

Where are the missing workers

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THIS DISCUSSION REPRESENTS MY OWN VIEW AND NOT THAT OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM OR ITS STAFF. I WOULD LIKE TO THANK EMILY GREEN AND MOLLY HARNISH FOR HELP WITH THE EXHIBITS

What is the purpose of this exercise

- ▶ Labor supply is very tight. Do we expect a recovery or has something changed post-pandemic that means the new level is permanent.
- ▶ Answering this depends in part in whether we think the current behavior of the LFPR and workweek is unusual relative to pre-existing trends and the state of the business cycle
- ▶ Answer also depends on whether changes brought on by the pandemic are likely to be persistent or not
- ▶ Are there changes we might expect going forward that haven't been fully realized?

What to Abraham and Rendell do?

- ▶ Decomposition of the change in total hours into LFPR and weekly hours
- ▶ Decompose changes in LFPR and workweek into explained and unexplained components
- ▶ Identify potential explanations for the shortfalls and review the literature on the topic, plus extra analysis.
- ▶ My goal?
 - ▶ Provide some additional context for their decompositions,
 - ▶ Identify low hanging fruit for researchers going forward.

Benchmarking: What do AR do?

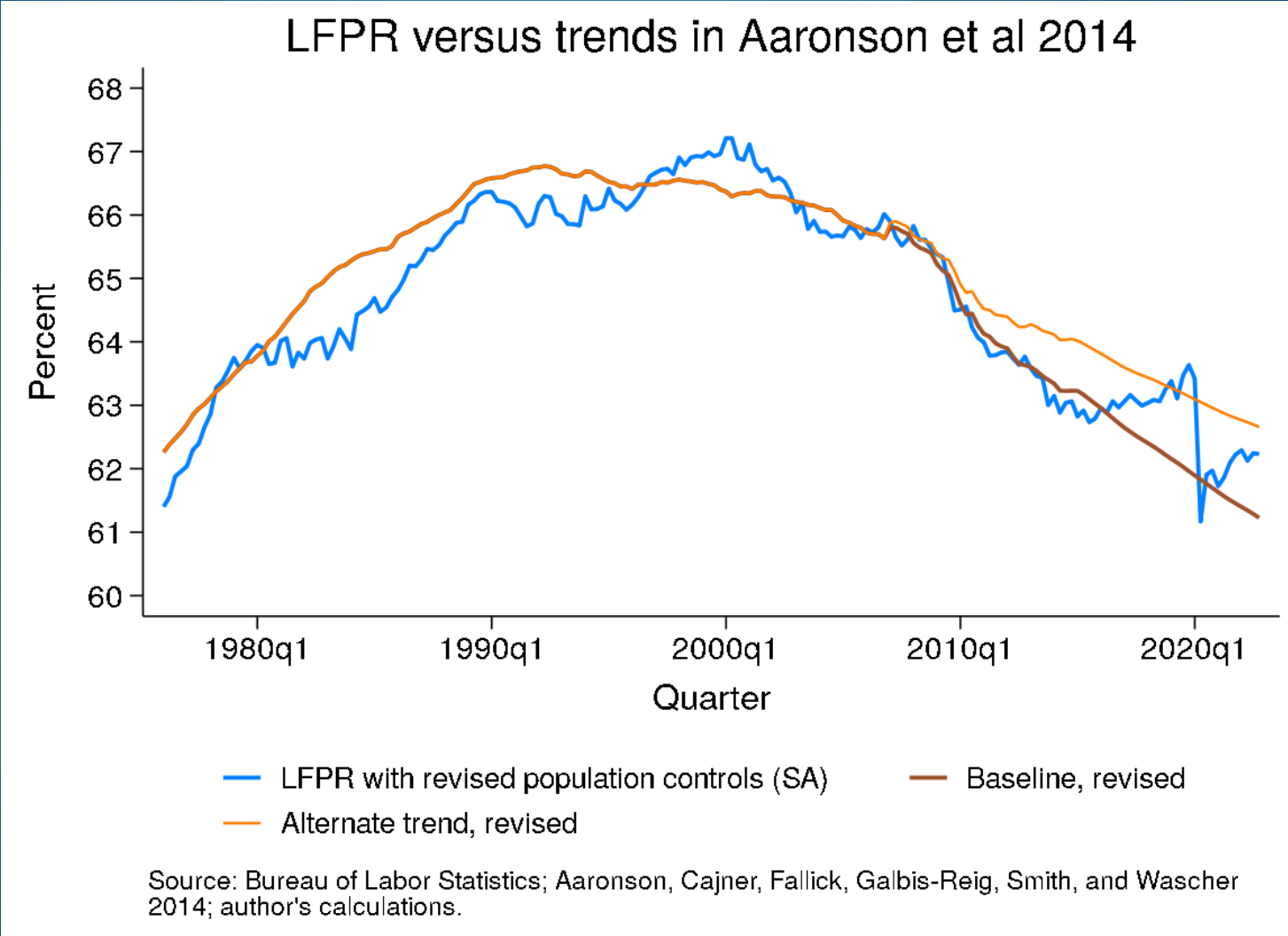
- ▶ Control for between group evolution of the population: Aging, sex, and education
- ▶ Control for pre-existing trends within group
- ▶ Cyclical position of economy: they assume it is the same
 1. Labor market could be tighter than pre-pandemic, ex. V/U high
 2. LFPR has long lags, up to four years. Level may not have fully recovered
- ▶ Use existing population controls

Alternative Benchmark

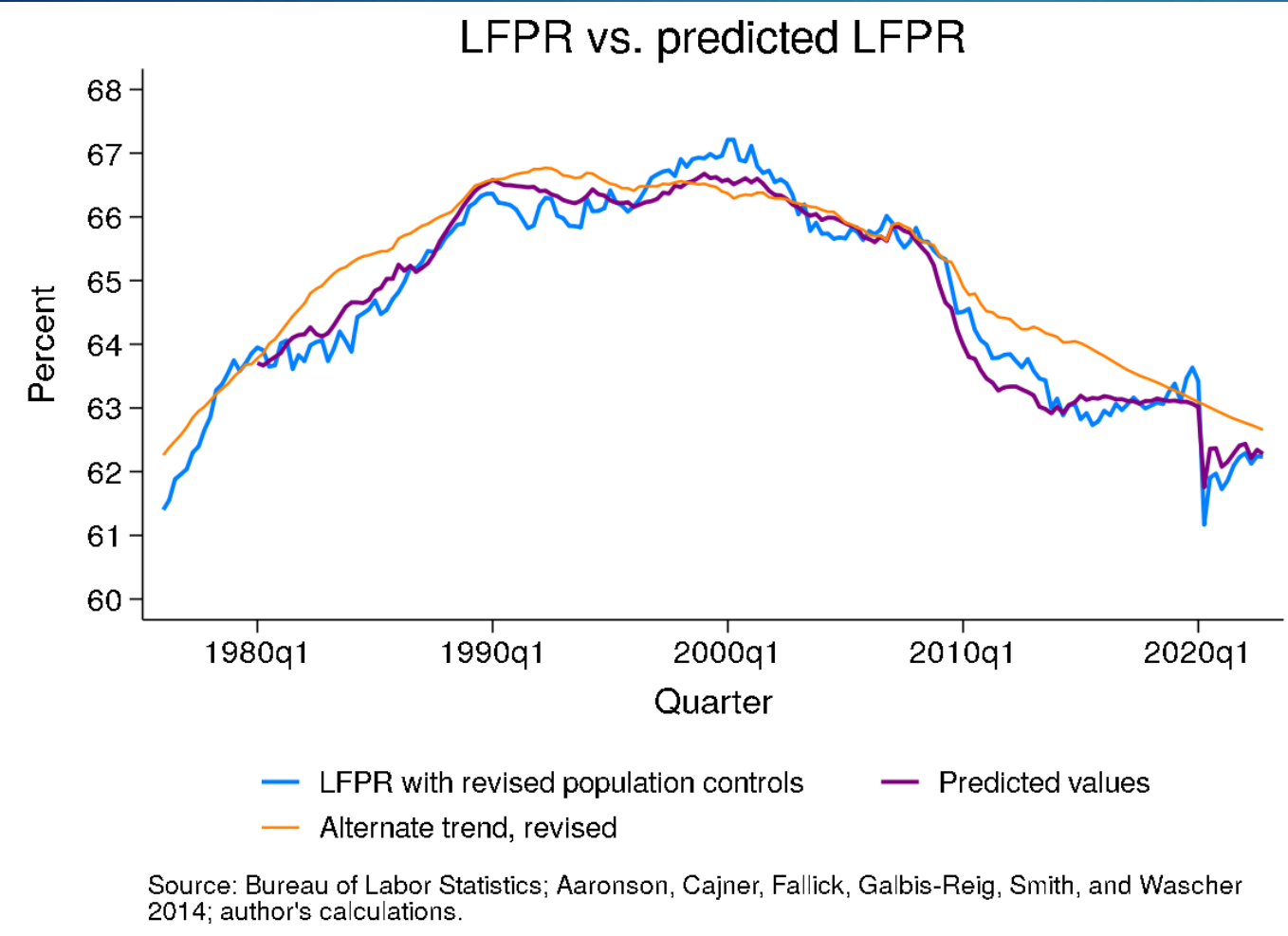
Aaronson et al, 2014

- ▶ The model as we estimated it back in 2014
- ▶ Modifications
 - ▶ The trends and the LFPR data account for revisions to pop controls
 - ▶ Cyclical component estimated using aggregate data and trend
- ▶ Would not be considered state of the art nearly 10 years later
 - ▶ Treatment of the younger cohorts
 - ▶ Treatment of education

Model performance



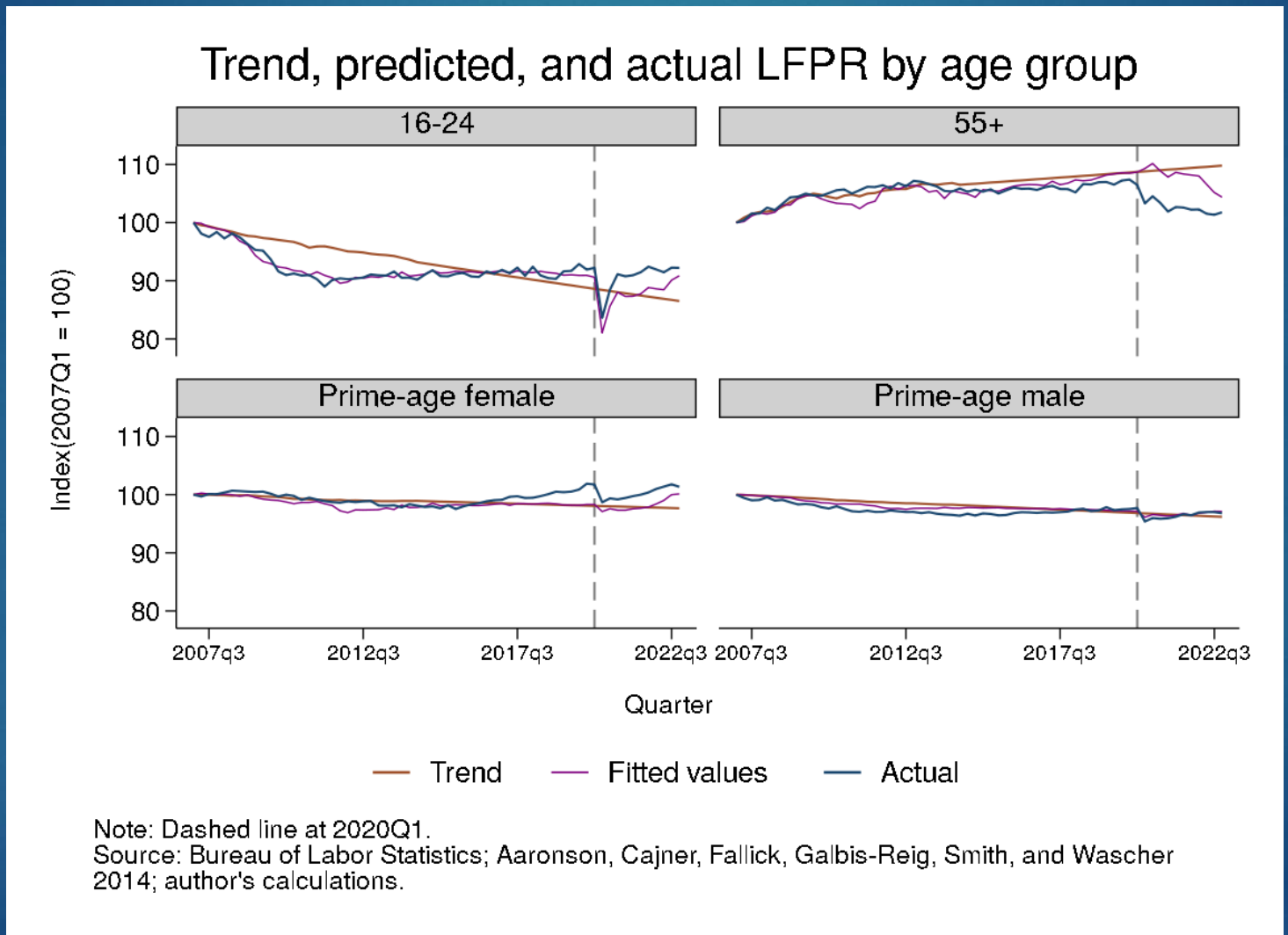
Model predictions



	Change in LFPR	Accounting for trend	Accounting for prediction
AR	-0.9	-0.26	
SA	-1.2	-0.75	-0.46

Source: Bureau of Labor Statistics; Aaronson, Cajner, Fallick, Galbis-Reig, Smith, and Wascher 2014; author's calculations.

Model perspective on group LFPRs



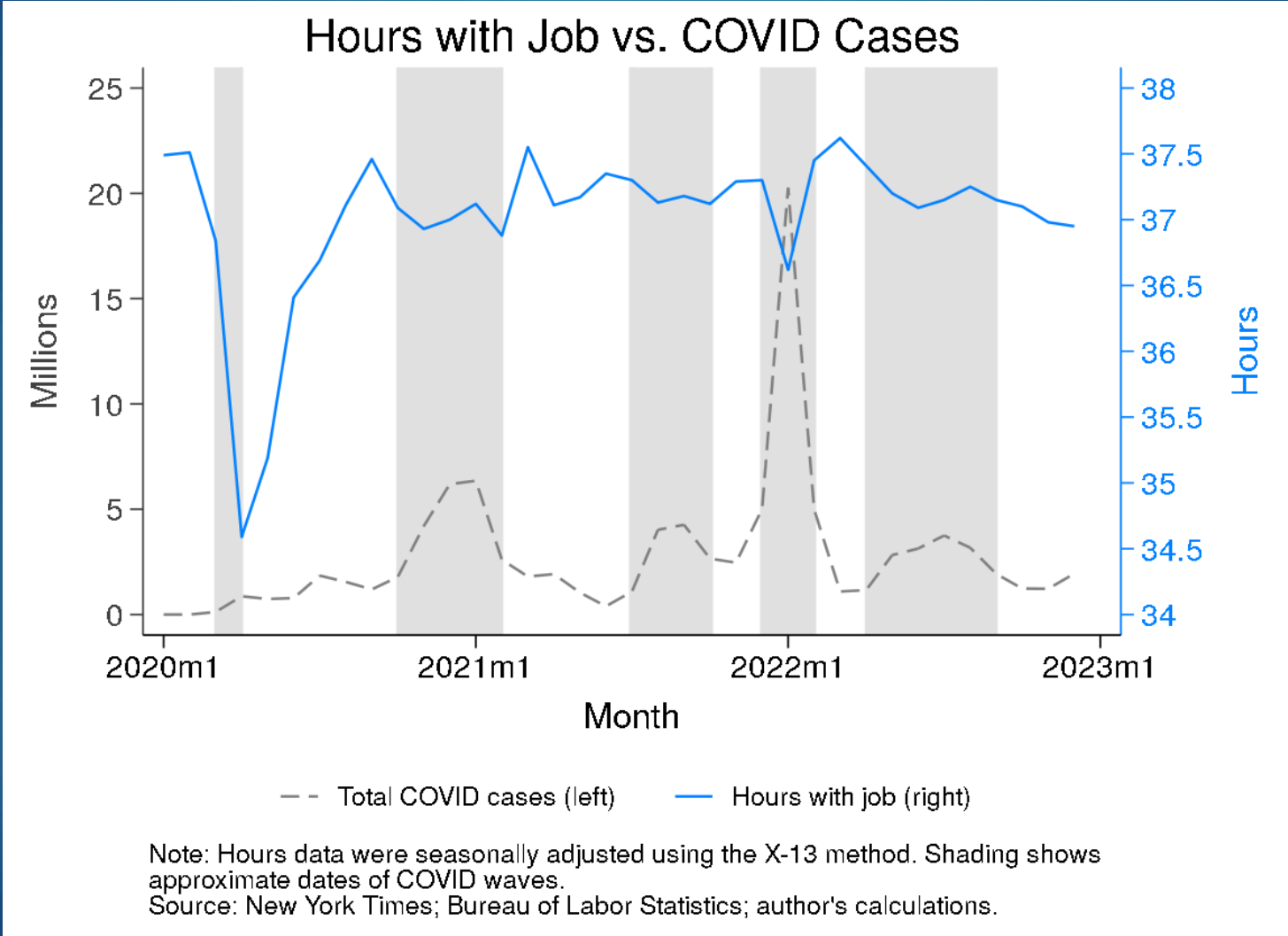
Hours

- ▶ In their analysis this turns out to be a very important component, but they have less to say about it.
 - ▶ There has been far less attention paid to hours in the literature on the pandemic than to the participation rate
- ▶ The paper clearly identifies this as a place where more work is needed
- ▶ But, can we provide some more guidance for this future work?

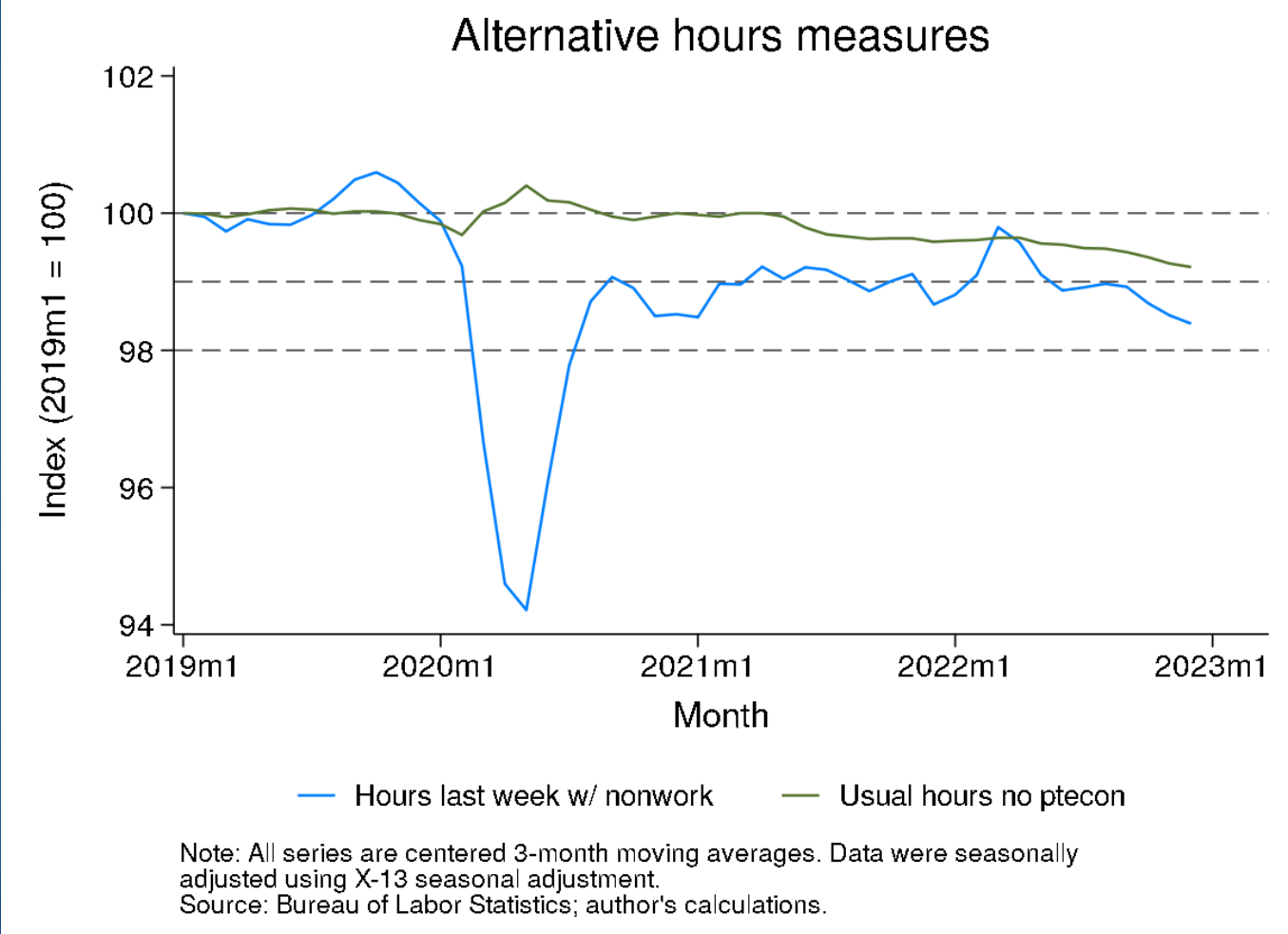
What different hours measures tell us?

- ▶ CPS measures usual hours worked and hours worked last week.
- ▶ AR measure hours worked last week, but for people who have a job but are absent, they include a zero.
 - ▶ What does this measure tell us? How much are people actually working. It is buffeted by week to week shocks.
 - ▶ Seems likely it could be heavily influenced by COVID, which the authors provide some evidence for.
 - ▶ Also affects the variance of hours.
- ▶ Alternative is to look at usual hours, which may have more to say about people's desired hours of work

COVID and Hours



Can we say anything about desire to work?



Population is also an important explanation for missing workers

B. Decomposition of the current labor force shortfall

Millions of people

Total shortfall	3.5
LFPR	2.1
Population	1.4
Excess deaths since COVID	.5
Net migration slowdown since COVID	.9

Note: The labor force shortfall is calculated over the period from 2019:Q4 to 2022:Q4.

Source: Current Population Survey; CDC mortality statistics; staff calculations.

Playbook going forward

- ▶ The definitive starting point for thinking about the labor force post pandemic
- ▶ Paper has highlighted the huge lapse in our understanding of how weekly hours are evolving.
- ▶ Also gaps in thinking about how participation will evolve going forward.
- ▶ Continued work on the how the increase in the social safety net during the pandemic affected labor supply welcome
- ▶ Remote work? Child care?
- ▶ Who is working more?