce

As the large "Baby Boom" generation of Americans ages, the demographic structure of the economy will shift and the proportion of Americans over age 55 will increase significantly. In addition to the aging of the "Baby Boom" generation, increases in longevity will raise the proportion of older Americans.

Today the estimated U.S. population aged 55 or over is 67 million, equaling 20 percent of the total population. This group is expected to grow to 106 million by 2035, and comprise 28 percent of the population. Total population will increase from 296 million in 2005 to 378 million in 2035.

Americans age 65 or older comprise nearly 37 million people, or 11.0 percent of today's population. Over the next 30 years this group will grow fastest. Their numbers will more than double to 77 million by 2035. During the same period, Americans in the prime working age group, 25 to 54, will increase by only 14 million (11 percent).

The consumption demand of an ageing and increasing population will lead to tight labor markets unless we have high productivity growth, increased labor force participation, and additional immigration. In America's dyamic and flexible economy, we already see two of these forces—higher productivity growth and increased labor force participation of older Americans—already at work to help offset the demographic changes that are underway.

Labor Force Participation of Older Workers

Fortunately for the United States, the labor force participation rate of older workers is increasing. We also see more older workers working full-time weekly schedules.

Increased labor force participation of older workers is a positive sign that America's open and flexible labor markets are providing opportunities for older Americans who choose to remain economically active.

A higher percentage of older Americans work than do senior citizens of many other industrialized countries. In Figure 2 we can see that 14 percent of Americans 65 and older remain economically active, a figure in major industrialized countries only exceeded by Japan. In France, Italy, Germany, Canada and Australia the percentage ranges from 1 to 7 percent.

Improved health and greater longevity are changing traditional attitudes about retirement. Many Americans see continued work in their 60s and 70s, either part-time or full-time, as a source of vitality as well as a source of income.

In 2004, the last full year for which data are available, the U.S. labor force included on average 23 million workers age 55 or older. Of these, 18 million were age 55 to 64 and 5 million were age 65 or older. In 2004, the 23 million Americans age 55 or older in the labor force comprised 16 percent of the labor force. Thirty-six percent of Americans age 55 or older were in the labor force in 2004.

From 1995 to 2004, the labor force participation rate for every group of older Americans increased. For the 55 to 64 age group the labor force participation rate increased from 57 percent to 62 percent. For the 65 to 74 age group, the labor force participation rate increased from 18 to 22 percent.

The labor force participation rate of Americans age 55 or older, both men and women, has been rising since 1993. In 2004, the labor force participation rate for men age 55 or older was 43 percent. For women age 55 or older, the labor force participation rate in 2004 was 30 percent.

Employment and Unemployment Experience of Older Americans

Older workers consistently experience lower unemployment rates than do younger age groups. In 2004 the unemployment rate for Americans age 55 or older was 3.7 percent, compared to the overall average unemployment rate of 5.5 percent. Older workers are more likely to be self-employed: 17 percent of workers age 65 or older were self-employed in 2004, compared to 11 percent of age 55 to 64 workers and 8 percent of age 45 to 54 workers.

One noteworthy trend has been toward a higher proportion of older workers working full-time. This may be a result of the removal of the Social Security earnings test for workers age 65 or older in 2000. In 2004, on average, 77 percent of workers age 55 or over worked full-time. In 2004, 23 percent of workers ages 55 and above usually worked part-time weekly schedules (down from 28 percent in 1994). Figure 3 shows that the labor force participation rate of older Americans has increased steadily over time, reaching a high of 37 percent in April 2005.

Economic Conditions of Older Americans

Some may say that older Americans have to work more because they are less well off. But data show the opposite: the economic condition of older Americans is above average and steadily improving.

According to the 2000 Census, Americans age 65 or older were more likely than younger groups to own their own home (78 percent), to earn interest from financial assets (70.5

percent) or to own stocks (29 percent). The median net worth of families headed by persons 65 to 74 years old in 2001 was $176,000, up from $122,000 (real 2001 dollars) from 1992. For families headed by persons 75 or older, the median net worth was also higher in real terms -- $151,000 in 2001 compared to $107,000 in 1992.

In 2002, the proportion of Americans age 65 or older with incomes below the poverty level was smaller than the overall population proportion of persons below the poverty level- -10 percent of the age 65+ group compared to 12 percent of the overall population. In 1970, 25 percent of Americans age 65 or older were below the poverty line, and, as recently as 1993, the proportion was 12 percent.

Increasing Flexibility for Americans in the U.S. Labor Market

The flexibility of the U.S. labor market enables older workers to choose the pattern of labor force participation that fits their preferences and needs. The removal of Social Security earnings tests for workers age 65 or older ensures incentives to remain in labor force if desired. Income tax reductions since 2001 have increased the incentive to remain economically active.

However, flexibility and the range of choices need to be further increased, not just for older Americans but for everyone. Allowing all private-sector American workers the choice of comp time or overtime pay for overtime hours worked would provide additional flexibility that would make it easier for Americans to participate in the labor force. Currently, only public sector workers who work overtime hours are allowed to take comp time off in lieu of overtime pay. Under the Fair Labor Standards Act, private sector workers are not given this option. With our ageing workforce, we need to encourage as many people as possible to work if they choose to do so.

Let me give you an example of how this could work for a senior citizen. Say that a grandmother has worked 50 hours rather than 40 hours one week, and wants to take some time off to see her grandchildren rather than receiving overtime pay and working regular hours the next week. A choice of one and a half hours of comp time instead of one and a half hours pay would allow her to do that. She may wish to catch up on errands, or catch up on sleep. The option of comp time rather than overtime pay could tempt such a person into taking a job rather than staying home.

A choice of comp time rather than overtime pay would also encourage other groups, such as working mothers, to enter the workforce. As a working mother with 6 children, I am fully aware that there are many important parts of a worker’s life, including time with family. Extra time spent at work one week is manageable if there is an option to be able to take more time off at another point.

In the same way, biweekly work programs would allow Americans to divide their work hours between two weeks rather than one. With 80 hours of work in a two-week period, excess hours in one week could be made up with decreases in the next. This is especially important for those with other commitments.

What is important is that private sector hourly workers be given the same choice as those in the public sector. One reason that so many women choose to work in government is the flexibility of comp time.

Global Competitiveness

Global competitiveness is a second major challenge for the American economy. New forms of communications and more efficient mobility make it easier to import goods from abroad and to export products to other countries. In March, our exports of $102.2

billion were at a record high and were 7.1 percent higher than a year earlier.

We cannot shy away from increased global competitiveness. It is here to stay, and we need to face it head on rather than hiding from discussions of outsourcing. Yes, it is estimated that U.S. firms outsource about 300,000 jobs a year, but foreign companies employ directly at least 6 million workers in the United States, according to the Department of Commerce, and indirectly provide an equal number jobs for millions of others.

Increased global competitiveness is yet another reason for keeping our labor markets flexible and trying to extend that flexibility. As President Clinton's former Chairman of the Council of Economic Advisers, Martin Neil Baily, has written in his 2004 book Transforming the European Economy, coauthored with Jacob Kierkegaard,

"The key to economic growth in high-income countries is adaptability and flexibility. Only flexible economies are able to adapt to internal shifts, global developments from beyond their borders, and new technological advances, while generating productivity growth and new jobs required to achieve true social cohesion." (page 6)

Figure 4 shows an index of labor market flexibility measures for the G-7 countries in 2003, the latest year available (data for 2004 will be published this July). This shows that the United States has the lowest amount of employer mandates governing the hiring and firing of workers of the countries examined.

This is associated with a vibrant labor market that benefits American workers. In the United States 62 percent of the working age population is employed, compared with 57 percent for Japan and 52 percent for the four major European countries. Employment growth in the United States has been far higher than in Japan and Europe, as can be seen in Figure 5.

Not only are a higher proportion of Americans employed, but these Americans work longer hours every year than do their counterparts in many other countries. In 2003, OECD data show that Americans worked on average 1,792 hours per year, compared with 1,718 hours in Canada, 1,673 hours in the United Kingdom, 1,591 hours in Italy, 1,453 hours in France, and 1,446 hours per year in Germany. Of major industrialized countries, only workers in Japan work more hours per year than Americans.

One reason Americans work more is that they have lower tax rates and so keep more of their earnings. Figure 6 shows a comparison of the percent of labor costs paid in social security and income taxes for the G-7 countries in 2004. These data are for a single person without children who earns the average production worker's wages. The American would pay 30 percent of his salary in taxes, compared with 31 percent for the British worker, 32 percent for the Canadian, 46 percent for the Italian, 47 percent for the Frenchman, and 51 percent for the German. Only the Japanese worker is taxed less, at 27 percent, and, not surprisingly, worked more hours than his American counterpart.

We saw above that Americans have lower unemployment than do other major industrialized countries, and we can see in this figure that when they are unemployed they find jobs faster—they are unemployed for a shorter period of time. Figure 7 shows that only 12 percent of the unemployed are unemployed for a year or more, compared with 33 percent for Japan, 34 percent for France, 50 percent for Germany, and 58 percent for Italy. The only major country that does better than the United States is Canada, with only 10 percent unemployed for more than a year.

One impossible challenge of the 21st century is forecasting what technology is going to be 10 years from now. Ten years ago, in 1995, most Americans did not have cell phones, they did not have email, and they could not even own BlackBerrys because they had not been marketed. With these new inventions productivity is rising substantially. We do not know where technology is going to lead us in 2015 or 2025. But we do know that our employers are going to need to adapt to whatever comes along, and we need to give them the tools to do so. We also need protect the intellectual property of our inventors and entrepreneurs, and not allow other countries to pirate our ideas. The United States leads the world in creativity, and theft of intellectual property has been estimated to cost us hundreds of billions of dollars.

In conclusion, just as we now have more flexible labor markets than our major competitors, we need to expand that flexibility as we move forward into the 21st century. We need to make the workforce more attractive by giving everyone the option of comp time instead of overtime. We need to lower taxes rather than raising them. We need to decrease mandates rather than increasing them.

Thank you for giving me the opportunity to appear here today.