

## PERSPECTIVE: THE LABOR MARKET

With 9.3 million American workers declaring they are still looking for a job (up 3.6 million since February 2020), and nonfarm payrolls totaling 144.9 million in May 2021 (still down 7.6 million over the same timeframe), there is still slack in the labor market.

Additionally, the labor force participation rate, which is the share of those age 16+ who are either working or looking for work, was only 61.6% in May this year. Pre-COVID, that is the lowest participation rate since 1977. In other words, the United States is inundated in unemployed and available workers.

However, none of this seems to matter for employers. Average hourly earnings are up a whopping 6.4% versus February 2020, while companies have roughly 9.3 million open jobs. Furthermore, almost 4 million people quit their jobs in April, the highest on record, and a record-high 2.7% of total employment. If you are an employer and, even after raising wages, it is hard to find workers for open positions and keep the workers you have, it certainly feels like a “tight” labor market.

So, why the disconnect?

The main challenge with the labor market right now is that the government is still handing over unemployment benefits much more than the situation demands. These jobless benefits might have been a good idea in the early days of the pandemic. However, it is not sensible at this point.

### Time for change

At this point, with the economy open, and sports arenas packed with unmasked people around the country, the time for excess benefits has long passed. It is time to remove the shutdown-induced distortions created in the supply / demand dynamics of the labor market.

A reverse course is needed. The Fed is holding interest rates near 0% and buying \$120 billion worth of bonds every month, as if the U.S. were still in a financial crisis. If there is a problem with the economy, the Fed is intensifying it by helping to finance government's competition with the private sector. The Fed's buying government debt to finance extended unemployment benefits perpetuates the unemployment problem and hurts business.

# INSIGHTS

While there are 9.3 million people counted as unemployed, current regular and special pandemic-relief programs are paying 14.8 million people unemployment benefits. This disparity is mainly due to the special short-term laws allowing people to accumulate jobless benefits even if they are not looking for work. Usually that is not allowed, but Congress decided to waive the job seeking requirement due to COVID.

These are unparalleled policies. The government needs to end them as the economy opens up. As a result, the system is overflowing in money. Additionally, intervening with the undercurrents of the labor market diminishes output while boosting consumption, which is a formula for inflation. Bottom line, it's time the Fed starts reducing their "supportive" monetary policy.



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