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IlLUminate Blog Transcript: **Ahmed Rahman Explains the Pandemic Labor Market**

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ANNOUNCER: 00:02	[music] This podcast is brought to you by ilLUminate, the Lehigh Business blog. To learn more, please visit us at business.lehigh.edu/news.
JACK CROFT: 00:13	Welcome. I'm Jack Croft, host of the ilLUminate podcast for Lehigh University's College of Business. Today is January 14, 2022, and we're talking with Ahmed Rahman about what has been an eventful and often confusing year in the U.S. labor market. Dr. Rahman is an associate professor of economics in Lehigh's College of Business. He also is a research fellow at the Institute of Labor Economics. His research areas include economic growth, economic history, immigration, and the economics of education. Thank you for being with us today, Ahmed.
AHMED RAHMAN: 00:51	Thanks a lot, Jack. It's great to be here.
CROFT: 00:53	Let's start, over the past year or more, the US labor market has experienced something it rarely, if ever, has seen before, a combination of high job openings and low hiring. We'll get into some of the details throughout the discussion today, but broadly speaking, what's going on here?
RAHMAN: 01:15	Yeah, well, Jack, I mean, that's the question for our age. Economists have labeled this phenomenon various things: the great resignation, the great realignment. And of course, my favorite is the take this job and shove it economy. The ultimate question is, sure, why is this happening? So in the spirit of sometimes this is [inaudible]. I hate to bring up the dreaded C word so early in our conversation, but it's COVID. Of course, COVID has forced us to reevaluate almost everything: what we do, how we do it, where we do it, why we do it. It's influencing all our relationships, family, our communities, and maybe especially in the workplaces. And to be honest, some of us wondered at the start of this pandemic in 2020 if these jobs that seem to be evaporating away would ever come back. They might get automated away or outsourced. And in fact, the technology, they haven't caught up. They're not there yet, right? These jobs in retail, in education, hospitality, manufacturing, they rely on people. They still are people dependent. And so what we're seeing now is, in fact, the opposite is happening, that the jobs have certainly come back. It's just that the people have not. And you need both. And I think what's interesting is it reflects something that perhaps sociologists and psychologists could have informed the economist a while ago about, and that's that this cataclysm, it's forced a reevaluation, right, at the individual level and through the labor market-- though the labor market really did appear very strong in 2019, I think it turns out that many of us were miserable doing those jobs. And now people are voting with their feet in a major way, right?
RAHMAN: 03:04	So as an example, some people were forced out of work and they discovered that they didn't really necessarily need to work or they weren't really happy to begin with, and that job's absence has sort of created that awareness. Others have discovered that what they were doing in the office could actually be done at home, right, whether that home was down the street from the company or on the other side of the planet. So they discovered that they can earn money, but they can also take care of their kids or tend to the yard or day trade or whatever it is that they want to do.

And so what we're seeing is all of us have been exposed to these other possibilities. And when you're confronted with a lot of choices, sometimes you sort of freeze up. You're sort of frozen in indecision, and as you weigh the pros and cons of various things, I believe a real big chunk of what we're seeing right now - and I think we'll talk about this a little bit more later - is really about that.

CROFT: 03:57

And you mentioned the fact that the jobs, to a large extent, did come back, but the people filling the jobs did not. Let's start out talking about that, because when COVID hit in March of '22, I believe the initial job loss was 10 million jobs in the U.S. And in the past year and a half, 6 million of those jobs have already been recovered. And at the time that COVID hit, I think the majority of economists were predicting it would be a very slow recovery coming out of this and it would take years for the economy to rebound. So looking at kind of the more optimistic piece of this equation, what accounts for the more robust recovery, at least in the jobs that have come back so far that we've seen?

RAHMAN: 04:51

Yeah, I think in retrospect, I suppose, we call it a V-shaped recovery, right? There's a big bounce back. Maybe it's not that surprising. So if we contrast this one from the last recession of 2008, its predecessor, that was the deepest recession we've seen since World War I, right? It was also the longest, about 18 months. But that kind of recession was sparked by a financial crisis, multiple crises, in fact. It was deep and it affected all kinds of markets: housing market, bonds, the commercial paper market froze up and of course, labor markets. So that kind of deep recession, widespread, and that's the kind of recession that takes a pretty long time to recover from. And in fact, it was. Now, in contrast to this recession, and there's a lot of unique aspects to this recession. The first of these is that in many respects, it was self-inflicted. We ourselves proscribed various activities that are normally conducive to economic activity and we simply weren't doing them anymore, right? We were not eating out at restaurants. We weren't getting haircuts or manicures. We weren't hiring au pairs to take care of our kids. We weren't going to catch a show or movies. Now, there were very good epidemiological reasons for not doing those things, but what we did was put our lives on hold. It's understood, however, that once things should resume, once the pandemic ends-- and we're not out of the woods by any means, but of course, that epidemiological picture is very different from what it was a year ago. So I think the recovery is unusual, but it's because the recession itself was so unusual.

RAHMAN: 06:34

Don't get me wrong, there are still many areas to improve. 10 million versus 6 million, there's a definite gap. That many people are still looking for work, and we do have equity considerations, problems. Black unemployment rates are double that of white unemployment rates. But the overall picture is definitely a good recovery. And in fact, coming back to our earlier point, perhaps it's too good, right? And what I mean by that is companies seem really eager to kind of go back to business as usual, but the workers not so much, so we have this kind of disconnect in some sense, right? The jobs have come roaring back, but maybe it's the older jobs, right? It's the way things used to happen, again, in 2019. And as we mentioned before, people weren't necessarily thrilled with that environment. And so that's another, again, a unique aspect to this recovery. There's a paradox here. It's sort of very robust, but it's also so different. And the people aren't seeming to be as engaged in that robust recovery as we might have thought.

CROFT: 07:43 To counteract that, what are some of the key strategies that employers have been using to try to compete for the best candidates to the jobs that they have to fill?

RAHMAN: 07:55 Yeah, this is another key-- this is going to be a big issue in 2022. It is actually a burgeoning area in labor economics called personnel economics, this idea. And part of that is the ideas of attracting and retaining personnel. I mean, I myself study retention issues in the military, and there's a lot of random things that happen that allow us to measure the importance of various factors in retention. Examples include opportunities for promotion and advancement, accumulation of firm-specific knowledge and human capital, various perks on the job. All these things appear to matter to varying degrees. And what's true for the military is, for the most part true for the overall economy, the civilian workforce. So in our current climate, there are these two big ones, right? Wages are obviously one of them, so we're seeing these wage increases to attract workers. This is especially true for lower skilled service jobs. The other is what we might call work amenities. And one of the new amenities that's a key interest now is this ability to work remotely, the ability to shape your own hours, and so on, right, this degree of flexibility. And I think what's interesting, what's relatively new here, and that's what labor economists are looking very deeply into, is that there are important interactions when it comes to these two factors.

RAHMAN: 09:15 So what we're seeing, I think, is these upward wage pressures. They're less pronounced in those areas where workers are, in fact, granted more flexibility, right? They're called saving differentials. So an example would be Google, right, where Google actually said, "You can work remotely, but we are going to discount your earnings. You're going to take 10% off your wages if you have that flexibility." So I think we're seeing this sort of what we might call wage compression that's happening. Wages are likely to continue to rise, but they're going to be rising for the lowest wage earners, all right? As an example, workers in gas stations, non-managerial workers - this is the lowest paid sector - they saw their earnings rise something like 16% since the pandemic began, and that's a lot higher than the average. That's just a glimpse of the potential wage compression that we're seeing here. And so more generally, the bottom 25% of earners, I think have seen the highest wage growth up to like 5% over the last year, where other income earners, the increase has been far less. And I think a big reason that is happening is due to these workers. Employers cannot entice these workers back with something that they are increasingly demanding. It's this flexibility, this opportunity to work remotely, the nature of these jobs simply do not allow for that. And so when we need these workers, they are deemed essential. And I think we've learned kind of anew just how essential they are. And so they're going into the market and they will need to be paid accordingly.

CROFT: 10:50 Now, if there are far more jobs than available workers and employers are paying higher wages than before the pandemic, one of the conundrums that we've been dealing with is a flat labor force participation rate over the past year and a half. So what accounts for that, and how much of a factor does the lingering coronavirus pandemic, with omicron as the latest, play in keeping workers on the sidelines?

RAHMAN: 11:22 The labor force participation rate, I think now kind of hovers at 61.9%. This is a full percent and a half sort of below pre-pandemic and it's sort of the lowest it's been since the 1970s. So for those of us who are interested in sort of the longer run growth prospects for America, this is in fact quite alarming. Some reasons we might think that it's going to be flat for the foreseeable future, and there are other reasons why we might think it might rise. So one of the big reasons why it might remain flat is we've seen 3.6 million more Americans who left the workforce and saying that they did not want to come back compared to a year ago in November 2019. And older Americans, those 55 and older, accounted for like 90% of that increase. So I think that's the part where these individuals really are not coming back because those that are leaving skews older. And that's kind of one aspect where we might think that this labor force participation is going to be pretty flat for quite a while, but there are other considerations, right? And again, I'm going to come back to the working from home aspect as one of those considerations. So if you think about it, like 5 to 10% of jobs out there, I think can be done remotely. You can do them anywhere. And then 5 or 10% of jobs, you can never do them remotely. You always have to show up. The vast majority, 80, 90%-- and Jack, you and I, I think, are part of that big group in the middle where it's a mix. And that's part of this great realignment, I think, is that there's lots of bargaining going on between firms and workers just trying to figure it out.

RAHMAN: 13:06

Workers, they're asking for greater flexibility. Firms are trying to understand how they can provide that flexibility. So as that plays out, I think there's reason to hope that labor force participation will, in fact, come upward as this new realignment sort of happens, as these firm labor relationships get worked out. So that's a little bit more hopeful. Another reason might be people have focused on the stimulus checks, right, as part of it, exacerbating the lack of enthusiasm to come back into the workforce. There's been recent studies suggesting that that does play a role, but I think that the role is quite modest, that that's not really the main culprit. And of course, erstwhile workers, they're eating into their savings and their 401(k) plans. That can't last indefinitely. So as they try to figure this stuff out, I think they're going to come back as well. And then finally, I wouldn't underestimate also the extent of just burnout. People are tired, and it's hitting different industries in different ways. The whole pandemic has affected, especially these employees that were in these low-wage sectors, restaurants and hospitality. This is a group that, they're no longer willing to tolerate the kinds of wages and the conditions that they experienced prior so that's part of the low-- they're not participating, coming back, at least not under the current conditions.

RAHMAN: 14:29

And of course, the struggle to hire those individuals, food and hospitality in particular, that has dominated the headlines. But in the background, there's sort of a quieter struggle to staff, sort of nursing homes, day cares, schools, and that's really important because that sort of has eaten away a little bit at the foundations for America's social environments, the social infrastructure. So there's really bigger stakes than simply labor markets, I think. This great resignation is impacting society in a way that I think is a little bit troubling. And then finally, what about the virus? The virus still is a factor for us, and I think it continues to play a role, especially for older workers. Not having a vaccine mandate, as we recently discovered, that probably won't help matters. But I think firms can figure this out. If OSHA can't do it, firms will have to do some of the heavy lifting in terms of maybe ensuring a safe workplace, ensuring options for that remote work, especially for more vulnerable people.

CROFT: 15:34

Now, earlier you had mentioned the take this job and shove it [laughter] economy. And starting in September of 2021, was the first time I remember the massive numbers, more than 4 million people quitting their jobs. We've been seeing pretty consistently record numbers of workers quitting their jobs each month. And is it as simple as with employers competing for a relatively flat pool of workers, there are more opportunities at this point to switch to a higher paying job, which I've seen referenced in a lot of the news coverage? Or are there other factors at play here? And from some of what you've said, it sounds like there definitely are some other factors at play here.

RAHMAN: 16:22

Right. There are. But you're right, there are these opportunities for job switching. I think we're really informed. There's a classic study done in the early '90s, where about 5,000 young men through their Social Security records, and it documented the primary way to get a wage increase is through these lateral job switches, rather than get a wage increase within your organization. So that is, I think, playing out in a pretty major way right now. Now, that said, that process can take time, right? It really does take time to figure out what position best suits you, your skills and your interests, and especially now as so many are undergoing the sort of reevaluation of their careers and of their entire lives. So I think that's one aspect, this matching is always something that takes some time, and it's taking, I think, maybe even more time now. Of course, the other aspect is that many of these quits, as I mentioned earlier, they're these early retirements. And so there's an exit that's absolutely happening, and so we shouldn't expect those individuals to actually come roaring back.

RAHMAN: 17:27

Another aspect about finding a higher paying job, of course, is education. Education tends to be a little bit more of a classic, but all the longer term process in terms of going up the wage income ladder, right? That's how you can transfer to a higher paying job. And I think this will eventually show up. Of course, I think it's also important to note that right now, college enrollment is way down. It's like 6 ½ percent lower, I think, from its pre-pandemic levels. I think there's some obvious reasons for this. The altered and disrupted college environment is part of it. This is negatively affecting both students and faculty alike, and so it doesn't look that attractive. It's also, partly, these high paying jobs, right, when you graduate from high school, and those kinds of jobs are actually plentiful. So those are some of the reasons why we're seeing the low levels. And I think this might sound a tad tendentious, but without a dramatic reengagement in these individuals' education, I think the potential loss to their longer run earnings is kind of significant and will greatly impact all of us in the years to come. But I also believe that this reengagement will, in fact, occur. It just is going to take a little bit of time. The reason I say that is because once we're post-pandemic or fully endemic or however you want to describe it, college is going to be the gateway for the jobs of the future. I know it sounds corny, but the jobs of the future involve those where that flexibility is. And so people have noticed that. They're seeing it. They're asking for it. But you do need postgraduate, you need secondary education or tertiary education in order to get those positions. So people reflect on it and appreciate that. I think colleges are going to come roaring back in a major way. I hope that doesn't sound just like wishful thinking.

CROFT: 19:20

One of the things we haven't talked about yet is what's been happening with women in the workforce. Women, by and large, have not shared in the new job opportunities at the same level as men. So what are some of the main factors that have kept women from returning to the workforce?

RAHMAN: 19:42

Yeah, I think this is one of the more-- at least for some of us, one of the more disappointing trends that we are seeing where women have made, in fact, great strides in the labor markets over the last few decades, although that progress has slowed and now it seems to be, unfortunately, reversing, right? A number of things I think to consider. One is women are more-- we talk about burnout factor, and I think women are just more burnt out than men, right? That's a combination of kind of industries and jobs that they tend to hold. They are those face-to-face jobs, and they are the ones that were very stressed and continue to be stressed due to COVID. And it's also the case that they have more responsibilities. And we still live in a world where if there's going to be a traditional household and one of those individuals are going to be working, it tends to go towards the male. And so it seems like that is playing out to some degree. So I've seen a recent McKinsey report where one in three women say they have considered downshifting their career or leaving the workforce this year, and that's compared to one in four who said that just a few months into the pandemic, so it's getting worse in this context. And I think the burnout factor is definitely a problem there.

RAHMAN: 21:03 Other considerations, so we call it sometimes a broken rung problem, right? So how women have a little bit harder time going up the distribution, to get to manager. And I think how the pandemic and our new economy plays out in terms of this broken rung problem, it's not looking all that great so far. And so again, it's not just that the current job doesn't look all that attractive for women, it's that the job prospects for the future are also potentially deteriorating. And so all considered, these positions for women, I think maybe it's just a calculation that many are making. It's like, "Simply, it's not worth it." And again, yeah, maybe they're not saying, "Take this job and shove it." It's nicer than that, but they're more or less saying that in large numbers. And I think for some of us who study this, the loss of women in the workplace constitutes a real loss for the economy, because I think many studies have demonstrated the things that women in the workforce bring. They spend substantial time on issues, let's say, related to diversity and equity that men don't. They work better under certain circumstances when it comes to risk assessment and so on and so forth. So I think that kind of thing is a little bit troubling and something that policymakers should take note of.

CROFT: 22:30 You've talked some about the exodus of older workers from the labor market. In addition to the pandemic-- and yeah, by older workers, the figures I've seen are 55 and older, I believe, which 55 isn't really [laughter] that old at this point.

RAHMAN: 22:51 I'm increasingly agreeing with you. [laughter] Yes, exactly.

CROFT: 22:55 [laughter] And when you look at longevity-- I mean, again, your colleague Andrew Ward has done research extensively on this as well. The effects of longevity on the workforce was something that was going to have to be addressed, because if people are living into their 80s, they're not retiring at-- mid-80s to 90s, up to 100, they're not going to be retiring at 55. They're going to be working longer and what does that do to the workplace? We've gone from kind of that discussion to that 90% of the people who left early were older adults who just said, "I've had enough." So is this specifically related to the pandemic, or again, are there other things going on here as well?

RAHMAN: 23:47 Yeah, as many of these things, a little bit of both. The surge in retirement, I think, does have a lot to do with the pandemic, in part. The natural thing is older cohorts feel more vulnerable, right? And so we have, what, 75 million baby boomers, and they are tending to retire earlier rather than what Andrew and others might suggest in previous research rather than later. And this is having sort of heterogeneous effects on various industries, right? So again, just as I was saying there's loss for the economy when it comes to women not participating, there's loss of the economy when it comes to older workers not coming back. A lot of that has to do with very important firm-specific human capital. This puts tremendous strains on certain industries. I was talking to some people in the manufacturing industries, and the older workers are leaving and the younger workers are not joining, and so manufacturing in particular is finding a lot of strain. And it's not just the loss of the people, it's the loss of the skill. It's the loss of the expertise. No one's there, then, to train the new generation, the new cohorts, right, to figure out how to do this stuff. Retail and service sector, though, not as hard hit. Part of that is older workers don't work as much in those sectors, so they're not being as negatively impacted. I think, though, as we say, another factor that is sort of only tangentially related to COVID is older workers, I think, are seeing the jockeying of their younger colleagues leveraging the sort of work from home technologies, right, and using them to gain more flexible environments. And I think a lot of them are saying, "The hell with this," right? [laughter]

RAHMAN: 25:32

I've seen this a little bit in the education sphere where teachers are just tired of the hybrid or the remote teaching and having to navigate all these new technologies. And a lot of them are simply saying, "Now is a good time to just pack it in." And I think history does bear this out to some degree. Any time there are these big paradigm shifts-- as I said, I study a little bit of military stuff. The transition from sailing to steam ships in the Navy in the 19th century, where the older officers, they sort of pine for the good old days of wooden ships and iron men. What we see is a big exodus of those officers leaving, because the shift was simply something that they didn't appreciate. And so older folks, they might be trained in these more antediluvian ways. They're going to tend to exit, so I do think that is part of it. The other part, the final part I might mention here is that simply the connection between the worker and the firm itself has changed through the decades. We've transitioned a little bit more towards the gig economy, these temporary contract work relationships. So the relationship with the worker and the employer itself has changed. So I don't think the-- because if you think of the baby boomers, their ties with their employers, it's a little bit more tenuous now. And so they don't necessarily feel the need or the connection or the identity that's related to the job like it was decades ago where you would work for 30, 40 years, get a gold watch and then retirement at the end. That's really not the world anymore. So because they have this tenuous relationship, you can also see that captured here where workers-- again, yeah, we're talking about people in their late 50s. I mean, they've got plenty of work left in them, and they're throwing it in way earlier than many of us would have predicted.

CROFT: 27:24

One thing we haven't talked about that's been in the news an awful lot lately is inflation. What, if any, role is that playing in all the disruptions we've seen in the labor market?

RAHMAN: 27:36

Yeah. I mean, I think the main thing about inflation from a labor perspective is that obviously, it eats away at your earnings, right? It's just what you make doesn't buy as much as before. So as I mentioned, the lowest wage earners, they got a 5% wage increase last year. But of course, you've got to acknowledge inflation, at least captured by the CPI, was like 7% or more. Most individuals are seeing in real terms their earnings actually go down. So in the spirit of you can fool some of the people some of the time, but not all the people all the time, we're appreciating this. And what, I think, some macroeconomists are fearing is this is going to create this sort of wage price spiral, kind of a classic inflation story that sometimes is very difficult to change. So much of this inflation sparked from the supply crunch. This is another thing that we've heard a lot in the media. Computer chip shortages, the backups in the ports, a lot of this is really not related to labor markets, right? But I think things really should get better over time, at least that's the hope. But I think there's a real danger now, that once the price increase-- the genie has been let out of the bottle. Once unleashed, it's really hard to plug it back in. Because what happens is workers see the price increases. They feel that they're in a good position to ask for wage increases. Firms do, and they're forced to pass off these costs as increases to customers in the form of prices. And then the workers see this and so on and so forth, so what started as a supply side shock could end up becoming a kind of a cost push inflationary spiral. Sounds like the Federal Reserve is on it. Obviously, that's the mandate. And so the hope is that that wage price spiral won't actually spiral out of control.

CROFT: 29:28 To wrap things up then, the beginning of the new year is usually a time for optimism. So what do you see are the prospects for getting at least close to the full employment levels we saw pre-pandemic by the end of 2022?

RAHMAN: 29:46 Yeah, so despite the kind of gloomy discussion that we just had, Jack, I think, yeah, it's good to end on. I think I do see some good things on the horizon. We just have to keep in mind it's not a bad thing to take time to figure out what you want to do with your life, right? I mean, so labor economists will naturally lament that people are retiring early or that the labor force participation rate is so low. But it's not to say that this sort of new resource allocation that's happening right now is not going to lead to a better one, right? People are finding themselves. I think we should encourage that through various policies. I think unemployment will, in fact, continue to fall, could get to 3 and a half percent relatively soon. And I think there's various policies that we can implement to allow that transition to happen. I mean, just a few-- things like immigration policy, I think is an important part here that we might want to revisit, policies about internal migration, people wanting to work in a high-wage place but live in a low-cost place. That's also happening. So I think there are lots of positive things that potentially are occurring, and I might just end by actually-- let's recall what John Maynard Keynes had predicted for us back in the 1930s, that we would work eight to 10 hours a week because we'd be so productive, right? So I think he was right about the productivity, stunningly wrong about the hours working. But I think part of the shock is that we might be moving a little bit closer to that vision. It obviously takes some time. So what I would say is, despite the urgency that's sort of generated by always worrying about next quarter's earnings or the next election, what this labor market requires is for us to try some patience. Just a little patience, as the great philosopher from Guns and Roses urged.

CROFT: 31:42 [laughter] Great. Well, thank you so much, Ahmed, for being with us today.

RAHMAN: 31:46 Thanks, Jack. It was a pleasure.

CROFT: 31:48 Ahmed Rahman, some of his current work focuses on the effects of peers and teachers on college student performance, the impacts of different experiences in military service on private sector employment, and the wage and employment effects of immigration on native workers. Prior to joining Lehigh University's faculty, Dr. Rahman was an associate professor at the United States Naval Academy. This podcast is brought to you by ilLUminate, the Lehigh Business blog. To hear more podcasts featuring Lehigh Business thought leaders, please visit us at business.lehigh.edu/news. And don't forget to follow us on Twitter @Lehighbusiness. This is Jack Croft, host of the ilLUminate podcast. [music] Thanks for listening.