

Current Events Impact on Businesses



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Speaker 1:

Welcome to Paychex THRIVE, a Business Podcast, where you'll hear timely insights to help you navigate marketplace dynamics and propel your business forward. Here's your host, Gene Marks.

Gene Marks:

Hey everybody and welcome back to another episode of THRIVE by Paychex. My name is Gene Marks, appreciate you joining me both in podcast format and on video format as well. Today, my guest is Adam Ozimek. Adam is with the Economic Innovation Group. He's the Chief Economist there. Is that correct, Adam? That is the official title, right?

Adam Ozimek:

That's right.

Gene Marks:

First of all, thank you so much for joining me. I'm glad that you're here. We are speaking to each other, Adam just told me he is in Lancaster, Pennsylvania and I'm in Philly, so almost neighbors. It's just a buggy ride away. Adam, tell me a little bit about the Economic Innovation Group. And also, you mentioned before we started that you also own your own business as well. I'd be interested to hear about that too.

Adam Ozimek:

So, the Economic Innovation Group, we're a public policy think tank in Washington DC, and we're focused on economic dynamism. So, how do we make the economy and the labor market more competitive? How do we get new entrepreneurs, new startups, and more innovation? That kind of thing. And then we focus on issues like non-compete reform and high-skilled immigration. And we were the creators of the Opportunity Zones, if you're familiar with them. So, we get into a variety of public policy and economic issues.

Gene Marks:

And your business?

Adam Ozimek:

It's a bowling alley arcade restaurant called Decades in Lancaster, and we opened this a couple of years ago, me and some friends. So, I have an economist hat and an entrepreneur hat that I wear.

Gene Marks:

Very cool. That is very, very cool. Which is great. I do a lot of writing, so I write every week for The Guardian and The Hill and the Philly Enquirer and a bunch of other places. But I'm also, like yourself, a business owner and I have 10 employees, so I cover small business but, you must feel the same way, selfishly, a lot of the issues that I deal with ultimately have an impact on my business, so I have a special interest in researching and writing about them. Is it the same with you?

Adam Ozimek:

Yeah, it makes it more interesting. It also gives you, I think, some granular insights that you might not otherwise have as an academic or a pundit, just in terms of understanding the complexity that business owners face. Sometimes things seem like they would be simple on paper, but when you're an actual business owner, they are really complicated and confusing. For example, this was an issue with PPP, which seemed I think to a lot of policy makers and to a lot of pundits and academics like something that would be really simple on paper. But you know as a small business owner that's going to be complex and telling businesses they can only spend it on qualified purchases, for example, that's the kind of thing that on paper in a white paper, "Well, that's super easy. This is going to go really smoothly." And as a business owner you think not only is that not going to go smoothly, but it's going to discourage people from participating. And that's exactly what happened. With all due respect to PPP. Something like that was needed. But that's just one example where on the ground insights can be helpful.

Gene Marks:

I couldn't agree with you more. A lot of times policies are made in Washington or even at the state level here in Pennsylvania by people that really have never run a business before or signed a payroll check and they don't really understand sometimes the specifics of how that impacts particularly small businesses. You mentioned, so the Economic Innovation Group does a lot of work researching and studying and then I'm assuming making recommendations regarding immigration policies in the country.

Adam Ozimek:

Yeah, that's right.

Gene Marks:

Tell us a little bit about that work.

Adam Ozimek:

So, we're focused on high-skilled immigration because it's our belief that this is a different kind of policy. It's really not the same policy as overall immigration. It should be thought of as being a separate issue for a few reasons. One, politically, people think of it differently. So while there's divided support for overall immigration, depending on how you phrase the question and who you're asking, when it comes to high-skilled immigration, there's unanimous public support, really very, very high public support from both parties. Over 70% of the population supports more high-skilled immigration, majorities from both parties. So politically, people just think of it differently. They understand that high-skill immigrants are entrepreneurs or innovators, they start businesses, they start Fortune 500 companies, they're super skilled workers. They have really high fiscal impacts. So people understand that and that makes it politically different.

Adam Ozimek:

But also economically, we don't have a lot of policy levers for entrepreneurship, for innovation, for skilled workforce development. And to the extent that we do have these levers, they're highly uncertain, they take a long time to work, and they can be really expensive. And high-skilled immigration with a high probability creates more inventors, more entrepreneurs, more skilled workforce. They come here and they do that. It's very simple. It's not like a stretch. There's not really a lot of uncertainty around whether it's going to create those positive impacts. It does that with a positive fiscal impact. So, it's a very, very unique and important policy and that's why we prefer to focus on that.

Gene Marks:

One of the biggest fears that people have about even high-skilled immigration is that you have people that come here, maybe they go to university here or they spend a few years learning the trade, whether it's in tech or manufacturing, and then they leave and they bring that knowledge and those skills back to their own countries. Do you feel that that is an issue that needs to be addressed? Or is that something that's just part of the program when you have an immigration program that's targeted high-skilled people?

Adam Ozimek:

Well, so how that shows up in national GDP statistics is that's an export. We're exporting services to other countries, educational services. So I think in that sense it should be thought of as a positive. The other thing is I really don't think it serves the U.S. national interest for the rest of the world to stay poor. I think that the richer the rest of the world gets, the more wealthy trading partners we have, they create innovations on their own. There's a lot of products and services and inventions that U.S. households enjoy that came from other countries. And to the extent that free trade creates disruption for American workers, it tends to be concentrated in the low-skilled part of the workforce.

Adam Ozimek:

So, you have a country like China, which has a really large low-skilled workforce enter the global trading system, created disruption for low-skilled U.S. workers. As China moves up and becomes more high-skilled, they're going to be buying more of our exports, consuming more of our goods. So, I think a more inventive, more prosperous world is something that we should welcome. You look at countries like Israel and Taiwan are both very strong allies of ours, very innovative countries, produce a lot of global goods and services that are very valuable, and a huge part of their growth came from immigrants who moved here, went to our schools, got graduate degrees, advanced degrees, went to work in Silicon Valley and other tech companies, and then returned to their home countries and started companies over there. And do I think that the world would be better if Israel and Taiwan were still developing countries like they were not too long ago? I don't think that's the case.

Gene Marks:

Yeah, I think you're absolutely right. And maybe I'm naive, but even the countries that we are such rivals with, like China for example, the more people, particularly younger people or skilled people that come here and learn and work for a few years, then even they go back to China, I just have to believe it's human nature to be a little bit more predisposed or a little bit more empathetic to the American way. I feel like it reduces tensions between countries, not increases them. And I don't know, I feel like a more open policy towards highly-skilled workers would help relations longer term.

Adam Ozimek:

Yeah, how to steer and guide authoritarian countries towards democracy and freedom is definitely outside of my expertise as an economist. But I think we can certainly look around the world and see countries that have stayed poor and that has not helped them become more open and more free. Certainly Cuba and North Korea, if you think keeping authoritarian countries low income is a policy success, then those would count. And I don't think that that's helped them become freer.

Gene Marks:

Fair enough. Staying on the high-skilled workers for the work that you're doing for immigration, we have people that are listening to this or watching this that do want to take advantage of higher skilled immigrants, I mean there's 11 million open jobs and a lot of these are white collar jobs, technical jobs, and skilled jobs. What are you guys proposing to happen, that could happen? And the second part of that is what are the chances that we could see in this administration, at least the next two years, some type of immigration legislation that would focus on highly-skilled workers?

Adam Ozimek:

So, the details of the policy roadmap, we haven't published yet. But what I can say is that I think we should be doing two things at once, increasing the quality of high-skill immigration in terms of ensuring that the best and the brightest are who we allow in. Then when you do that, it makes a strong case for increasing the quantity of high-skill immigration. So I think that there is scope to do both. The immigrants that we allow in already on high-skilled immigration programs are very high-skilled, they're very inventive, they're very entrepreneurial, but we can do better still just by making the system work better. And when we do that, it makes a strong case for significantly expanding high-skilled immigration. So details TBD, but for now, I think those are the best ways to think of it. The political aspects or the political odds, now we're definitely outside my area of expertise.

Gene Marks:

So, you're not willing to even make a prediction or a guess as to whether or not there's going to be any type of legislation that would address this?

Adam Ozimek:

What I can tell you from a data-driven perspective is that there is strong bipartisan support for more skilled immigration. And in the same political world, that seems like something that should eventually deliver policy success.

Gene Marks:

I've learned that the way to address a big problem is to break it down into smaller problems and address those smaller problems. And we have this big problem of immigration, but what you're proposing makes complete sense. Say, well, let's break this down immigration and let's focus on something that we can agree on and maybe move something forward, high-skilled immigrants as opposed to low-skilled immigrants. Let's turn to low-skilled immigrants. You've been spending your time, you're putting together policy people on a higher scale. Are you ignoring the problem of low-skilled immigrants? Is that just an issue that your group is just saying, that's just not something we're going to talk about? Or is that something that you also intend to research?

Adam Ozimek:

It's really just outside our scope for now because it is a different policy. It's not an innovation policy, it's not a productivity or entrepreneurship policy. When you're dealing with the issue of low-skilled immigration, you start to get into a lot of values judgments, because it's inherently we're going to be dealing with refugees and that's obviously very important. But that's a very value-laden question, which makes it very

different from something like innovation and entrepreneurship, which is nuts and bolts positive economic benefit that we can think about it easily because we can think about it selfishly. "Let's just maximize the economic benefit." Once you start getting into questions of refugees and people that are fleeing countries with a lot of political and economic problems, it's just a different policy altogether. It's a different challenge.

Gene Marks:

You know what, I'm surprised to hear that from you, Adam, it's just because given the business that you own, a bowling alley and something in the food establishment businesses, I'm sure you're reliant on a lot of lower-skilled or hourly workers and would be thrilled if there was an opportunity to increase that supply of workers. So, that doesn't hit home for you?

Adam Ozimek:

Personally, I'm in favor of all sorts of immigration. I think the U.S. should be very welcoming to immigrants of all skill types. When you're talking about low-skilled immigration though, you're facing two policy challenges that I think will need to be addressed as part of the solution. One is the border crisis, which is a genuinely difficult problem because right now it largely involves refugees and people claiming refugee status. That's a very difficult situation. There's no easy solutions there. Certainly not the case that you can build a fence and that will solve the problem. Doesn't mean we don't also need a fence. But there's a real difficult challenge there. And the other of course is undocumented workers who have been here for a very long time and have established roots and families in this country, those are difficult policy challenges. What do you do there? So I'm very in favor of immigrants of all types. I think they have positive impacts on the U.S. economy. But when you talk about what to actually do there, you have to address those challenges.

Gene Marks:

Yeah. Yeah, I think the issue immigration, just like so many other big issues, is that if anything ever gets decided upon there, there's going to be a group of people that will be unhappy. That's just a given. Somebody will be unfair. And I think that just has to be accepted if we're ever going to have any kind of movement forward.

Gene Marks:

Okay, let's move to non-competes because you said that you guys also do research and policy on there. Recently the Federal Trade Commission issued, correct me if I'm wrong, they issued a proposed rule, correct? Like this is right now up for comment to eliminate, this is at federal levels, nationally, the use of non-compete clauses or agreements in employment contracts. So I run a technology firm, we ain't Facebook or Google, obviously, but if I hire somebody and I have an employment agreement with that employee which has a clause in it, or I have a separate agreement that says, "If you leave my company, you're not allowed to work for any of my competitors, even within a certain region or even nationally for five years of time.", that's been sort of standard operating procedure for me actually for years. And a lot of companies have had similar types of clauses and agreements. But that could change. And I'm wondering if you can give us your thoughts on that and what type of impact that could have?

Adam Ozimek:

Well, yeah, it's been standard operating procedure in some places, but the reality is if you look at the most innovative state in the country, the home of Silicon Valley where Google and Facebook were essentially born, they don't allow non-competes there. And so, when we look at a place like Silicon Valley, the most innovative hub in the history of this country, it grew and succeeded in the absence of non-competes. And I and economic historians would also argue that it didn't happen despite the absence of non-competes, it happened because of the absence of non-competes.

Adam Ozimek:

If you look at the history there, companies spinning off of other companies was a huge, huge part of where a lot of innovation came from. So, Intel was created because Gordon Moore left Fairchild Semiconductor, and Fairchild Semiconductor was created because they left Shockley's Lab. And then from Fairchild there were dozens and dozens of other companies, hugely innovative semiconductor companies created as spinoffs and competition. And I think that would've been difficult if all of those employees had been tied to non-competes. So, I think that that's a really important part of economic history is that kind of dynamism and we need more of that in the economy. The other thing I would say is-

Gene Marks:

How long has that been going on in California? I mean it's been decades, correct?

Adam Ozimek:

Yeah, for a very, very long time, through the history of Silicon Valley.

Gene Marks:

Got you.

Adam Ozimek:

The other thing is, if you look at another industry where this has always been banned, is legal. There's no state in the nation where lawyers are allowed to have non-competes. And the idea is if someone leaves a firm, you don't want that to be disruptive to the lawyer-client relationship. And so, non-competes have never been allowed there and it doesn't seem like it's causing problems. So, I think both of those provide very good examples of how we can not only exist without non-competes but thrive without them.

Gene Marks:

So why the big debate? Why is there such a big backlash you think? Is this just a political thing that you've got a Democratic administration that's proposing this and so therefore its opponents are going to just immediately have that sort of backlash towards it? Or do you think there's any justification to argue against the banning of non-competes?

Adam Ozimek:

Well, I think people are concerned about two different kinds of things. On the low-skilled side of the labor market, their concerns tend to be that employers need something like this in order to recoup the cost of training low-skilled workers. And what I would say to that is the real value of the minimum wage federally is at a historic low. So, I don't think we have a really binding minimum wage issue there. There are other ways to recoup the costs of training there. Then the other area they think of is on the high-skilled side, well this is going to reduce innovation because firms are going to hold their secrets more tightly and they're not going to be willing to share them with more employees or something like that. And what I would say is I don't think that that's really plausible at the firm level that they're going to hold all their secrets tighter from all their employees. That doesn't make sense.

Adam Ozimek:

Is it going to reduce the incentive to create new innovative ideas? I don't see that either. Again, pointing to the history of Silicon Valley. And across the economy, we have older firms than we ever have. We have less entrepreneurship, we have less dynamism. And so, I think where do we have a problem? It's really not well described by firms can't capture enough of the benefits of their own innovation. It's better described by we don't have enough competition and turnover and entrepreneurship and churn. So, I'm in favor of policies leaning in that direction.

Gene Marks:

It's funny too because I mentioned that I've always had a non-compete clause in our employment agreements. One time in the past 20 plus years I've been running this business I did have somebody that left me, an employee that left me and went to work for a direct competitor in Philadelphia. And you know what, Adam? I didn't even pursue it. It's one thing in theory to have these things in writing, but the economic justification of going after this guy or his employer, it was too much of a time suck and it wasn't even worth it. And frankly, I also resigned myself saying like, "Oh fine, let him go and work for my competitor. We're still better than these guys and that shouldn't stop me from doing mine." So there is a theory versus reality thing about non-competes.

Adam Ozimek:

Yeah, I don't think employers actually value it that highly. Because there's other ways to get at this, you know, can pay your employees-

Gene Marks:

Pay your employees more.

Adam Ozimek:

Pay them bonuses for staying. There's a lot of different aspects to the employer-employee agreement and relationship, and I just don't think you need this. And I think it works as a very soft clutch where it prevents a certain amount of turnover despite being not worth that much to the employers themselves.

Gene Marks:

Yeah, I agree. All right, in the few minutes that we've left, I wanted to ask you just a general question about the overall labor market. Adam, every client I go to, I do a lot of speaking and associations, inflation and supply chain has been obviously a huge issue for the past two years. Labor continues to be that big issue. We have 11 million unfilled jobs, millions of people have left the workforce. Even before COVID, there was an extraordinary number of open jobs as well. But still, this is at a historical high. I'm curious to hear your thoughts, you must get asked this, why is that? Why do we have so many unfilled jobs and where do you think all these jobs went? No one can seem to give me a straight answer as to where they think jobs went after COVID. And I guess there's no one answer. It's a variety of things. I'm just curious to hear your thoughts on where the people went and if you think they'll ever come back.

Adam Ozimek:

Yeah, I would divide it into two types of we can use the term shortage for lack of a better descriptor. Two types of lack of workers. One is what you observed pre-pandemic, which was in 2019 and felt like a pretty tight labor market. I would say that a lot of what businesses were complaining about was the absence of a problem. So, from the Great Recession through 2019, we had weak labor markets and you had weak wage growth, you had relatively low employment rates. And, really, that's best described as a decades long recovery from the Great Recession. And what we were starting to get in 2018, 2019, I don't even think we got all the way there, was actually a genuinely tight labor market. And it was just a slow, long recovery from the Great Recession.

Adam Ozimek:

For some employers are going to view that as being a negative. But the days when you can just post a job opening and have people line up, I don't think those days are coming back. And I think that's a good thing. And I understand from a business's perspective how this can feel bad, but you've got to zoom out. You've really got to zoom out. Because like you said, I have a business and we hire a lot of relatively low-skilled workers and some skilled workers obviously as well. But, as an employer, it may feel nice to be able to be go, "Oh, I can just post that job application anytime I want. I know there's going to be a line of people out there."

Adam Ozimek:

But that's a sign of an unhealthy economy. And when you have a tighter labor market, you have higher wage growth that may pinch you on the labor market side, but that means more money in people's pockets that they're going to be spending. It means also that people are less likely to ask the government to try to deliver them prosperity through often poorly working regulations. And, we don't want people to be so upset with their economic prospects that they're asking the government to turn things upside down for them to make it better. We want people to be satisfied with the wages that they're earning to feel like there are a lot of good job opportunities out there, that it's easy to find a job and we've just got to accepted that as employers, what we felt from 2008 through 2019 is not coming back. And that's a good thing. What felt good to us felt bad to a lot of people.

Adam Ozimek:

Now, I would hold that aside from what's happened over the pandemic. Now what's happened over the pandemic has been a shortage of workers that is in part policy driven. We gave out a lot of stimulus, we had very high unemployment replacement rates. It was difficult for landlords to evict people. So a combination of a lot of things put a lot of money in people's pockets. Plus obviously COVID itself pushed people out of labor force, ongoing fears of COVID, long COVID, childcare issues. It's a whole bunch of stuff that pulled people out of the labor market and that has created unsustainable labor market shortages. And what was happening in 2019 was what we want, that's like the recipe for prosperity, for middle class job growth, strong wages, that's what we want. What we have over the last two years is not sustainable. It's inflationary. And that's indeed what we've seen.

Adam Ozimek:

So, we need people to come back to work. And they are. We added half a million jobs the last month. People are coming back to work, they're just not coming back as fast as we thought that they were. And, it continues to be less workers than we thought, and some of it is too much demand. The economy was overheated, people were trying to buy more things than the economy could make. And so that creates more job openings than the economy can fill. But you still have this labor shortage. And I do think it's getting better and it will continue to get better, but there's no doubt that it's taking more time to correct than most economists would've expected.

Gene Marks:

Paychex did a study they just released recently showing that the people they surveyed, one in six people that are retired are considering coming back to work now, many factors contributing to that, decline in household wealth, the markets, their retirement savings not being what they thought it would be, and probably their spouses kicking them out of their house because they're driving them nuts. But that could also be your source for companies bringing back some of those retired workers. That remains to be seen.

Gene Marks:

Adam Ozimek is the chief economist at the Economic Innovation Group. You can follow his company @InnovateEconomy on Twitter. And Adam, what is your website?

Adam Ozimek:

Yeah, you can find me on Twitter as well @ModeledBehavior is my handle and our website is eig.org.

Gene Marks:

All right. That's great. Hey Adam, thank you so much for joining us. That was a great conversation.

Adam Ozimek:

Thanks for having me.

Gene Marks:

Yeah, I got to a third of the questions I wanted to ask, so we definitely have to talk again in the future, but we'll connect. And I really do appreciate your insights.

Gene Marks:

Do you have a topic or a guest that you would like to hear on THRIVE? Please let us know. Visit payx.me/thrivetopics and send us your ideas or matters of interest. Also, if your business is looking to simplify your HR, payroll, benefits, or insurance services, see how Paychex can help. Visit the resource hub at paychex.com/worx. That's W-O-R-X. Paychex can help manage those complexities while you focus on all the ways you want your business to thrive. I'm your host, Gene Marks, and thanks for joining us. Until next time, take care.

Speaker 1:

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