THE BROOKINGS INSTITUTION
BROOKINGS CAFETERIA PODCAST

THE STATE OF JOBS AND THE US LABOR MARKET

Washington, D.C.
Friday, February 25, 2022

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DEWS: Welcome to the Brookings Cafeteria, the podcast about ideas and the experts who have them. I'm Fred Dews.

Before I introduce today's guest, I have a special announcement. After eight and a half years and over 400 episodes, I'm closing the doors of the Brookings Cafeteria and ending this podcast. This is the second of six final episodes airing through the end of March, in which I'm talking with all five research vice presidents at Brookings and finishing with an interview with Brookings Institution President John R. Allen. In these episodes, Brookings leaders will be talking about the most important policy challenges and solutions of our time.

But this is not the end of Brookings Podcasts. While the Cafeteria is closing shop, we're still producing other shows and launching new ones on a range of policy topics that will interest you. You can right now listen to Dollar and Sense: The Brookings Trade Podcast to understand our global trading system. Check out Foresight Africa on the dynamism and optimism across Africa. And subscribe to The Current for analysis and context on breaking news stories. We've just completed season one of 17 Rooms, a podcast about the Sustainable Development Goals, and we have other new shows in development on topics ranging from the U.S.-China competition for human talent to rural America to fossil fuels.

Here's the host of Foresight Africa podcast Aloysius Ordu with more on that new show.

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ORDU: Welcome to Foresight Africa, a podcast that celebrates Africa's dynamism and explores strategies for broadening the benefits of growth to all people of Africa. I'm your host, Aloysius Uche Ordu, senior fellow and director of the Africa Growth Initiative at the Brookings Institution.

I'm excited to be with you on this journey—a journey that will take us from Cape Town to Cairo; from Dakar to Lagos to Mombasa; as well as to the heart of Africa—DRC Congo.

In this podcast we will interview experts, and policymakers from the public sector, the private sector, civil society, and Africa's youths. We will talk about the key trends affecting people and the nations of the African continent.

I will encourage you to follow the Brookings Podcast Network @policypodcasts and visit us online at brookings.edu/ForesightAfricaPodcast.

DEWS: Visit Brookings dot edu slash podcasts to learn more and sign up for our newsletter to get notified about new shows. You can also follow us on Twitter at PolicyPodcasts for episode highlights. And now on with the interview with Stephanie Aaronson, vice president and director at Economic Studies at Brookings. Stephanie, welcome back to the Brookings Cafeteria for the last time.

AARONSON: Thanks, Fred, it's really great to be here with you one last time.

DEWS: So, we're talking about jobs and the labor market. The most recent jobs report from the federal government showed that the U.S. economy added over 460,000 jobs in January and the economy added seven million new jobs over the past four months, even through the delta and omicron COVID surges. The overall unemployment rate is at about four percent, which seems very low to me. Sounds like the labor market is doing great. What's your take on these figures?

AARONSON: I mostly have to agree with you. I think overall, the labor market is in a very strong position, as you said. And we've been adding in the neighborhood of 500,000 jobs each month over the past six months, and the unemployment rate around four percent is just about a quarter to a half a percentage point above nearly its pre-pandemic level, which was near historic lows.

And the recent data also confirm that employers largely viewed the omicron surge this winter and even the earlier delta surge as temporary shocks, and it didn't dissuade them from adding to their payrolls.

What we have seen is that the average number of hours worked by employees in a given week has been falling since last spring. But this suggests that to the extent employers have faced weaker demand from customers, they've simply reduced employee hours. And that's a relatively easy way to adjust how much labor is being used. It's much easier than actually laying off workers and rehiring when demand picks up. So, overall, employers, I think, have sort of seen through the coronavirus and just continued the recovery.

I would say there are two caveats to this relatively good news. The first is that the labor force participation rate remains well below its pre-pandemic level, and we can definitely talk about that more. And in addition, despite how quickly we've been adding jobs, the level of employment actually remained about three million jobs below its pre-pandemic level. And this is despite the fact that the economy is actually producing about as much as it did pre-pandemic. So, some of the shortfall in employment can be explained by the lower labor force participation rate. But in addition, the U.S. has experienced depressed immigration since the onset of the pandemic. But overall, jobs are plentiful for those who want them.

DEWS: To follow up on the labor force participation rate. I'm pretty sure that you've defined that on this show before and others have. But can you just redefine that for listeners so we know what that means? And also just talk a little bit more about what the current situation with the labor force participation means.

AARONSON: Sure. So, to be counted as part of the labor force, you have to be either working or you have to be actively searching for work. So you can't just be flipping through Monster.com online looking at jobs—you actually have to be sending out a resume, going for interviews. So that makes you counted as unemployed. So the labor force is people who are employed and people who are unemployed, but they have to be actively searching for work. Everyone else is considered out of the labor force.

DEWS: So something else that I think the overall unemployment figures hide is the disparate experiences by gender and race. Can you address some of that for listeners?

AARONSON: Yeah, certainly. So while the unemployment rate is pretty close to its pre-pandemic level, the recovery has not been even across racial and ethnic groups. So it turns out that the white unemployment rate is very close to its pre-pandemic level, which was three point two percent. I think it’s at about three point four percent now. However, the Black and Hispanic unemployment rates are still well above their pre-pandemic levels. So typically the Black unemployment rate, for instance, is about twice the unemployment rate for whites. And right now, it is about double, about six point nine percent.

However, in the years before the pandemic, Black workers and Hispanic workers actually benefited from the very strong, prolonged economic expansion we had. And the unemployment rate for Black workers actually reached a low of about five point four percent, well below where it is today. So I think that there are still quite a ways to go for Black and Hispanic workers to really be back where they were prior to the pandemic.

And this outcome is consistent with research that I’ve done, which shows that workers who are disadvantaged in the labor market, in the sense that they have higher than average unemployment rates, really benefit from labor markets where we push the unemployment rate low. And so I’m hopeful that as the recovery continues, we’ll see further improvement in the unemployment rates for Black and Hispanic workers.

DEWS: And I know that I’ve talked to a lot of other Brookings scholars like Molly Kinder and Kristen Broady, who observed that the kinds of jobs that Black and Hispanic workers, that women workers, had even before the pandemic were the kinds of jobs that were more significantly impacted by the dislocations caused by the pandemic.

AARONSON: That's exactly right. So, early in the pandemic, we saw that women disproportionately lost their jobs, and the problem was even greater for Black and Hispanic women precisely because they're overrepresented in industries that were hard hit by closures early in the pandemic, such as leisure and hospitality. But the unemployment rate for women actually has recovered rapidly as hotels and restaurants and other services added workers. And right now, actually, the unemployment rates for men and women are very similar. And the revisions to the prior months of data—it's a little difficult to make cross-month comparisons—but at this time, it also looks like the labor force participation rate for men and women are similarly depressed.

DEWS: I'm glad you brought up that concept of revisions to the data because I wanted to ask you about that. These data are produced by the Bureau of Labor Statistics in the Department of Labor, right?

AARONSON: Yep.

DEWS: Every month at the beginning of the month, I think the first Friday of the month, the agency puts out the new jobs numbers, but also they will issue revisions to prior numbers. And I think we saw on the recent figures that numbers for three months last spring, spring of 2021, were lowered by the figures from November and December 2021, were revised significantly upward. So what's going on there? And I think, more importantly, can people have confidence in these numbers when the agency revises the data like that?

AARONSON: I think that's a great question, and I want to assure your listeners that people can have great confidence in these numbers, but I'm very happy to talk a little bit about the revisions. So, I think the way to think about the revisions is that the Bureau of Labor Statistics is trying to balance two imperatives. First, they want to provide data that's as accurate as possible, but at the same time they also want to provide data that is as timely as possible because businesses and policymakers use these data to make decisions and they don't want to be waiting to hear what the economy is like six months later.

So, for instance, each month, what the BLS does is they're basically trying to trade off on the accuracy and the timeliness of the data. So, for instance, each month, businesses report information on their payrolls to the BLS and BLS generates the statistics that we know and releases the data. But not every business responds on time to the survey. So for two months after the initial release, the BLS incorporates new responses to previous months as more businesses respond and they update the numbers. And so this balances the need for timely and accurate data. And then once a year, the BLS also incorporates additional data on employment and business births and deaths, which they don't receive on a very timely basis. And these new data can result in larger revisions like we saw in the latest release.

And I think it's also worth pointing out, actually, that the Household Survey also gets revised. The BLS has on a monthly basis only estimates of births and deaths and immigration. And once a year, they get better data on those statistics. And every 10 years we get a census which gives us an even better read on our population. And this year, the BLS incorporated new data on how the population grew between 2010 and 2020. They incorporated the 2020 decennial census. And in fact, the population grew a bit faster than we'd previously estimated. And there were more men in the population than we previously knew. And so they incorporated these datas into the employment and labor force participation rate statistics. And so those data revised, and that makes it a little difficult to compare the January statistics to those from previous months.

But the bottom line is that these revisions are completely normal, that by historical standards they weren't even particularly large this year. And people can have faith in the statistical agencies.

DEWS: Fascinating. I'm going to miss this kind of master class from Brookings experts on these policy topics when I'm done here. Stephanie, what else are you seeing in the labor market that listeners should know about?

AARONSON: I think a lot of analysts are paying attention to the wage picture, and this is for a couple of reasons. First of all, people are trying to understand what's going on in the labor market and in particular, why the participation rate is so low, whether it's due to a lack of demand on the part of employers or a lack of desire to work on the part of potential workers. And the fact that wages have been rising very strongly is, in fact, a sign that there is plenty of demand on the part of employers, and the low participation is primarily a function of the willingness of individuals to work.

I think the other reason that people are paying attention to wages is because we're in an environment now where inflation is higher than it's been for over a generation. Now, early in the recovery, it seemed like the high prices we were experiencing were likely to be transitory, for instance, due to the supply chain bottlenecks we've been hearing so much about. But these bottlenecks have proved to be longer lived than many people had expected. And in addition, we're facing high energy prices. Some of that is due to high demand. Some of it is due to, for instance, the unrest that's being experienced in Ukraine and Russia right now. And the worry is that as this inflation persist, that it will become embedded in the economy, and that would make it much more difficult for policy makers to deal with.

So one sign that inflation could be more embedded is if we see wages rising to keep up with inflation. It could create what economists call a wage-price spiral, where workers demand more wages because they want their real wages to keep up with inflation. They have more money to spend. This pushes up prices. The higher inflation encourages people to ask for higher wages and so on. And this dynamic isn't something we've seen in recent years. So, for instance, increases in wages prior to the pandemic didn't translate into significant inflation above the target of the central bank, which is two percent.

But in the current economy, that could change. And so people are looking for signs that the increases in wages might themselves be inflationary. We have a lot of different measures of compensation, and these all tell a little bit different stories. What definitely seems to be the case right now is we are seeing across the board wage increases. Some of the measures show increases similar to prior to the pandemic. Other measures show increases similar to the rates we are experiencing prior to the Great Recession. I think none of this is worrisome in and of itself. It would actually be good for workers, especially low-skilled workers, to see stronger wage growth. Wage growth for these groups has been pretty weak in recent decades, but clearly sustained increase in wages could be a warning sign that people are starting to build inflation into their expectations. That's I think one thing that a lot of people are focusing on now.

DEWS: So, looking ahead, what are some of the policy tools that policymakers could be using in this current environment on both the fiscal side and the monetary side?

AARONSON: So, it's easier to start on the monetary side, although I don't think the job of monetary policymakers is particularly easy right now. Monetary policymakers, Chair Powell, for instance, have strongly indicated that they see the labor market being close to full employment or at full employment. As I said, as you said, the unemployment rate is close to its pre-pandemic level and employment has been growing strongly. Wage growth is good. So they're very worried about inflation now, which is at generation-high levels, and they've clearly expressed their intent to start moving a monetary policy to remove accommodation from the system.

One thing we should point out is that with inflation as high as it is right now, real interest rates, for instance—the cost of borrowing—is exceedingly low. Monetary policy is very accommodative; even though interest rates haven't changed, monetary policy is more accommodative because of the higher inflation. So I think a move to raise rates to a more neutral stance, if they can do it gradually, will move the economy toward a more sustainable place, and that's exactly what they've indicated that they're going to try to do.

On the fiscal policy side, one of the things that I'm concerned about is the low level of labor force participation that we've been discussing. One thing I want to say is that from the perspective of the individual, I don't actually have a preconceived notion of how much people should be working. Households and individuals should make the tradeoff between income and leisure or income and household production—taking care of families and children, for instance—themselves. And back in the 1930s, Keynes predicted that with improvements in technology and productivity, we would have an average workweek of 15 hours. And right now, the workweek is on average double that. And Keynes, I'm sure, did not foresee the huge increase in female labor force participation that we actually experienced through the 20th century. So, I think we have a lot more work going on per person now than Keynes expected that we would have 100 years ago.

So, at the same time, many households are not much better off materially than, at least in terms of their income, than they were 50 years ago, in part because wages have been stagnant for low-skilled workers and participation rates for men have been declining for decades, reflecting primarily weak demand. So the macro picture, I think, is where the low participation is more concerning. So, participation in the U.S. actually lags behind that of other advanced economies, and this has significant implications for our fiscal situation because it affects how much revenue the government raises. Right? We tax people's income and fewer people are working, that's less revenue for us, for the government and that hampers our ability to fund obligations such as Social Security and Medicare, while at the same time investing in the infrastructure we need and in the next generation.

So I think policymakers should be focusing on efforts that would increase labor force participation, and this could be done directly, for instance, by subsidizing child care. In Europe, they subsidize child care much more than we do, and that has been shown to significantly boost female labor force participation. I think another thing that policymakers could do is make jobs better for low-skilled workers. In the U.S., the quality of jobs for low-skilled workers is much worse than in a lot of European countries. The pay is lower. There are very few benefits associated with the jobs. So, for instance, we could be requiring paid sick leave and paid family leave to help improve the jobs, there's raising the minimum wage. So I think there are a lot of things that policymakers at the federal level, but also at the state and local levels, could be doing to improve the quality of jobs and that would likely attract individuals into the labor force and help boost participation.

DEWS: Well, in closing a question I'll be proposing to all of the Brookings research vice presidents like yourself. Looking ahead, what are the issues that you are focusing on, both in your own research and also as vice president of Economic Studies at Brookings?

AARONSON: So, as you might guess, in my own research I focus a lot on labor force participation, and I've really been focusing on the course of labor force participation over the pandemic and what the prospects are going forward. So, over the summer I did an analysis of whether female labor force participation was held back by school closures. And more recently, I've been working with research associate Janina Bröker on how likely workers who are out of the labor force are to return.

I think, you know, for our program more generally, you know, the Economic Studies program as a whole is dedicated to doing research that promotes broad-based, climate resilient economic growth, economic opportunity and mobility, inclusive social policy, and sound monetary and fiscal policy. And we're committed to communicating those results, both with the general public and with policymakers so that we can impact the policy debate.

I think the pandemic has exposed many weaknesses in our economy and our social safety net. And it's actually, I think, created a real opening for making changes that can strengthen the economy and our prospects going forward. So, we have scholars who are focusing on making health care more accessible and more equitable, strengthening our education system, which has taken a huge hit during the pandemic, creating a more equitable taxation, promoting smart regulation, and also, as I said, focusing on making sure we have a stable macroeconomic environment in which this growth is taking place by promoting this sound fiscal policy and monetary policy. So, for instance, thinking about the Fed's new monetary policy framework and how that operates in an environment which is quite different from the one in which they established it. So our scholars are working on a very broad array of issues, but really aimed at making sure that we come out of the pandemic with a stronger and more equitable economy.

DEWS: Well, over the last eight and a half years, I've interviewed so many of your colleagues in Economic Studies on a range of these challenges and solutions, all of that material will remain on our website, Brookings dot Edu. And Stephanie, I just want to thank you for sharing your time and expertise with us today and always.

AARONSON: Thanks. It's really been a pleasure.

DEWS: A team of amazing colleagues makes the Brookings Cafeteria possible. Gaston Reboredo is the audio engineer; our audio intern this semester is Skye Sutton; Bill Finan, director of the Brookings Institution Press, does the book interviews; my Communications colleagues Adrianna Pita, Chris McKenna, Chris Peters, and Colin Cruickshank are key collaborators. And finally, Ian McAllister, Soren Messner-Zidell and Andrea Risotto provide guidance and support.

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Until next time, I’m Fred Dews.