BY KARTIK ATHREYA

Where Did the Workers Go?

For many observers, the most exceptional aspect of the COVID-19 economic recovery has been the unprecedented number of unfilled jobs openings. The U.S. job vacancy rate reached an all-time high of 7 percent in July 2021, which amounted to over 11 million job vacancies. Since then, businesses have continued to report difficulty filling openings, particularly for low-wage positions, according to business managers responding to Richmond Fed surveys.

It is hardly unusual for the job vacancy rate to increase as the unemployment rate declines during an economic recovery. Indeed, the inverse movement of the two rates — depicted by what economists call the Beveridge curve — is a regular feature of economic expansions. But the abnormally high increase in the vacancy rate during the current recovery has raised questions, perhaps most of all about whether there is a mismatch between the skills employers seek and those possessed by unemployed workers.

Many explanations for the phenomenon have been offered. One of the most common is that expanded unemployment insurance (UI) benefits have created a major work disincentive. Recent research doesn't support this idea, however. Peter Ganong of the University of Chicago and several co-authors estimated that increasing UI benefits had only a relatively small effect on the U.S. job-finding rate. Taking a different approach, Arindrajit Dube of the University of Massachusetts Amherst compared states that cut benefits by differing amounts in mid-2020; he found that the size of benefit reductions seemed to have little effect on job gains. Lastly, a recent study by economists at the San Francisco Fed estimated that increasing UI benefits by $600 per week had only a moderate effect on job finding.

While these results suggest only modest economy-wide effects of increased UI benefits, they do not rule out substantial effects in certain low-wage sectors, such as food service. The San Francisco Fed study calculated that while most unemployed U.S. workers would be willing to accept job offers at their previous wages, workers in the lowest-paid occupations would be roughly indifferent between accepting such a job and remaining unemployed. Indeed, in July 2021, the job vacancy and unemployment rates in the BLS's "accommodation and food services" industry — 11.3 percent and 9.2 percent, respectively — stood well above the corresponding economy-wide figures.

A few other explanations are on the table. For instance, some analysts have estimated that a surge in early retirements has accounted for as much as half of the decline in labor force participation. Part of this may have come from pandemic-related health concerns of older workers. Also, some early retirements may have been a side effect of policies implemented by Congress and the Fed: Large fiscal transfers and accommodative monetary policy likely supported high asset prices, particularly in stocks and homes, and these financial "windfalls" may have increased the relative attractiveness of retirement for many people.

Another factor that may well be important, though research has not been able to measure it precisely, is that parents of younger children may be less willing to accept job offers because they need to take care of children who are engaged in remote schooling or homebound due to illness or health protocols. That said, one recent study found that employment declines during the crisis were only modestly greater for women with children younger than 13 than for those without children under 13 — a finding that does not seem to be consistent with the idea of homeschooling as an important driver of job vacancies.

Perhaps many jobs that involve customer service have become more stressful and dangerous without a countervailing increase in pay.

Still another interpretation of the perceived labor shortage relates directly to the pandemic: Perhaps many jobs that involve customer service have become more stressful and dangerous without a countervailing increase in pay. If so, high job vacancies may at least partially reflect an unwillingness of employers to adapt to changed supply-demand conditions by raising wages to market clearing rates.

Whatever the explanation, there are underlying demographic factors that may cause the trend to persist. It is plausible that the United States is approaching an era of slower labor force growth due to declining birth rates, retiring baby boomers, and more severe immigration restrictions. That may sound like good news for U.S. workers, but it isn't necessarily. While most economic models do predict that wages will increase in response to a decline in the supply of labor relative to capital, it is not clear whether a decline in the *rate of growth* of the labor supply would cause such a relative supply shift. Such a decline is likely to diminish the return to capital and, with it, investment — possibly leaving wages unaffected or even depressed. The answer hinges on the economy's investment response and, ultimately, on productivity growth, for which ideas and innovation — from people — are the only source. **EF**

Kartik Athreya is executive vice president and director of research at the Federal Reserve Bank of Richmond.

Share this article: https://bit.ly/job-vacancy-rate