

# **30<sup>th</sup> ANNUAL LEVY ECONOMICS INSTITUTE CONFERENCE**

**May 4, 2023**

## **The Post-pandemic Employment and Wage Boomerang: A Fertile Ground for Policy Overreaction**

**Daniel Alpert**

**Managing Partner**

**Westwood Capital, LLC**

**Adjunct Professor and Senior Fellow**

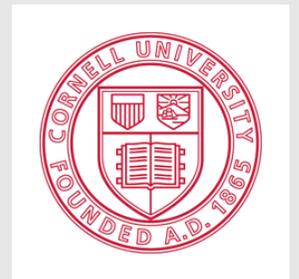
**Economic Policy and Finance**

**Cornell Law School**



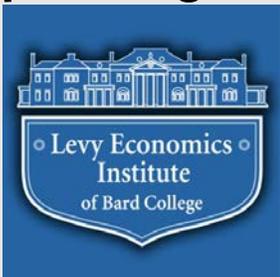
# The Dangers of Rear Vision Policy Making in the Curious Post-pandemic U.S. Economy

- The Covid-19 Pandemic's impacts on employment, wages and incomes are sui generis and not conventionally cyclical.
- The 2022 spikes in wages and incomes benefitting *some classes* of workers are not indicative of future inflation in the cost of labor – and certainly not a sustained paradigm shift reversing years of declining labor share of production - but are the result of dislocations related to the Pandemic.
- High inflation in the prices of goods and services was both supply and demand driven:
  - Supply side effects on the goods side have ended almost entirely, and labor costs – the primary driver of supply shortages on the services side – are showing signs of slowing.
  - Demand side effects persist – but are being eroded due mostly to non-monetary factors (with some exception for housing and autos).
- Anchoring aggressive restrictive monetary (or fiscal) policy to employment and labor aggregates risks missing critical nuances that would tend to indicate a far more patient approach.

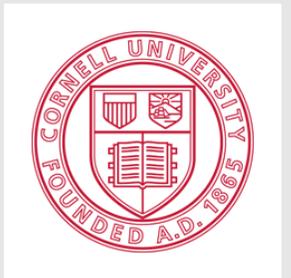


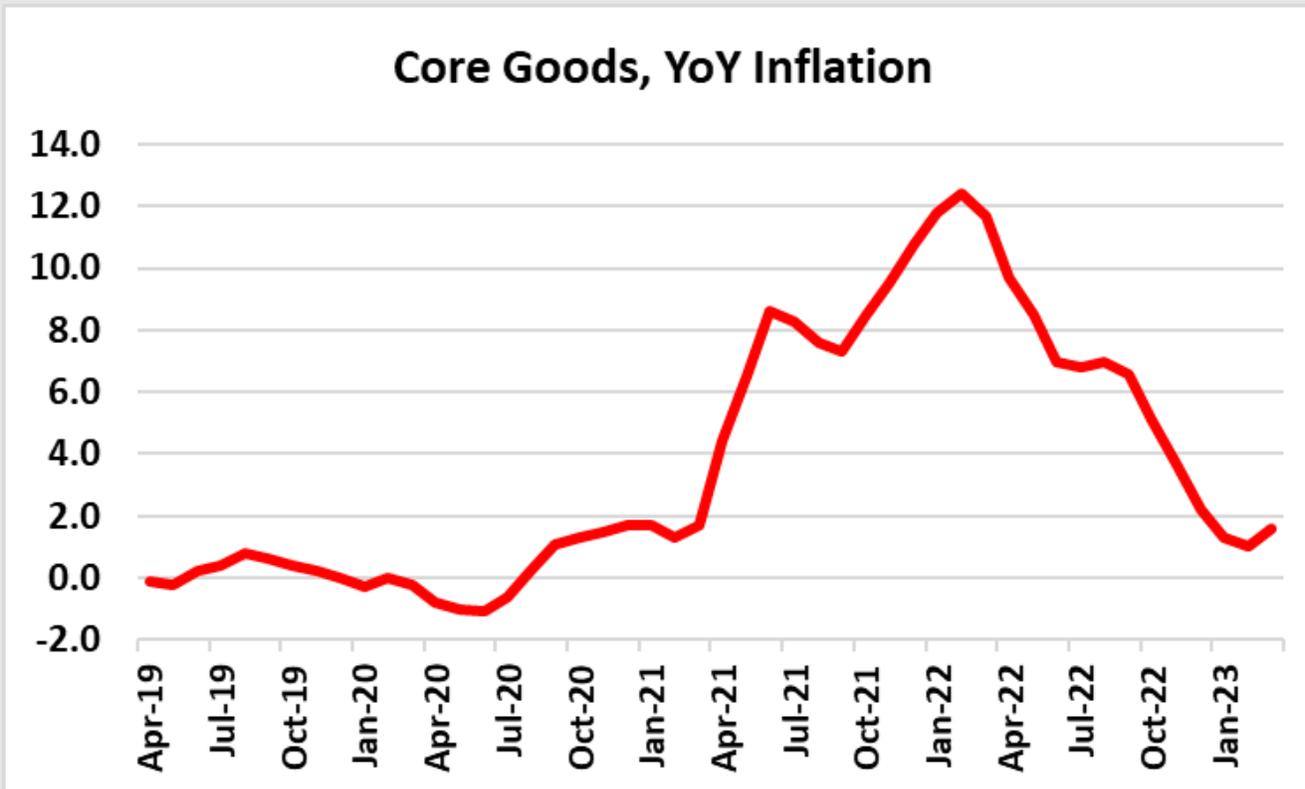
# Unintended Consequences of Rapid Monetary Tightening in U.S Labor and Employment

- Let's put aside the fact that Fed policy triggered the “tide going out” on 10% of the top 30 U.S. banks:
  - Yes, a regulatory failure;
  - But cataclysmic when combined its failure to anticipate the impact of too-steep rises in critical interest rates\*.
- A more-granular approach to employment data reveals that gains made by certain classes of workers (and losses borne by formally favored job holders) are not unlikely to now be reversed. To analyze this we will examine a number of factors from the period before the Global Pandemic to date:
  - Service vs. Goods Producing Employment;
  - Ratio of Production and Non-Supervisory Employment to Total Employment;
  - Inflation Adjusted Weekly Incomes of holders of Production and Non-Supervisory Jobs to those in Management and other Non-Production positions;
  - The Job Quality Index of Lower vs. Higher Income Jobs;
  - The Ratio of Weekly Incomes of those in Higher Income Jobs to those in Lower Income Jobs.
- But, first, let's give a nod to the Pandemic-related currents that fed the (not-transient-enough) inflation situation and why *“Hike in May and Go Away”* needs to remain the mantra, if for no other reason than to protect gains by the most vulnerable segments of labor.



\*And we haven't yet seen the full force of the impending CRE collapse.





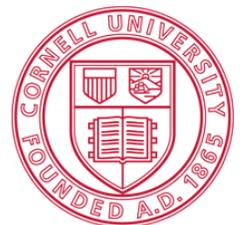
Source: Bureau of Labor Statistics

**General consensus that supply-side inflationary impacts have been nearly eliminated as to goods [chips excepted and, if anything, negatively impacted by tightening].**

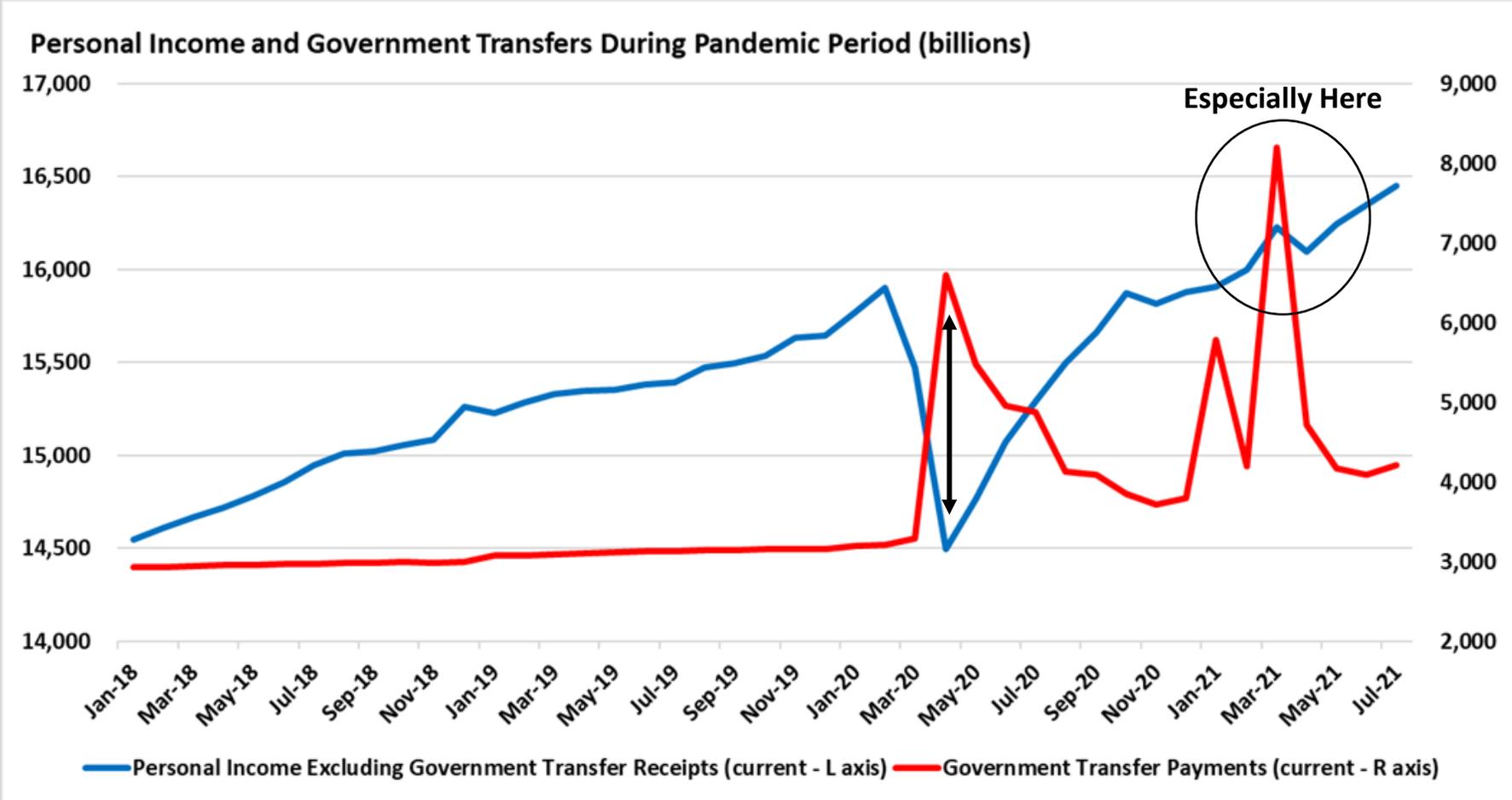


**Exogenous/extraterritorial labor has been reconnected with U.S. demand for tradables.**

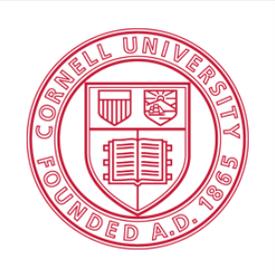
**Will come back to supply-constraints on non-shelter, core services in a bit.**



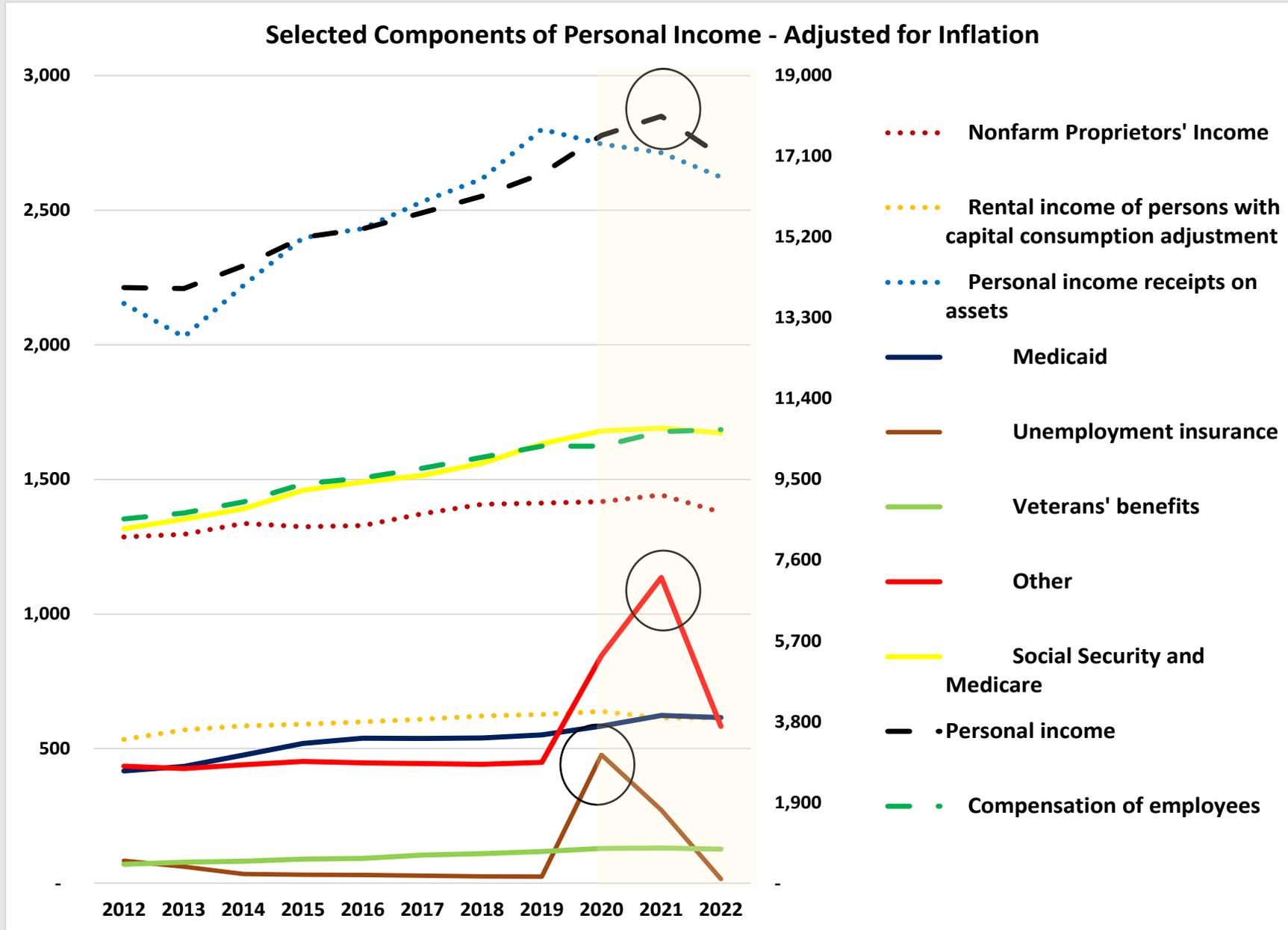
# Pandemic-era Government Supplements Delivered Sustained Excess Demand for both Goods (initially) and Services



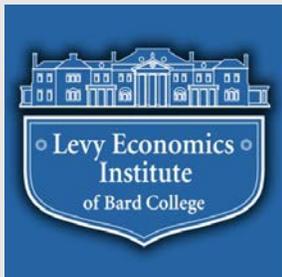
Source: Bureau of Economic Analysis



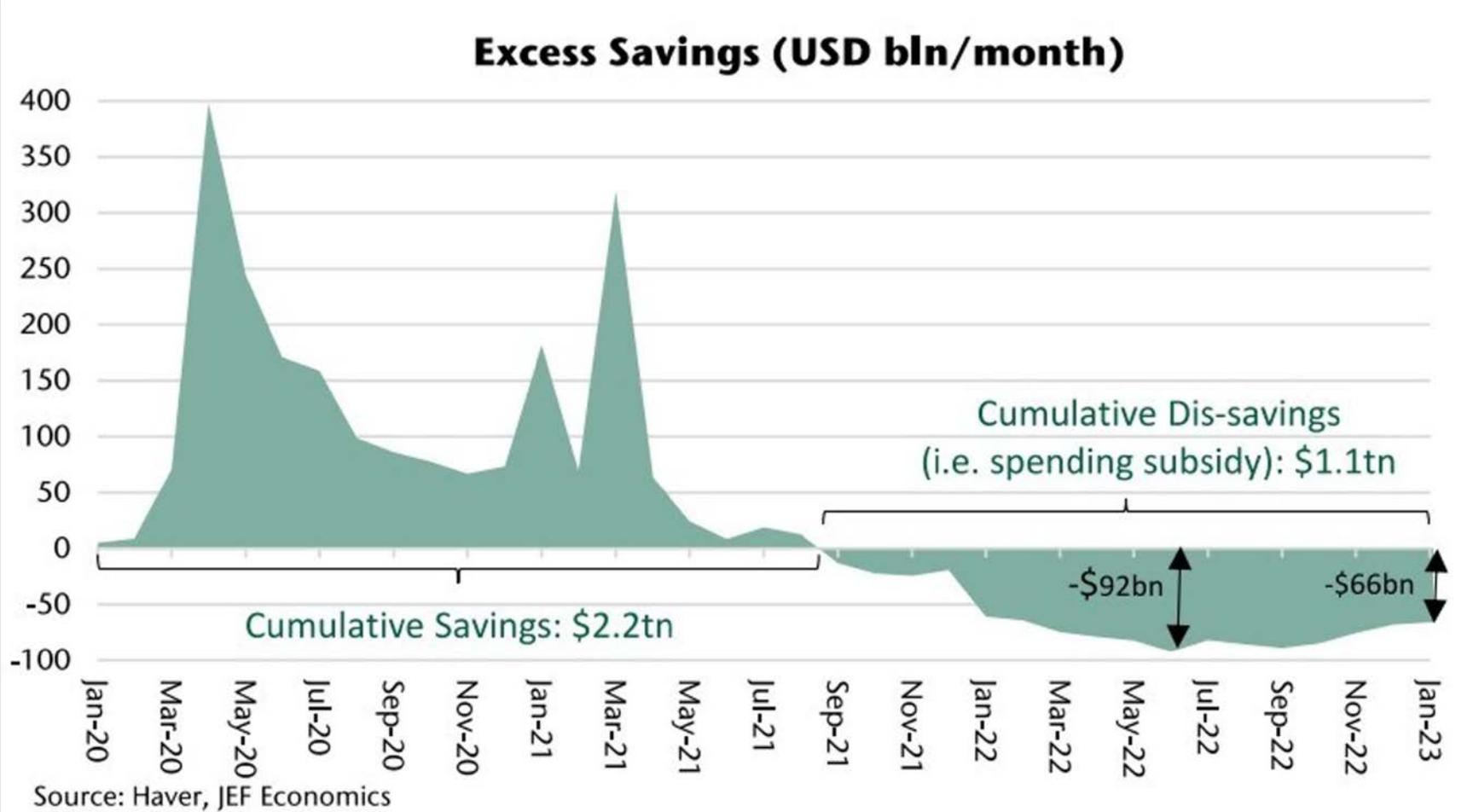
Peak supplements to Personal Income were colossal in real terms - and extended well into the pandemic-era recovery.



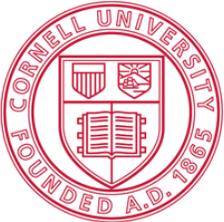
Source: Bureau of Economic Analysis



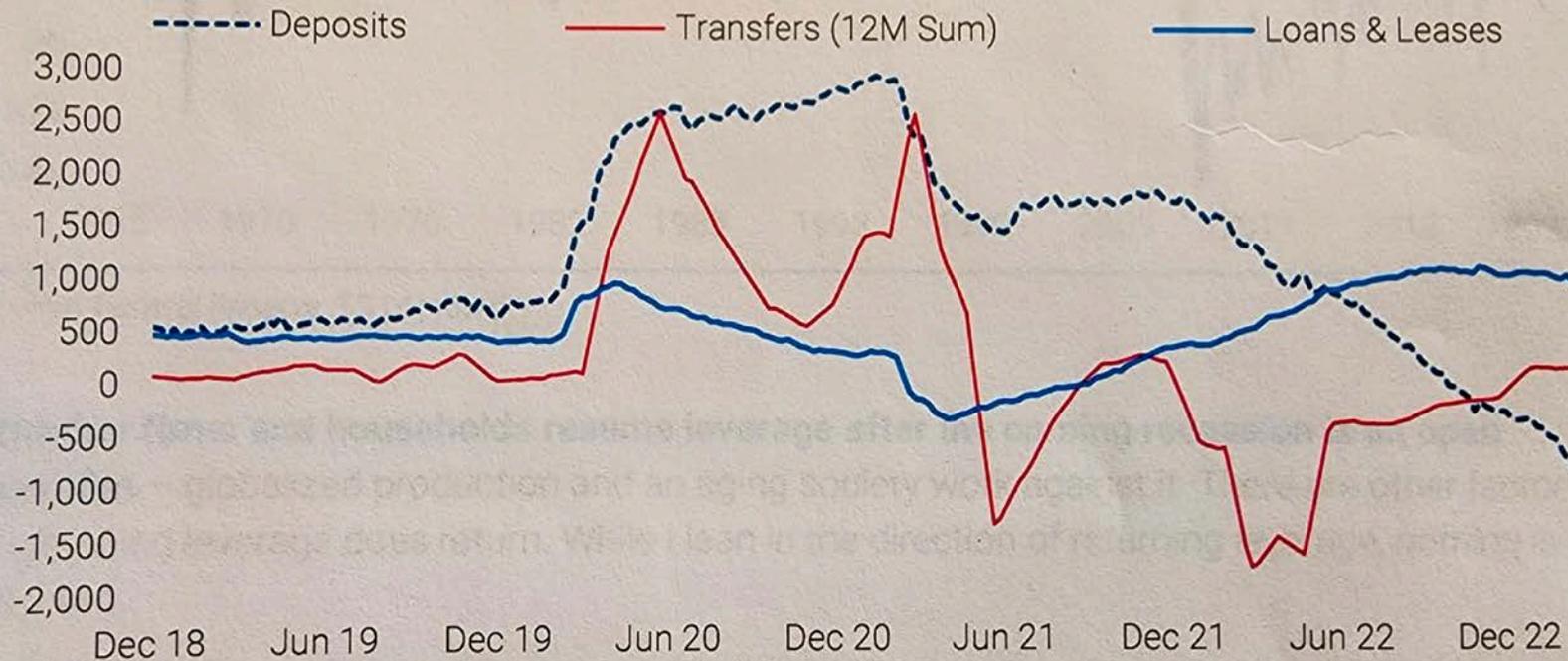
# Excess Income was Saved at a Greater Rate than Could have been Anticipated, and is Being Dis-saved at a Very Slow Rate



Net dis-saving about to accelerate with expiration of student loan forbearance = \$211 billion in payments.

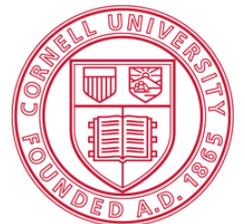


**Chart 4: Fiscal Transfers Drive Bank Deposits -- until they leave the banks (12M \$Ch)**



Source: Federal Reserve, US Treasury, TS Lombard

**To the extent that (i) bank deposits are a driver of lending and (ii) “inflation is financed,” the flood of deposits from banks due to dis-saving (ordinary course) and the pursuit of higher returns in the money markets (monetary policy), further constrains demand.**



# So that Leaves us with Labor as a Principal Supply Constraint on the Still-Inflating, Non-Housing Core Services Sectors

- Readily visible labor shortage for low-wage/low-hours work.
  - Immigration issues
  - Excess savings
  - Regional flows
  - Early retirements/COVID fears
  - Protracted Benefit Cliff issues



- But there is a lot of really “weird stuff” happening in labor and employment post-pandemic, that has clouded policy analysis:
  - Super high job openings (now reverting)
  - Phantom job listings?
  - Do nothing jobs?

THE WALL STREET JOURNAL

Home World U.S. Politics Economy Business Tech Markets Opinion Books & Arts

### These Tech Workers Say They Were Hired to Do Nothing

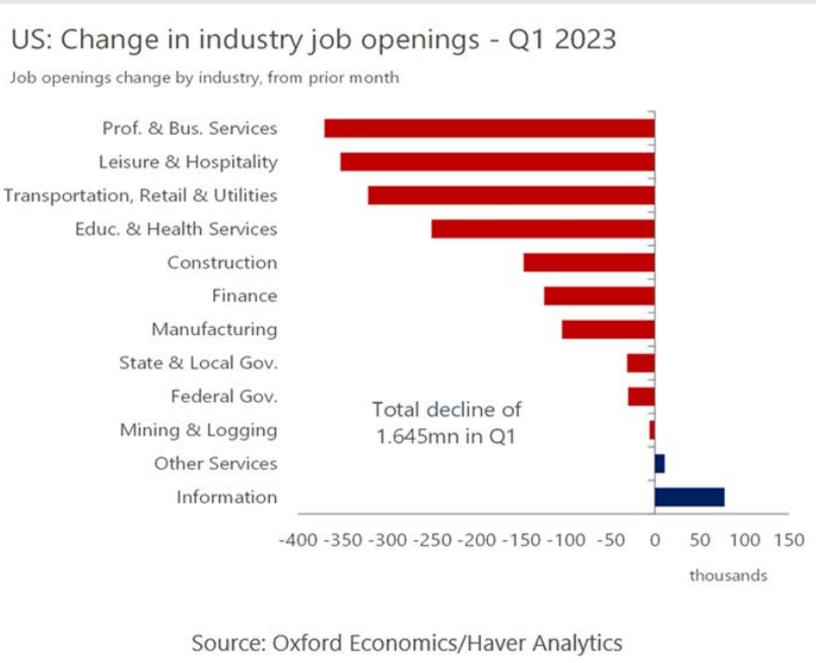
Amid layoffs, former workers in tech are venting about jobs with little to do; 'hoarding us like Pokémon cards'

By Te-Ping Chen

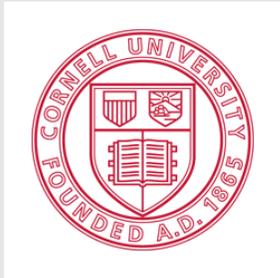
April 7, 2023 5:30 am ET

Meta has said it would cut roughly 10,000 jobs over the coming months, its second wave of mass layoffs. PHOTO: PETER DASILVA/REUTERS

Until last year, Madelyn Machado, 33 years old, worked for Meta. Except she says she didn't really work at all.

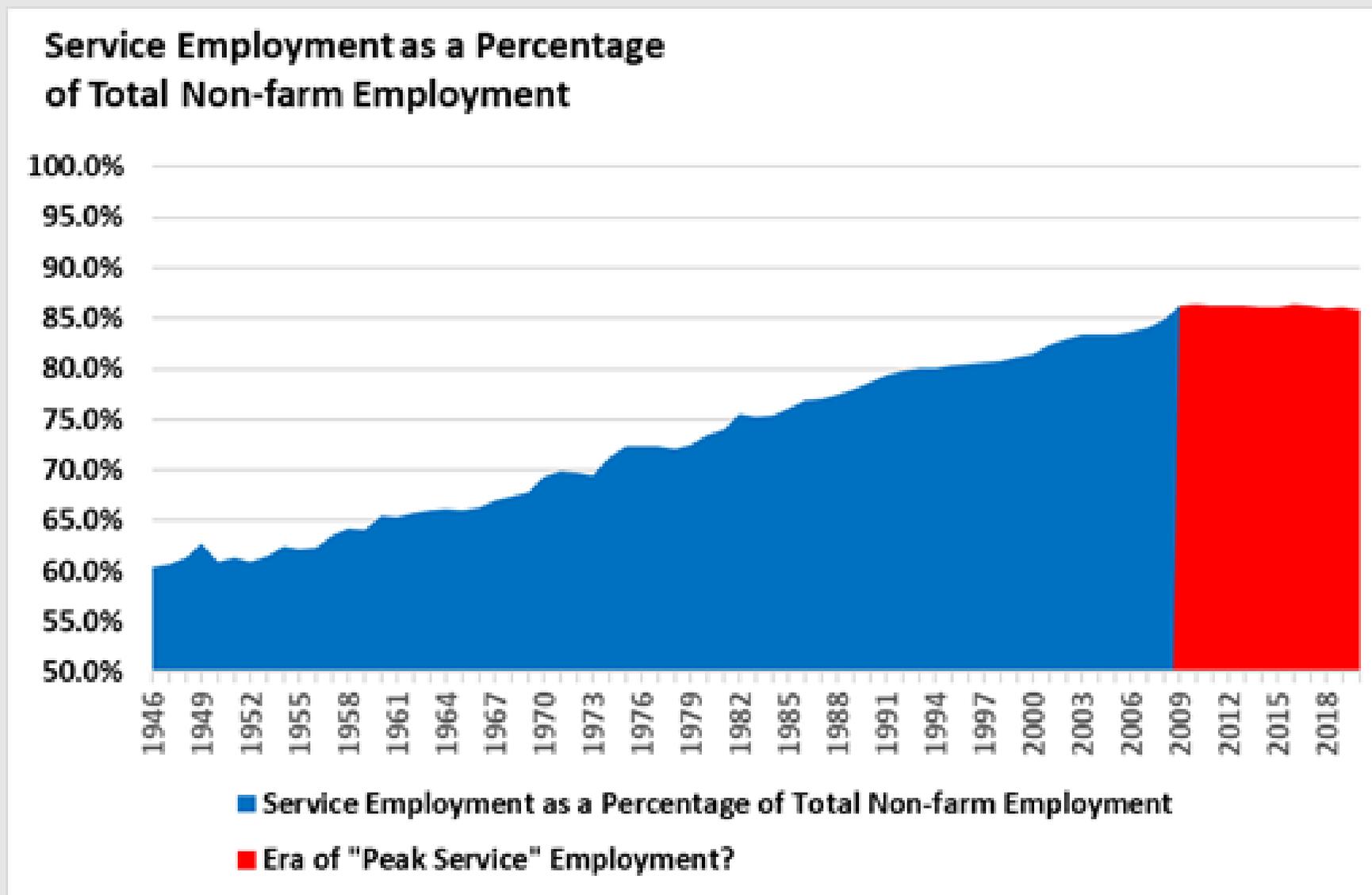


- Clearly, this is not your grandfather's recovery!
- Let's take a heterodox view of the prevailing labor situation.

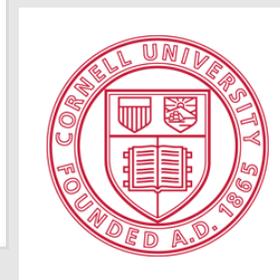


# Single Most Dramatic Change in the Post-War U.S Employment Picture Until the GFC was Transition to Service Employment

- We hit a plateau and, at least, the Pandemic did not make things worse: 86.28% services now



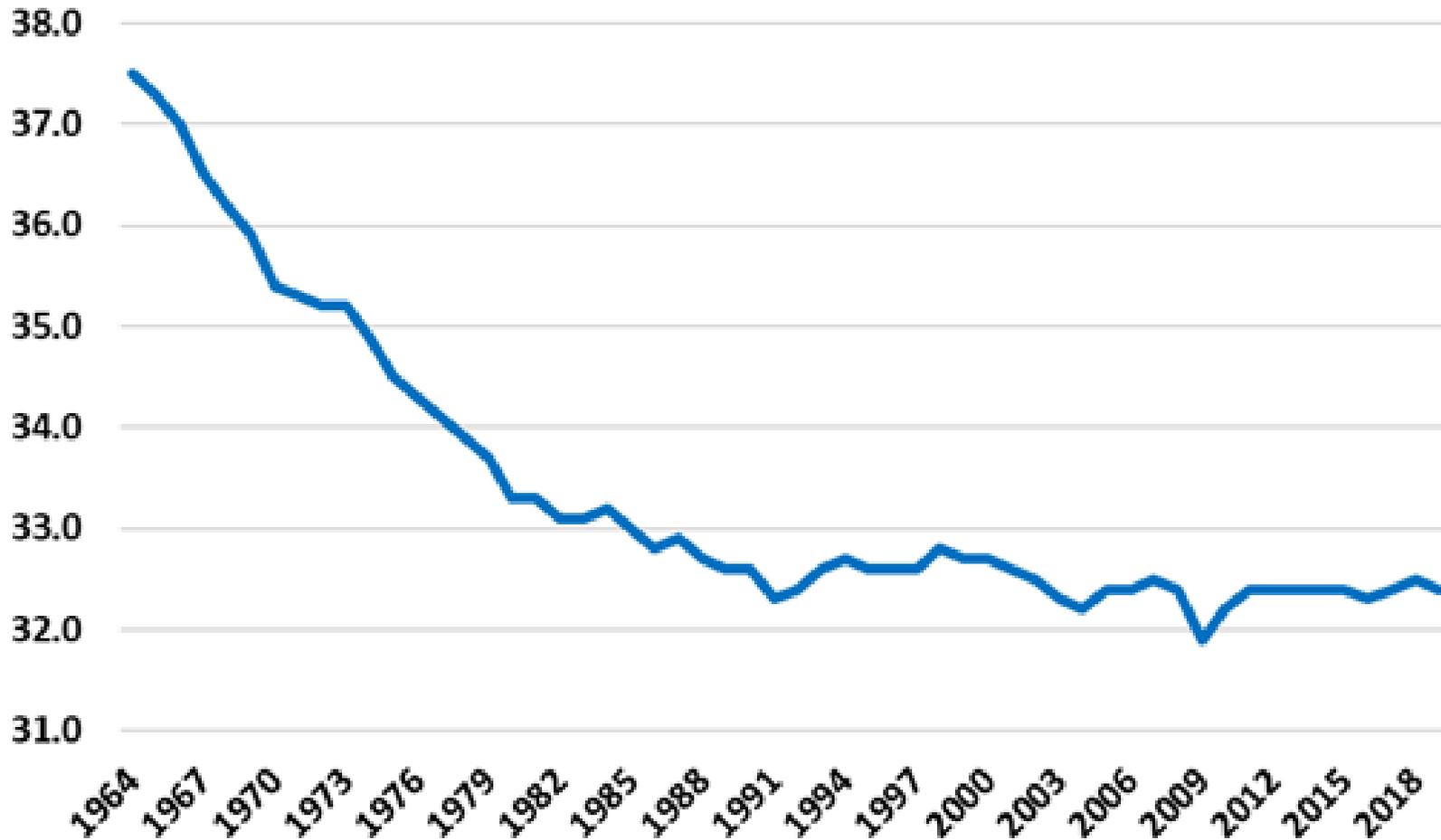
Source: Bureau of Labor Statistics



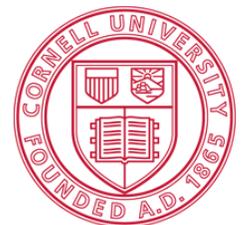
# Nearly as Dramatic Was the Collapse in Hours Worked by Production and Non-Supervisory Workers

- We will come back to this issue later...but “just-in-time” labor practices played a major role.

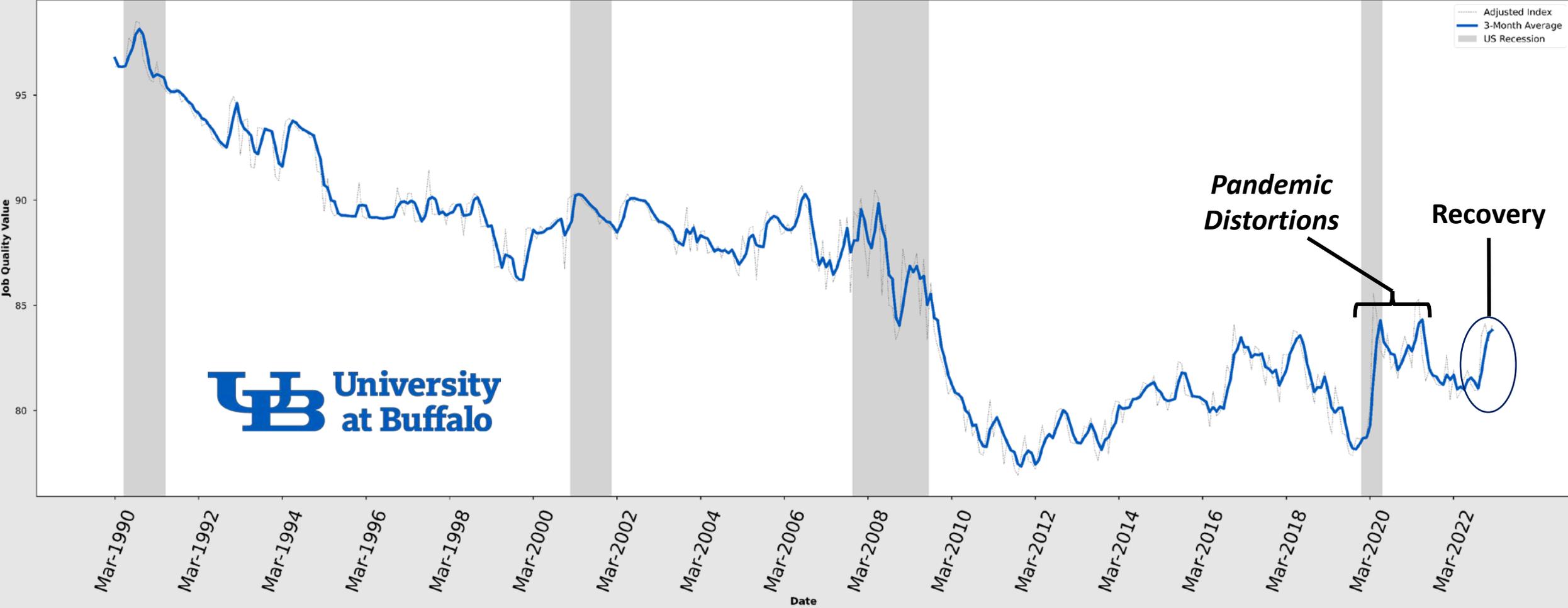
Average Hours Worked - Private Service Sector  
Production and Non-supervisory Jobs



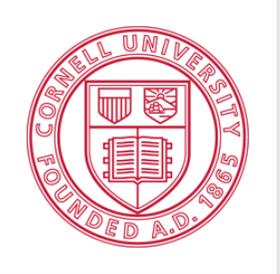
Source: Bureau of Labor Statistics



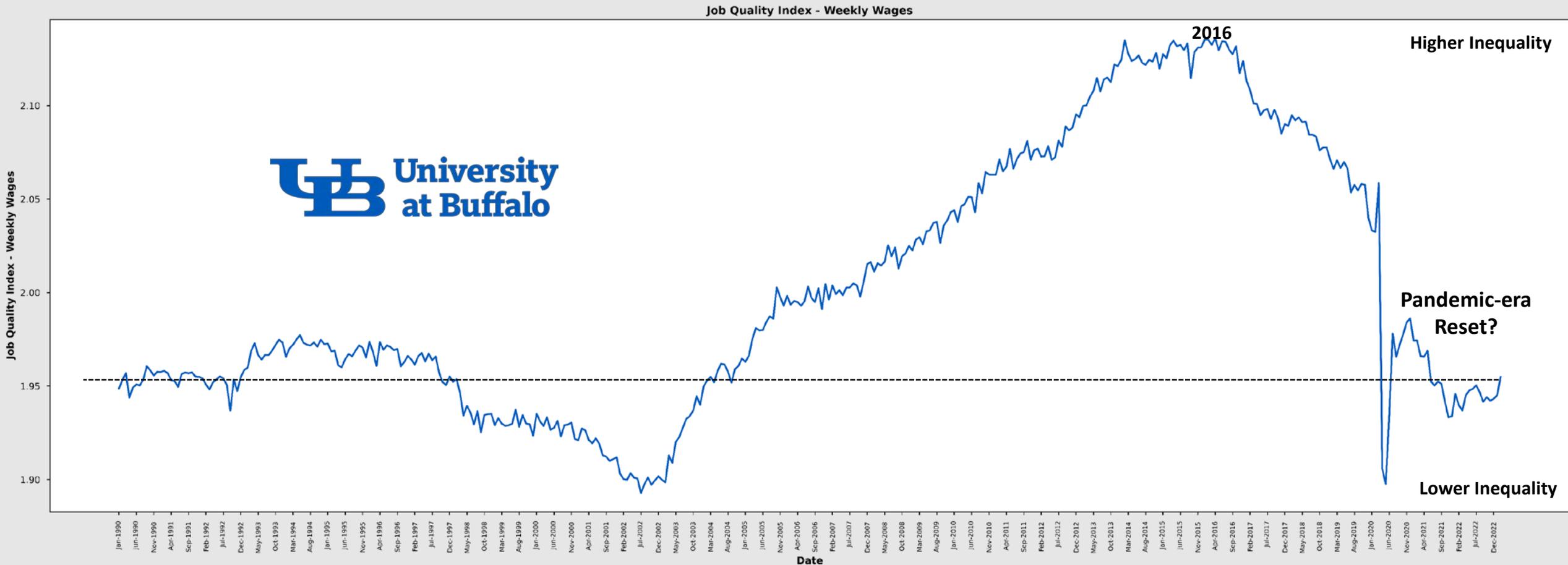
Job Quality Index



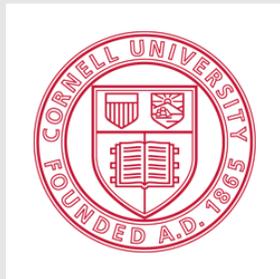
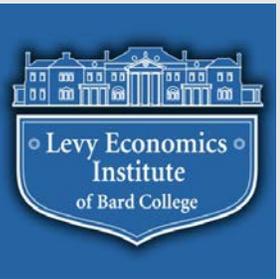
**The U.S. Private Sector Job Quality Index**  
Ratio of the number of Production and Non-Supervisory (P&NS) Jobs above the average weekly Income for all P&NS Jobs, divided by the number of P&NS jobs below such average weekly income.



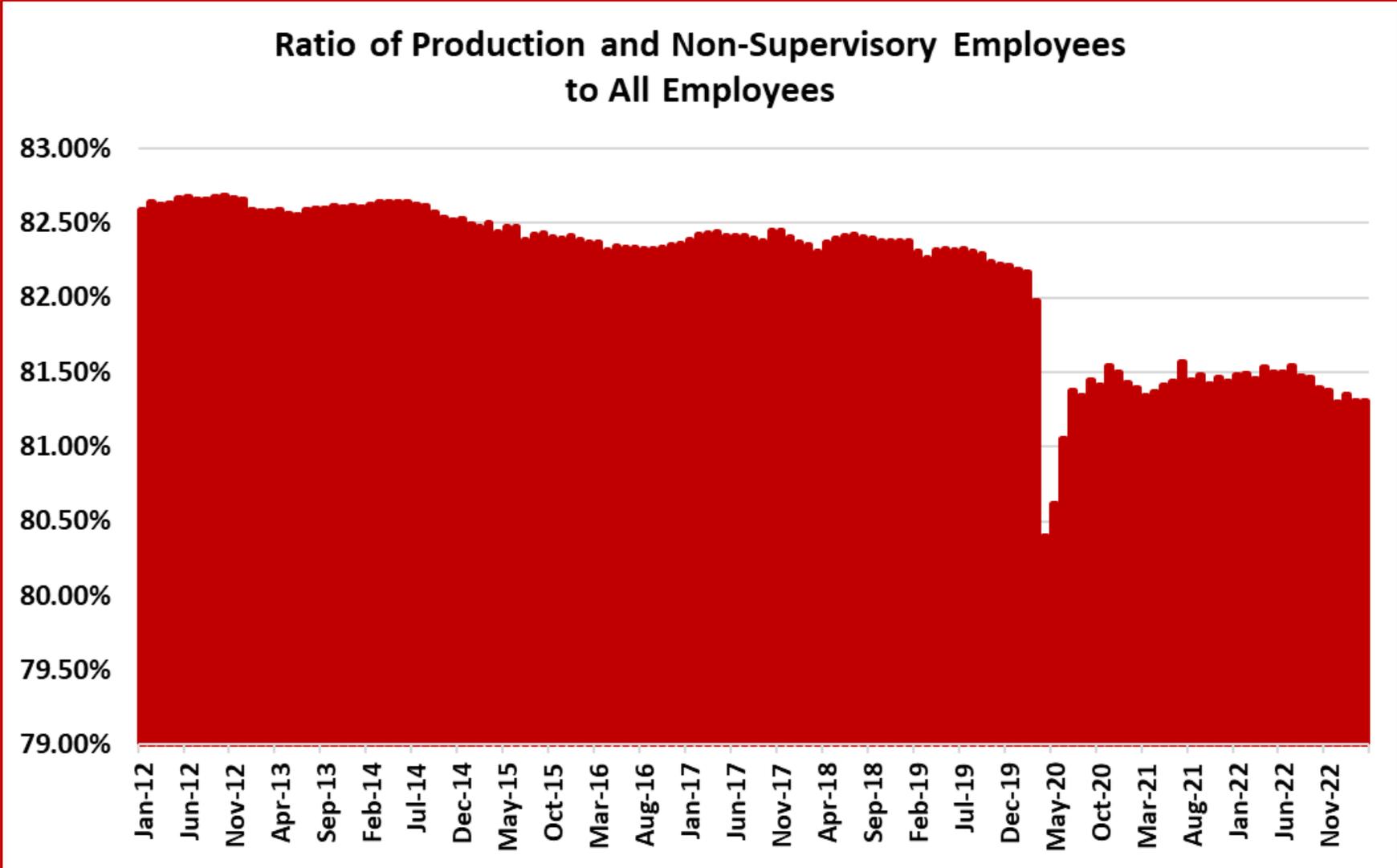
# Ratio of Weekly Incomes of P&NS Jobs Above the Mean to those of P&NS Jobs Below the Mean



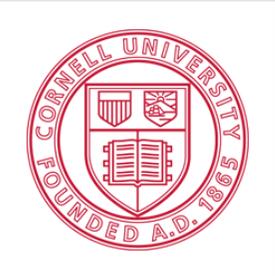
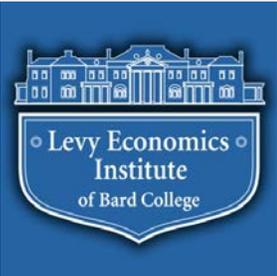
Source: U.S. Private Sector Job Quality Index



# Shortage of Lower Income Job Takers has Resulted in a Major Reset Here – But is that the Only Factor?



Source: Bureau of Labor Statistics

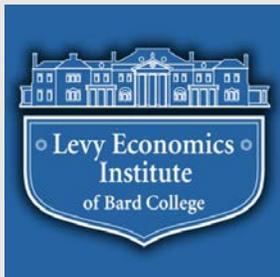


## 52.45% of Jobs Added from Pre-Pandemic to February 2023 Were *Non-Production* and Supervisory

- Relative to a stock of such jobs = <18% of total private sector jobs, pre-pandemic

	2/2012 - 2/2020		2/2020 - 2/2023		
	Total Growth	Per Annum Growth	Total Growth	Per Annum Growth	Increase
All Employees	16.07%	2.01%	2.57%	0.86%	3,323,000
Production and Non-Supervisory Employees	15.41%	1.93%	1.48%	0.49%	1,580,000
Non-Production and Supervisory Employees	19.20%	2.40%	<b>7.55%</b>	<b>2.52%</b>	<b>1,743,000</b>
CNIP	7.09%	0.89%	2.50%	0.83%	6,484,000
Labor Force	6.57%	0.82%	1.18%	0.39%	1,943,000

Source: Bureau of Labor Statistics

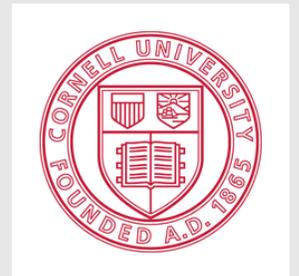


Where were all these ~management jobs added?? Examples:

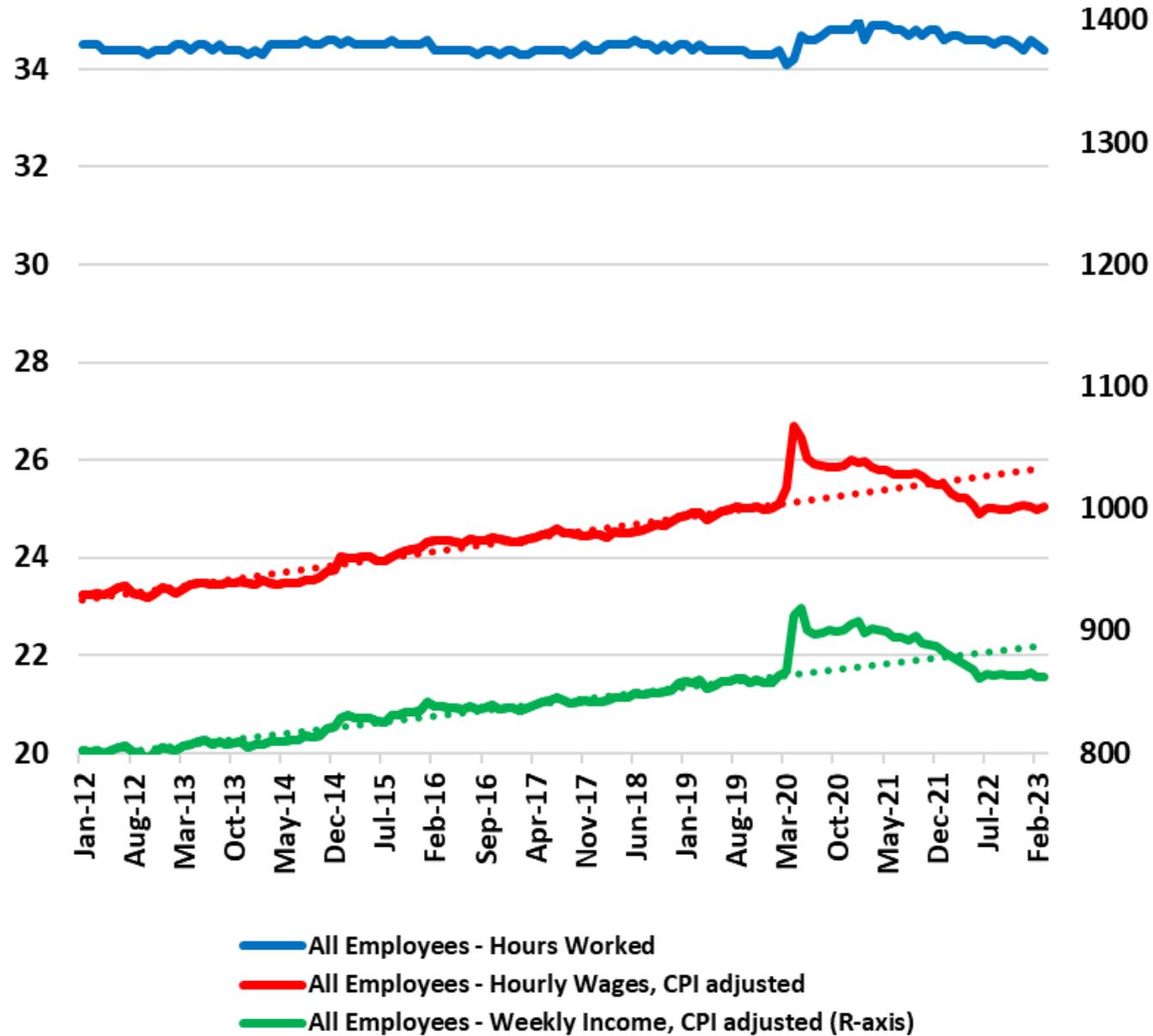
Healthcare 72%

Wholesale Trade 47%

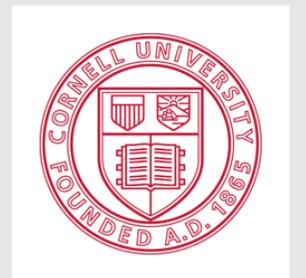
[Leisure and Hospitality, and Retail both lost jobs from 2020 to 2023, but gained Supervisory Jobs]



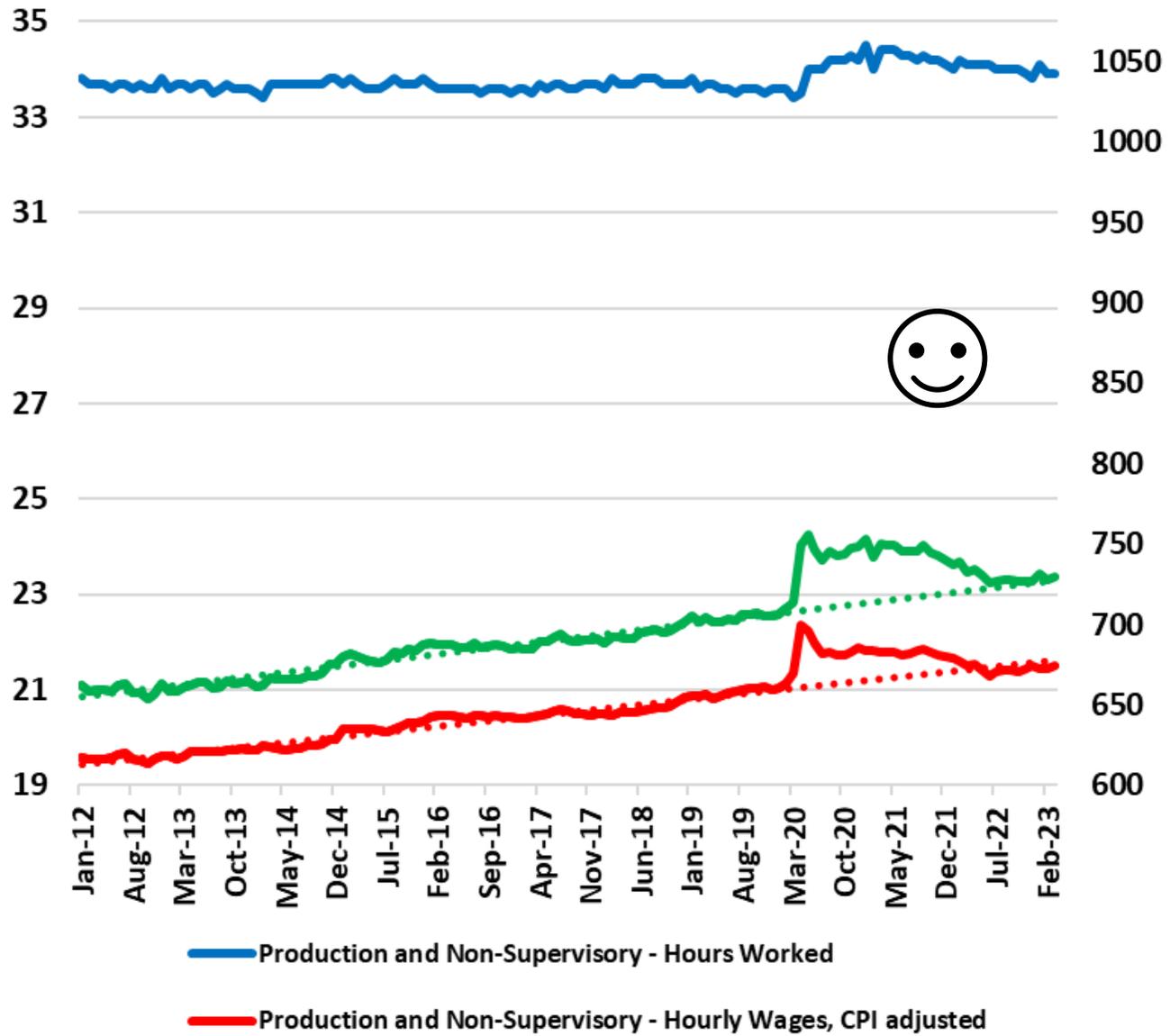
## Aggregates Indicate Suffering by Employees - All Employees



Source: Bureau of Labor Statistics



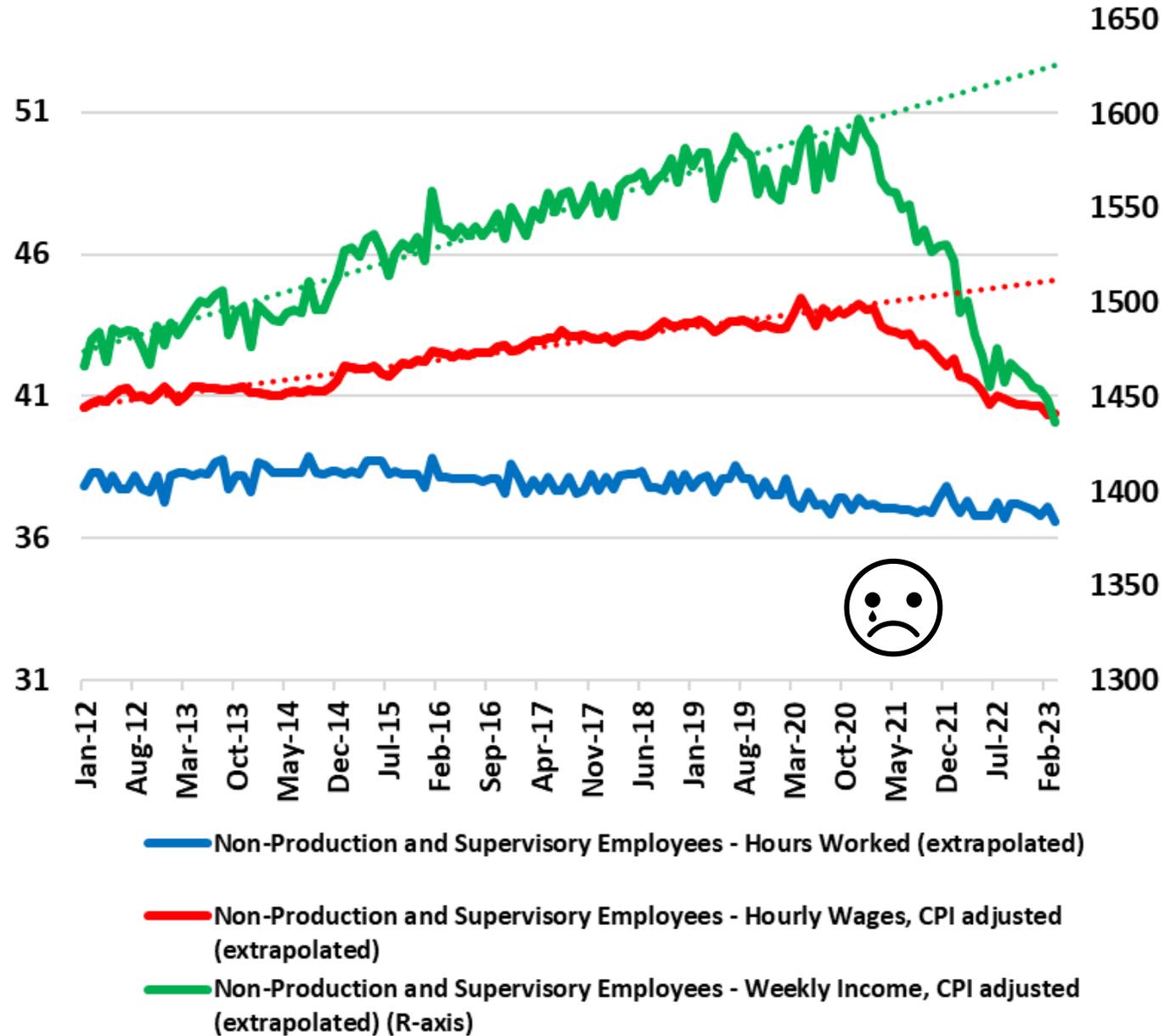
## Reverting to Pace of Inflation after Good Times? - Production and Non-Supervisory



Source: Bureau of Labor Statistics

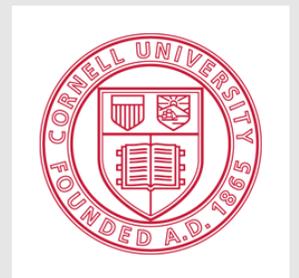


## Where the Pain is Actually Borne - Non-Production and Supervisory

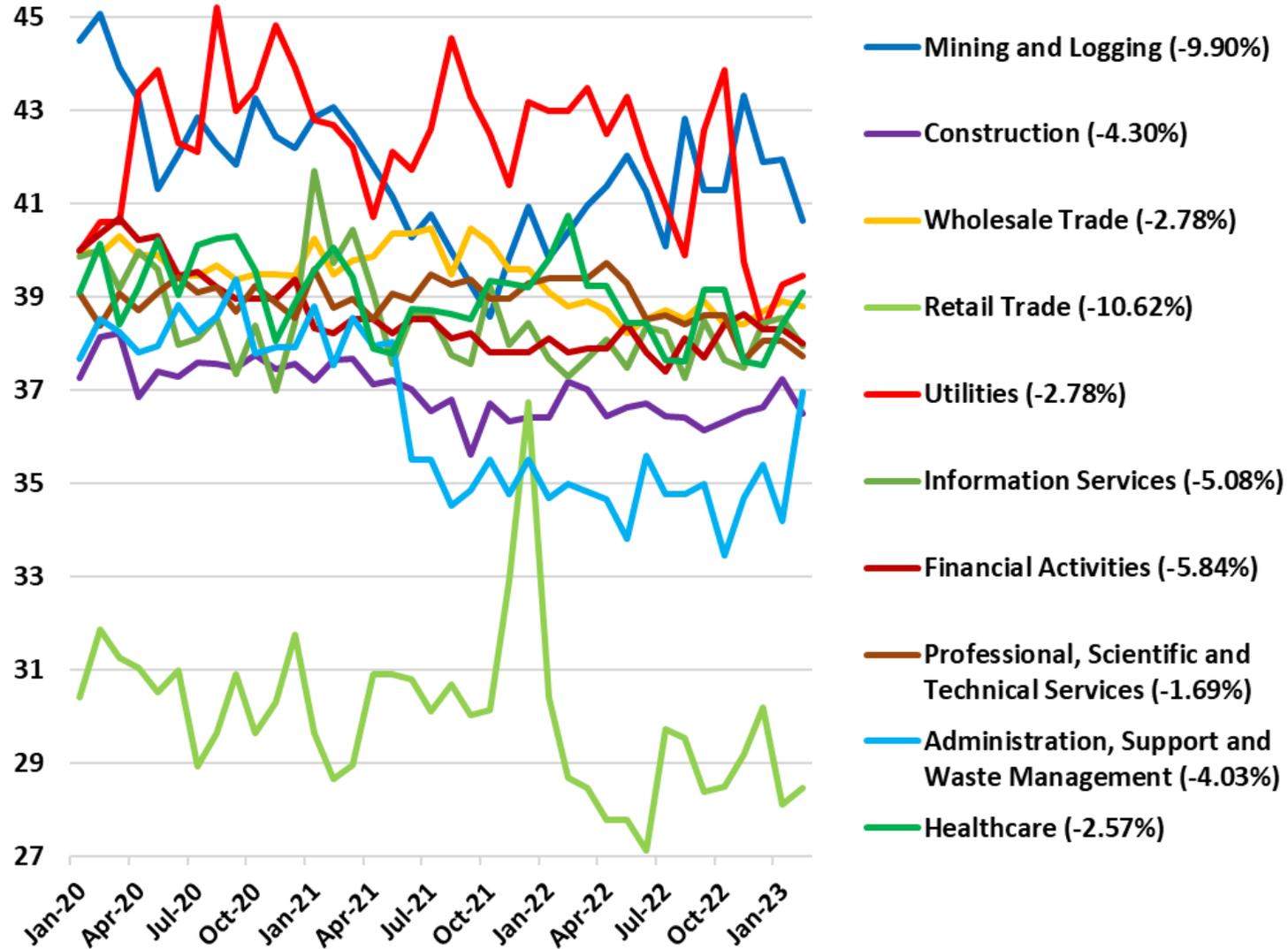


**A Nearly 10% Erosion  
in Real Weekly  
Incomes by  
Management and  
Other Non-production  
Workers?**

Source: Bureau of Labor Statistics



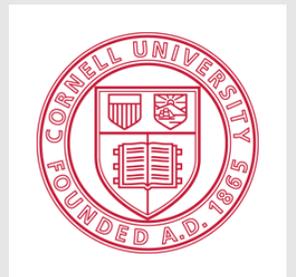
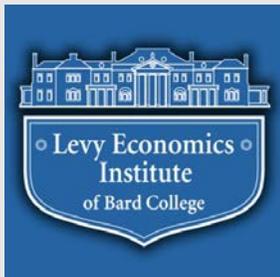
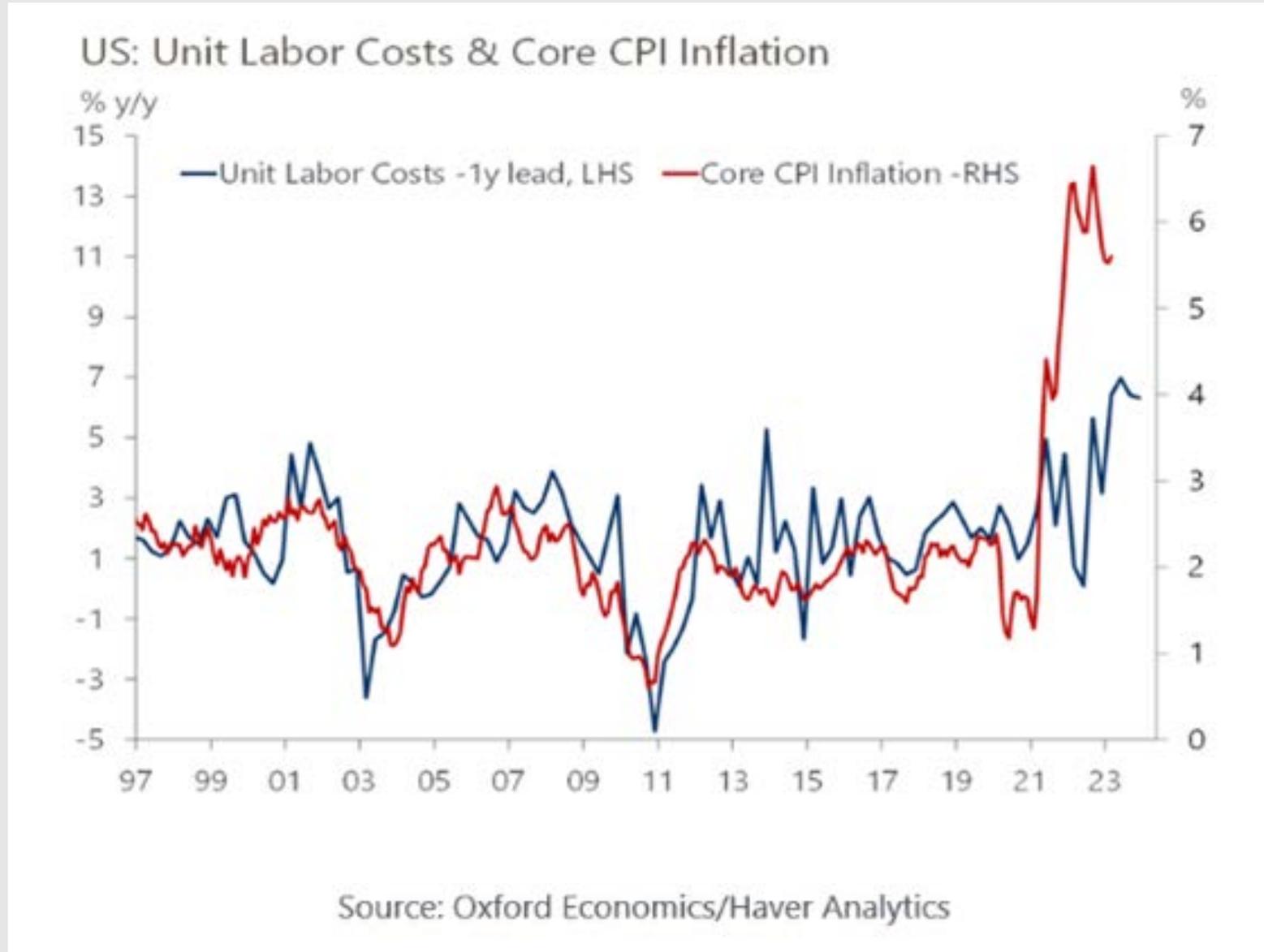
## Non-Production and Supervisory Employment Sectors with Losses in Average Weekly Hours



Source: Bureau of Labor Statistics



# With Shifting Mix of Type of Employment, Hours, and Wages – Conventional Measures can Become Quite Muddled



## Where Do We Go From Here?

- Analysis, in policy-making, academic and media, needs to focus on jobs and labor at a far more granular level in order to make sense of unique pandemic-era factors.
- The impact on the economy, and on inflation, will not be a function of job losses, but of *which* jobs are lost (or gained).
- Significant gains have been made by those in lower-wage/lower-hours sectors, and will be jeopardized by a recession: The risk of full reversion to the status quo ante-pandemic absolutely exists.
- The question of why over 52% of the net jobs formed from pre-pandemic to present were supervisory requires far more research and understanding.
- Anchoring aggressive restrictive monetary (or fiscal) policy to employment and labor aggregates risks missing critical nuances that would tend to indicate a far more patient approach (oil complicated matters).
- Inflation in the cost of non-capital goods and services is only problematic to the extent that it accelerates beyond the current rate of growth in personal incomes for more than a quarter or two.

