A Shortage of Answers for a Shortage of Labor

By Will Fergesen

Now, I'm not an avid gambler, but I'd wager that if one were to walk into any random restaurant, retail store, or manufacturer, they would find a section of tables left unmanaged, copiously long checkout lines, or even monetary incentives to even show up to an interview. And if you spoke to the owner of said establishments, I'm sure they would provide quite an earful on their staffing problems. COVID-19 wreaked havoc on unemployment numbers since its onset in early 2020, and despite significant improvements since then, the US economy has yet to recover to its pre-pandemic employment levels and participation rates. In fact, at the peak of the epidemic, unemployment was the highest it has been in close to 80 years and labor participation rates were the lowest they have been in almost 50 years.

In recent months, mask mandates and occupancy regulations have been widely phased out (for now) as businesses begin to operate as they did pre-2020. However, the supply of labor has failed to keep up with its demand. The reason this topic is becoming increasingly contentious is because some believe the labor shortage is a result of the population's lack of initiative due to federal aid, where others voice that it is due to poor work conditions and inadequate compensation.

It has been an unprecedented time for unemployment beyond the sheer number of those without a job. Stimulus checks were distributed during the Great Recession through the Economic Stimulus Act of 2008, where eligible individuals were granted tax rebates between $300 and $600 with additional payments of $300 for each eligible child. In contrast, our most recent economic contraction yielded stimulus payments in three different waves. The first of which providing $1,200 (and $500 per child), the second $600, and the third $1,400 to qualifying individuals. This means an adult recipient in 2020-2021 would have received over four times more than in 2008 when adjusted for inflation.

In addition to the stimulus, total unemployment insurance (UI) payments reached a sum of $23.7B at its peak in May 2020. These payments vary by state, as individuals in Illinois receive an average of $333 a week, and on the high end, individuals in Washington receive $497 a week. On top of these state-provided UI payments, The American Rescue Plan adds an additional $300 a week to the benefits. The average state minimum wage is $11.80, and assuming an individual works full-time, they'd gross a weekly income of $472. However, if said individual was unemployed as a result of the pandemic, on average, they'd receive a gross weekly income of $608 (avg state + bonus UI). It's important to understand, though, that using minimum wage as a benchmark really only applies to unskilled workers and those making under $15 per hour, but that population still makes up around 28% of the workforce.

Some argue that this is the key reason for the labor shortage. Because why would one work 40 hours a week when they could get more money working zero hours and have time to bake sour dough and watch Tiger King? Of those unemployed who deem their job search "not urgent," only about 10% concede it is because of UI payments. Many of them site it is due to a preexisting financial cushion, or their spouse/partner being employed. The largest group, however, list their COVID fears as their main reason for remaining unemployed. Regardless of if this reflects the overall sentiment of all of those unemployed, though, the unemployment rate and use of UI benefits continue to fall each month. In addition, the aforementioned bonus benefits are set to end on September 6th, meaning the speculated labor lethargy would likely be only temporary.

Others argue it is actually inadequate pay for arduous jobs that lies as the root cause of the shortage. The pandemic forced a lot of businesses to rethink how they go about their operations, as mask mandates and social distancing made jobs far less comfortable and efficient. And now with fears of the Delta variant, worries of layoffs and furloughs are resurfacing. So, if jobs are becoming more difficult and people aren't wanting to work those jobs, why don't businesses raise their compensation? Well… they are if they have the means to do so. Large companies such as Amazon, Chipotle, and McDonalds have raised their wages and offered signing bonuses in the thousands of dollars. This doesn't reflect all businesses, of course, as small businesses don't have such large cash reserves and liquidity to finance these bold hiring activities. If the average small business employer's cash inflows halted, they would only be able to pay wages for 18 days before going bust.

It's also possible, though, that the time off has given lots of people time to reflect on their lives and careers. The lockdown and layoffs may have forced people to stop and look around only to realize they want to switch up their lives and pursue something more meaningful no matter how much an employer incentivizes them with raises and bonuses. In fact, a Prudential survey shows that 20% of respondents switched jobs since the onset of COVID, and 26% plan to after the pandemic.

The foundational cause for the labor shortage likely falls somewhere in between federal aid and wage discontent. Unemployment benefits would only catalyze the effects of urges for higher pay, just as urges for higher pay would amplify the dependence on unemployment benefits. The pandemic caught our societies completely off-guard and shifted us away from the traditional “big-picture” way of life to becoming more reactive and day-to-day, and we are seeing the effects of this first-hand. While we wait for the labor market to return to a state of homeostasis, it is worth exploring what the future might hold.

Employees have the leverage over employers at the moment and have the ability to set their own price for which they’re willing to return to work. Demands for better work conditions and pay that matches rising costs of living will likely grow well into this economic expansion. These demands may act as a second wave of change for employers, forcing employers to reorganize their operations once again to allow for higher staffing expenses. And on a federal level, calls for fiscal aid will likely only grow in future economic contractions. In the short term, however, September 6th is looking up to be the deadline for the bonus UI payments, which will likely cause a wave of people to return to work. Our new norm will likely see a gradual rise in wages, further cementing the trend towards more favorable work environments. As I said before, the past months have been an unprecedented time for our economy, and despite vast improvements, we still have a way to go.