

Testimony before the United States Senate Committee on Banking, Housing, and Urban Affairs
“Building a Resilient Economy: Shoring Up Supply”

March 2, 2022

Dr. Betsey Stevenson

Professor of Economics and Public Policy, University of Michigan Gerald R. Ford School of Public Policy and Department of Economics and Faculty Research Associate, National Bureau of Economic Research

Chairman Brown, Ranking Member Toomey, and distinguished members of the committee, thank you for the invitation to speak to you today about supply constraints. I am a labor economist who focuses on how the labor market has evolved as women have come to play a more equal role in paid employment and men have become more essential providers of care for their family members. My work has studied how deeply personal decisions about how to organize one’s family are intertwined with economic trends like work and inflation. As a policy adviser, I have helped to produce macroeconomic forecasts for the U.S. economy. In my testimony I want to help you see the link between the labor market, families, caregiving, and the risk of higher future inflation for the United States. But let me begin with the economic experience of the past year.

Both GDP and the labor market have recovered at a much more rapid rate than many predicted. Unemployment has fallen to 3.8% in less than two years since the worst decline in employment since the depression. In comparison, it took more than eight years for unemployment to fall below 4% following the 2008 recession. People have the confidence needed to look for better opportunities and leave their current jobs. And they are finding better opportunities. A recent Pew survey found that 56% of workers who quit a job in 2021 were now earning more money, 53% reported more opportunities for advancement, and 53% said that they had improved ability to balance work and family responsibilities.¹

The dark side of the economy is inflation, which is now currently at a pace last seen four decades ago. While inflation captures a generalized rise in prices, it does not mean that all prices are rising similarly. Energy commodities are up 37.9% over the twelve months ending in February and energy supply remains a source of concern with the Russian invasion of Ukraine. The prices of durable goods are up 18.7%. Price increases are particularly notable in autos with the price of used vehicles soaring 41.2%. Many of the forces that have led to rising prices in durable goods are difficult to counter with policy. The pandemic led U.S. consumer demand for goods to rise as people shifted their spending patterns from services to goods. Health concerns

¹ <https://www.pewresearch.org/fact-tank/2022/03/09/majority-of-workers-who-quit-a-job-in-2021-cite-low-pay-no-opportunities-for-advancement-feeling-disrespected/>

discouraged people from buying the same quantity of in-person services like dining, preventative medical care, and tourism that they bought prior to the pandemic. Instead, they re-arranged their budgets to include more physical things which could be enjoyed in the home or outside.²

American consumers increased demand for goods meant increase demand for goods produced in the United States and around the globe, using American inputs and foreign inputs. Our infrastructure for receiving goods has struggled under the increased flow of goods into U.S. ports. And factory shutdowns across the world have meant delays and increased transportation and warehousing costs. After years of extremely narrow margins³, cost cutting, and “just in time” shipping⁴, goods supply chains weren’t ready to accommodate the extra demand and the additional costs of covid along the supply chain.

In a healthy global economy, we benefit from global supply chains that allow U.S. businesses and consumers to source material at the lowest cost and enjoy a wider range of available products. Global trade can also help insulate the U.S. economy against a recession by providing billions of potential customers outside our national boundaries for American businesses. While these same linkages are the source of some of the price increases we have seen over the past year, these are also the supply constraints that are most likely to loosen on their own as we recover from the pandemic. The most important effort you can make to build resiliency to these supply constraints is to support widespread global vaccination against covid. The more the world is vaccinated against covid, the easier it will be for factories and shipping around the globe to resume smoothly.

Within the United States this also means trying to keep the economy smoothly operating by ensuring widespread access to ventilated schools and workplaces, vaccines, and covid testing. The last Covid surge in January did not lead many people to lose jobs, but it did lead to millions of people missing work due to illness. Containing the spread of covid helps boost productivity and ensures that workers are healthy enough to meet the demand of customers.

A healthy and robust labor supply is particularly important for the service sector. So far we have seen inflation mostly in the goods sector, which employs only 16% of American workers in the private sector. In contrast, 84% of American private sector workers are employed in the service sector. For much of the past year, services have not experienced the upward price pressure experienced by the goods sector. As of February 2022, the prices of services (not including energy) had risen only 4.4% over the previous 12 months. And much of this 4.4% rise has been driven by the rising cost of housing including owner occupied housing. Price increases for services not including shelter are well within normal inflation rates. For example, the price of medical services rose 2.4% and education and communication services rose 1.7% over the

² <https://www.bls.gov/opub/mlr/2021/beyond-bls/covid-19-causes-a-spike-in-spending-on-durable-goods.htm>

³ <https://www2.deloitte.com/content/dam/insights/us/articles/the-profit-margin-squeeze-structural-strategies-for-consumer-product-companies/DUP104-Profit-Margin-Squeeze.pdf>

⁴ <https://labornotes.org/2021/12/supply-chain-disruption-arrives-just-time>

twelve months ending in February 2022. These two services—medical and education services—have historically risen faster than overall inflation. The risk to ongoing high inflation is that the price of these and other services start to rise at a faster pace. Indeed, the past two months the monthly price increases in services have started to show signs of this stress.

Inflation in the price of services could be driven by an increase in demand for services as the economy continues to recover without a subsequent rise in the availability of workers to provide those services. A rise in inflation in services could have a devastating impact on overall inflation even if the price increases for goods begin to abate. The size differential between the service and goods sectors means that a 1% increase in service inflation can have as much of an impact as a 5% increase in goods prices.⁵

The risk to rising inflation in the service sector is that labor supply remains depressed relative to pre-pandemic trends. Overall the economy remains short 1.4 million workers and 3.5 million jobs relative to pre-pandemic projections.⁶ Prime age women's labor force participation rate is down relative to pre-pandemic levels and relative to prime age men's labor force participation. Women are coming back to jobs, but they exited the labor force and lost jobs at higher rates during the pandemic than did men. Women lost more jobs than men because this was a service-sector led recession and women are more likely than men to work in the service sector.⁷

Perhaps most notable, women lost jobs in education and health services, a sector that experienced job growth during previous recessions, as trend growth outpaced the cyclical downturn. These relative weaknesses contrast even more sharply in the context of recent recessions. In past recessions, contraction in the labor market mostly spared women and once the market bottomed out, growth in women's employment, particularly in the service sector, helped lead the recovery.⁸

One in four women work in education and health services and nearly 4 out of 5 workers in the sector are female. This is a sector that is poised for rapid recovery in demand over the coming year. But will there be workers to meet that demand?

⁵ <https://www.nytimes.com/2022/02/08/podcasts/transcript-ezra-klein-interviews-jason-furman.html>

⁶ <https://www.pii.com/blogs/realtime-economic-issues-watch/us-gained-surprising-number-jobs-february-wage-growth-was>

⁷

https://www.hamiltonproject.org/papers/the_initial_impact_of_covid_19_on_labor_market_outcomes_across_groups_and_the_potential_for_permanent_scarring

⁸ Stevenson, Betsey. "Women, Work, and Families: Recovering from the Pandemic-Induced Recession." *The Hamilton Project* (2020).

There are two critical steps you can take to ensure that workers, particularly women, return to the labor market. The first is ensure access to childcare⁹ and home nursing care¹⁰ because these services free up family caregivers to remain employed or return to the labor force. Of course, these policies help male caretakers remain employed as well. But because of the uneven distribution of informal and formal care labor, policies that expand access to care are more likely to encourage women into the workforce. By increasing labor supply we can facilitate continued economic growth without adding strain on prices. Supporting employment in the care industries not only helps support some of our lowest paid female workers, but it frees up informal care-providers who would prefer to find paying work.

The second step is to increase funding and improve access to training programs for mid-skilled positions and community college. Enrollment in vocational programs and community college programs fell during the pandemic. Enrollment in community colleges declined by 14.8% since 2019. Enrollment in health-related programs has declined by 9.2% and education programs have fallen by 12%.¹¹ Enrollment has fallen the most for first-generation students and underrepresented minorities. These declines are bad for the students who have not received training that would help them find employment in positions in which they can earn higher wages. But these declines are the Achilles heel in our supply chain resiliency. The slowdown in training in some fields is a harbinger of potential labor shortages that will translate into an increase in prices. The Wall Street Journal recently reported on a predicted decrease in certifications for medical and nursing technicians, dental assistants, food safety workers, cosmetology, and other professions requiring certifications.¹² When there are not enough skilled workers to fill positions, prices will rise because skills cannot be gained overnight. As employers compete for a dwindling supply of workers with the needed training, wages will be bid up to the point that the additional costs will need to be passed onto customers. The time to act is now.

Thank you for the opportunity to testify.

⁹ https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_202046.pdf

¹⁰ <https://scholar.harvard.edu/files/kshen/files/caregivers.pdf>

¹¹ <https://nscresearchcenter.org/stay-informed/>

¹² <https://www.wsj.com/articles/covid-19-forces-vocational-schools-to-adjust-11612348201>