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mBaer Necessities

The curious case of the vanishing American worker.

The expression "there are three kinds of lies: lies, damned lies, and statistics" has been around almost as long as the word *statistics* (first coined in 1770, for those wondering). Even when statistics are carefully checked and correctly reported, the overall picture does not always look right.

US labour market statistics are particularly exposed to scrutiny and criticism. In fact, the pandemic led to unprecedented job losses in the second quarter of 2020. The unemployment rate surged (Chart 1), but some indicators have recently sent mixed signals about the labour market conditions.

This is important, as Federal Reserve Chair Powell keeps on saying that maximum employment "is a broad-based and inclusive goal" that is assessed with a "wide range of indicators."

Ultimately, with inflation running well above its 2% target, we expect that the Fed will start raising interest rates already in 2022 if labour markets are close to full employment.

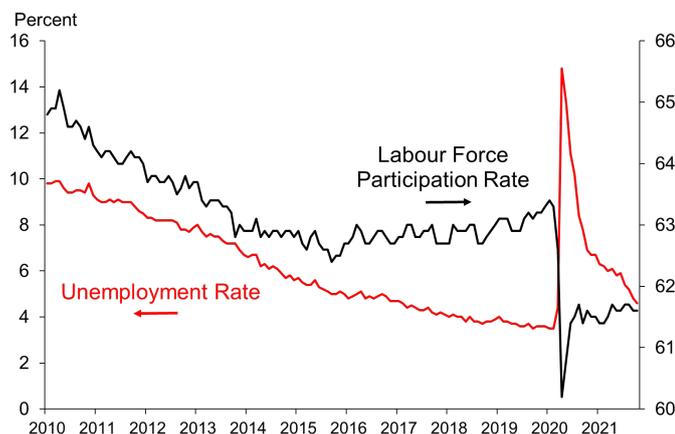
Where have all the good people gone?

For starters, more than 20 million of the 25 million jobs lost through the pandemic have been recovered, resulting in about 5 million Americans have left the labour force since the beginning of the pandemic.

Being unemployed and not actively seeking work (*nonparticipation*, in the jargon) may be good or bad for individuals and their family. For instance, some workers may want to spend time raising their children or going back to school. Certainly, however, nonparticipation has severe effects on society, as ultimately, it will lead to slower economic growth.

Chart 1 shows the labour force participation rate, the share of adults either employed or actively seeking work, which has substantially dropped since the pandemic's beginning.

Chart 1: US Labour Market Indicators.



Source: US Bureau of Labor Statistics.

A close look at the statistics reveals that more than 3 million Americans just [retired](#). The pandemic has accelerated the pace of retirement of the ageing workforce, as the baby boomer generation came of age and started retiring already towards the end of the 90s. Of course, other factors such as safety in the workplace and taking care of families at home are still relevant issues for potential workers. Some individuals who lost their job at the onset of the pandemic searched less intensively for a new occupation as they benefitted from the government's unprecedented expansion of financial support. All the stories about the spiritual awakening of workers suffering a crisis of meaning after the pandemic should be confined to the realm of fictional tales.

Simply put, many people who left the labour force in 2020 do not want a job anymore and, labour markets will remain tight.

Elusive minimum wages

Labour shortages across industries, especially in leisure, hospitality, manufacturing and health services, have led to sharp wage increases in these sectors. Employers of low-wage workers acted in line with President Biden's increase of the federal minimum wage to \$15 per hour from the current \$7.25 per hour and, raising minimum wages is a bold move.

Economists instinctively oppose minimum wages as they lead to job destructions in the standard textbook models. This year [Nobel laureate David Card](#) disagrees with the academic consensus, as in his research, he found "no indication" that rise in minimum wage costs jobs.

International organizations, including the IMF, World Bank and OECD echoed Card's results, recommending introducing or increasing minimum wages to raise labour force participation. Outside the US, Hong Kong, Germany and *Geneva*, Switzerland, for example, introduced minimum wages, and the UK raised the minimum wages a few years ago.

It is early to gauge the impact of the minimum wage recent increase on the US labour market. Most academic research finds that the impact of minimum wages on employment is *elusive* but there is clear evidence that minimum wage increases *lead to higher wages*. This is certainly good news for the worst-paid Americans as their wages have recently risen faster than the wages of the best-paid workers.

Massive retirement, safety concerns, generous government benefits and taking care of own family explain why millions of Americans have been leaving the workforce. This suggests that wage increases may not bring enough workers to hiring companies. With tight labour markets and high inflation, we expect the Fed to start raising interest rates already in 2022.

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