EconoFact Chats: Employment in the Post-COVID-19 Economy

Jason Furman, Harvard University

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Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts university. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

From February to April 2020, the unemployment rate rose from 3.5% to 14.7%, the highest unemployment rate and the largest monthly increase in the history of the data. By May 2020, the unemployment rate had declined to 5.8% but the 9.3 million people who were unemployed remained well above the 5.7 million in February 2020 prior to the COVID-19 pandemic. What will it take to get these people back to work? In fact, will they go back to work? Will some who are on the cusp of retirement leave the labor force? For others, will the experience with COVID change the way they view employment? And what are the implications of all of these points for economic growth, inequality, poverty, and the careers of young people just starting out in the workforce? To address these questions, I'm very pleased to be joined in this episode of EconoFact Chats by Jason Furman.

Michael Klein:

Jason is a professor at the Harvard University School of Government, the Kennedy School. He spent eight years as a top economic adviser to President Obama including serving as chairman of the Council of Economic Advisers from August 2013 until the end of the Obama administration. Prior to that, he was the director of the Hamilton Project at the Brookings Institution. And before that, he served on both the Council of Economic Advisers and the National Economic Council during the Clinton administration. Jason, welcome to EconoFact Chats.

Jason Furman:

Thanks for having me.

Michael Klein:

Jason, to set the stage, can you describe what happened to the economy and to jobs in the spring of 2020?

Jason Furman:

Yeah. So in the spring of 2020, we had the first phase was what I call the collapse -- just tens of millions of jobs disappearing overnight. And in circumstances, that was in some ways better than the alternative because you couldn't have people going to work, you couldn't have them producing things for people that didn't want to buy them. It would have been incredibly unsafe. And so, the question was more, what are you going to do to make sure there are jobs at the other end? And what are you going to do to protect people in between? We then had a partial bounce back where we had some of the fastest job creation we've ever seen in the history of the country. Some of those people were recalled back to their jobs, but we're still way short of where we started in terms of employment. And now it's increasingly safe. There's people who want to buy things, it's increasingly safe, not all the way there, to be doing work again. And so now, all of the job loss that we continue to face is unambiguously much more of a problem.

Michael Klein:

So how did the different source of this recession as compared to, for example, the 2008 Great Recession require a different set of policy responses? As you were alluding, you didn't really want people to go to work but now what's going on that distinguishes the policy that we should be pursuing from the policy that we were pursuing or should [inaudible] been pursuing say in 2009 or 2010.

Jason Furman:

Yeah. This was a very different recession than almost anyone that we've ever had. It was precipitated by a supply shock which is it became hard to make things and do things, as opposed to by a demand shock. Demand shock, you can't afford to buy things anymore. Now, supply and demand get intermingled because once everyone was [inaudible] go to work because of the supply shock, that would also have caused a big reduction in demand. But the policy response to this recession is the other thing that makes it very different from the past ones. We responded in a much, much larger way. A total of about $5 trillion was spent in multiple packages of which three were particularly large, the CARES Act, one in December, and then the American Rescues Plan again this year.

Jason Furman:

And what that $5 trillion allowed policymakers to do was to create a disconnect for the first time in a recession between what happened to GDP -- it went down a lot which meant the economy produced a lot less than it used to. But disposable personal income, that's the amount of money that households got from their job plus the government, minus what they paid in taxes. Disposable personal income went up by the most it had gone in decades. And so, policymakers created a disconnect between the job loss and the income loss that people had in the economy and what happened to their household financial situation.

Michael Klein:

So as you're mentioning, there's the huge infusion of money to people, but a lot of times they didn't get a chance to spend it. For example, you couldn't go out to the movies, you couldn't go to restaurants. What do you see as the potential for spending now that the pandemic, at least in areas that are well vaccinated, seems to be on the wane? Will there be a huge burst of spending coming up from that?

Jason Furman:

I think there's more spending to come, but there's a lot of uncertainty around that. We're very used to the spend out of your stimulus payments in normal times. These are not at all normal times. People initially spent their checks on things like cars, furniture, and sporting equipment and we've seen the price of all of those soar. Services spending remained down in the latest data that we have which was for April. As we see the May and June data, I expect service vending to be back at trend and probably rise above it. Fed chair, Jay Powell said, "People can't go to dinner twice a night." That's true but they can go out to dinner more often than they did before and I think there'll be some eagerness to do that, at least over the next couple of months.

Michael Klein:

Well, maybe they won't go out twice a night but maybe they'll order two desserts now, in enjoyment of being able to go out again. So Jason, what you're suggesting may imply that inflation is going to be a real problem and we've seen high inflation numbers although some of that is comparing year to year. So last year at this time, of course, prices had fallen. What do you think about the prospects for higher inflation? Will it just be in some goods and services and so in that way, it's not general inflation? Or do you think there is really a strong prospect for general ongoing inflation as some people are warning?

Jason Furman:

I think there's tremendous uncertainty about inflation because we've never gone through anything of this magnitude in terms of supply shock, demand shock, reallocation across the economy. I tend to expect more inflation and more persistent inflation than is the headline of most forecasters. And a lot of what we've seen to date is things like car prices spiking, but going forward, there's a number of shoes that haven't dropped yet like housing prices rising, some wage price pressure spirals, and the biggest fear people have is that expectations for inflation become de-anchored.

Michael Klein:

Yeah, we have a nice recent memo by Menzie Chinn of the University of Wisconsin and he talks about the sources of inflation and points out the importance of expectations. And of course in the 1970s, this was a very big deal because people embedded into their expectations ever higher inflation. And it took the very deep recession that began in 1979 to wring that out of the economy. But do you think that people will in fact change their views from what Ben Bernanke called the great moderation and expectations could really spike up in a way that could lead us back to something like the 1970s? Or do you think that there's a chance that people will understand this is a temporary blip, and the view of the Federal Reserve and the monetary policy that will be pursued will keep expectations low?

Jason Furman:

Right. So I think the bad case here is the 1960s and then you can argue how bad a case that actually is. In the 1960s, the inflation rate drifted up from about one and a half percent, to about 5% over the course of several years. One of the problems in the 1960s is prices rose more than wages and so real wages fell as a result of this inflation which made it unpopular. I don't think we'll be in anything like the 1970s. And in terms of expectations, HR offices are going to be meeting in September to figure out what wage raises to give for January of next year. They might be looking at inflation numbers like 4% and asking themselves, if inflation is 4%, we're going to have to give our employees more than that in a raise for next year.

Michael Klein:

Jason, the other side of macroeconomics besides inflation, of course, is unemployment. Those are the two big issues in macroeconomics. And there's been a lot of controversy lately about why millions of people are still unemployed, a fact that I alluded to in the introduction. People have pointed to a variety of different reasons. It could be the workers' concerns about disease, worries about the continuing absence of childcare especially, since this recession seems to have hit women particularly hard and perhaps even generous unemployment benefits that have kept people from going back to work. Or just some deeper psychological thing. People really reevaluating what they want out of their jobs. I know that you and Melissa Kearney have some very interesting recent work about the absence of childcare. Can you talk about that a little bit?

Jason Furman:

Yeah. So childcare in particular, I had been citing it as one of the reasons and I did that without doing any calculations. And then I just did a quick one which was mothers are about 10% of the workforce, and mother's employment hasn't declined that much more than employment has for other groups. And so, if you ask how much extra did mothers reduce their employment relative to others and multiply that by the share of the population, you find that only about 1 or 2% of the overall jobs decline can be explained by this. Fathers have actually increased their work. And so, what I concluded from this is that childcare is a really big problem in our country, but a lot of the problem is that people are still working and having to balance a child at the same time. And so, in some ways it's almost more stressful than what we thought before. It's just not taking as big a toll on the employment data as we thought before.

Michael Klein:

So it is a problem but it's not a problem in that dimension. I think it's very good that you had this prior view, you looked at the data and you were able to adjust your view. That's along the lines of what Keynes said, "When the situation changes, I change my views. What do you do, sir?" when he was challenged about that. What about the role of unemployment benefits, Jason? What do you think that role has been in perhaps keeping the number of unemployed as high as it's been?

Jason Furman:

I think it's almost certainly slow job creation. I think for the first part of this year, that was a good thing. We didn't want everyone rushing back to work in January and February. We gave them a lifeline that enabled more people to make that choice not to go back to work. Now we're enabling more people also to search for the best job and I think that has a good aspect to it. I wish the program was adjusting so that in July and August, when it'll be easier to find a job than it was in January, when it will be a lot safer to work than it was in January, that we didn't have the same extraordinary amount of support that we had back then.

Michael Klein:

Do you see any evidence that concerns about disease are continuing to keep people out of the labor force? For example, the prevalence of COVID-19 seems to be geographically distinct across the country linked to levels of inoculation. Is there any evidence to back that up or is that just a hunch that people have?

Jason Furman:

I think it's a hunch. I think it's a very plausible hunch. I mean, the problem is at this point, vaccination is mostly a choice. And it's a choice that's correlated with your income, it's a choice that's correlated with your views about the risk associated with the virus. Let's say you didn't get vaccinated because you weren't that worried about the virus then you're not worried about taking a job. It's correlated with views about whether or not you want to get back in a job and the likes. So it must be hard to sort out. It's also the case that the low vaccination states tend to be red states. Those states also opened up earlier and so there's lots of different things moving in different directions, but I do find it plausible. I just haven't been able to become completely convinced about any quantification of it.

Michael Klein:

In the introduction, I mentioned the way in which this episode could affect what's called job scarring and this is based on a memo that we have by Lisa Kahn and Jesse Rothstein where when people enter the labor force and it's a particularly bad time, that can shadow their entire careers actually. What do you see, Jason, as longer run effects of this COVID-19 episode on labor markets and perhaps on the economy more broadly?

Jason Furman:

Yeah. I'm worried about labor market scarring. I have this hope not based on any evidence at all, that if you didn't work for this past year, employers will understand why that was. They won't hold it against you or treat it as a signal in the way that they normally would. And so, that the scarring may be less severe this time than it was in previous recessions. But that's a hope, that might be wishful thinking. That's something economists can study five or 10 years from now.

Michael Klein:

But in previous recessions, everybody knew that 2008, 2009 was really bad or 1980, 1981 when I actually entered the labor market, was really bad and people weren't given a pass because those widespread wellknown recessions occurred. So I hope you're right. But maybe it will be similar to that even in this most dire of economic circumstances.

Jason Furman:

Yeah. And that's one reason why I think it's so important to figure out everything we can to get people back into work as quickly as possible.

Michael Klein:

Jason, I mentioned also in the introduction that you've had very high level policy experience, you were the chairman of the Council of Economic Advisers under President Obama, you served in the White House in the Clinton administration. So I'd like to ask you a question I've asked of other members of the Council of Economic Advisers including Greg Mankiw who was the chair of the Council of Economic Advisers under President George W. Bush, and Maury Obstfeld and Jay Shambaugh who served with you on the CEA. The question is this: how does economic analysis informed policy decisions? Do politicians listen to economists or do they just cherry pick whatever economic analysis they want in order to support positions that they already had? What's your experience with that?

Jason Furman:

I had a dream of an experience. President Obama really listened to us and when I say listened, that didn't mean he did what we told him to do. Sometimes he listened and disagreed with us on the substance. I think more often he listened, agreed with us on the substance and might've made a different political judgment. He might say, "Jason, that's a really small issue that you're pointing out and it's going to upset everyone enormously," or "Jason, you're right. But it'll never pass Congress." And so, what I saw him do was listen to the economists, listen to the political advisers and figure out how to factor it all together and that's the way I think it should work. I certainly would not have wanted him to do everything I told him to do. It would have been a disaster of a presidency if that had happened.

Michael Klein:

Well, that's a real modest statement on your part. I guess you're not going to run for president in 2024 based on that statement.

Jason Furman:

And no, what I mean is this is also it would have led to bad economic advice too. If I thought that I was giving the actual final thing that was going to definitely happen, I'd probably factor politics in more than I tried to. Yeah, you're not oblivious to politics, but I don't think you want to do too much of it, because in the White House, there's a lot of people around the table factoring politics in. You don't need the one economist at the table to be doing too much of it as well.

Michael Klein:

An economist more than others perhaps should understand comparative advantage.

Jason Furman:

Exactly.

Michael Klein:

So following up on that, was there a way in which political considerations affected the choice of economic policies to get them passed and also to make them more durable? In an earlier EconoFact Chats podcast, I interviewed a political scientist, Jacob Hacker of Yale, and he also wrote a memo for us -- who spoke about what political scientists call policy feedback. Policy feedback is a way to get support for policies and to ensure their durability through gaining public support. Jacob used the example of social security in the 1930s, and then more recently the Affordable Care Act, Obamacare, as examples of policies that gained a lot of public support and became durable as a consequence of that. What did you learn about policy feedback even as an economist who was, as you said, on the other side of the table about some of these issues? What did you learn that informs your views of meeting today's challenges given your experience in Washington?

Jason Furman:

I've seen some things that didn't work out from policy feedback. There was something called the Cadillac tax in the Affordable Care Act that was attacks on high premium health plans. It was pretty similar to what a lot of economists from across the political spectrum would recommend, but it got portrayed as taxing people on their health insurance, as opposed to making their health insurance more affordable. And it ended up being repealed before it could ever go into effect. So I dread that. The place where I think the lesson is really important is a carbon tax which I think is the number one best policy for climate change, not the only one, but the most important. And that's why I think it's so important to tie the carbon tax directly to payments for people. I think that's better policy, but I also think if we ever got a carbon tax into law and every household in the country got a dividend every year and it was called the carbon dividend and it was a separate check that they got, that no one would ever want to get rid of that carbon tax once we had it.

Michael Klein:

Yeah. We have a number of memos on the carbon tax by my colleague, Gib Metcalf -- who was also not just my colleague at Tufts but he was at the treasury when I was there as well, and he has some really important and interesting work supporting the carbon tax. As you mentioned, this is one of the most popular programs among economists. We had economists from both sides of the political spectrum arguing for a carbon tax and signing a letter in support of it. So let's hope that this can, in fact, be a popular economic policy among not just economists, but the general public as well.

Michael Klein:

So Jason, thank you very much for taking the time to speak with me today. I've always enjoyed your insights, both about economics, and how economics works in the political process.

Jason Furman:

Thanks for chatting. And for EconoFact.

Michael Klein:

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