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SEVERAL MILLION US WORKERS SEEN STAYING OUT OF LABOR FORCE INDEFINITELY

Survey shows many labor-force dropouts plan to maintain social distancing after pandemic, raising implications for economy

By Josh Mitchell
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Several million workers who dropped out of the U.S. workforce during the Covid-19 pandemic plan to stay out indefinitely because of persistent illness fears or physical impairments, potentially exacerbating the labor shortage for years, new research shows.

About three million workforce dropouts say they don't plan to return to pre-Covid activities – whether that includes going to work, shopping in person or dining out – even after the pandemic ends, according to a monthly survey conducted over the past year by a team of researchers. The workforce dropouts tend to be women, lack a college degree and have worked in low-paying fields.

The research team has named this phenomenon "long social distancing" and believes it will be one of the lasting scars of the Covid-19 pandemic.

"Our evidence is the labor force isn't going to magically bounce back," said Nicholas Bloom, a Stanford University economist who oversees the survey along with José María Barrero of Instituto Tecnológico Autónomo de México and Steven J. Davis of the University of Chicago. "We still don't see any change in these long social distancing numbers, which suggests this drop in labor-force participation may be quite enduring."

Should the researchers' predictions turn out to be true – that the labor force will be depressed for potentially years after the pandemic recedes – the implications for the world's largest economy and the Federal Reserve are substantial. A sharp drop in the labor force at the pandemic's start led to shortages of workers and products that have frustrated households, restrained economic growth and helped push inflation to a 40-year high.

The labor force has recovered significant ground since March and April 2020, when the pandemic put about 22 million people out of work and the labor force – consisting of both employed workers and job seekers age 16 or older – fell by 8.2 million workers, or 5 percent.

The ranks of employed workers as of this March were 1.2 million shy of their prepandemic level, recovering faster than economists predicted two years ago. The labor force grew to 164.4 million workers, down just 174,000 from its prepandemic level. The rebound has been particularly sharp in recent months as the winter outbreak of the Omicron variant of Covid-19 faded.

Even with those gains, the U.S. is still missing about 3.5 million workers, by the team's calculations. That figure represents the difference between the number of workers in March and how many there would be if the labor force had continued to grow at the pace it did from 2015 to 2019, absent the pandemic.

And their research suggests progress could soon stall. If so, the labor force would remain depressed for longer than the Fed anticipates, potentially helping to keep inflation high.

Chuck Lage, 63 years old, is among those who lost their jobs in the first two months of the pandemic in spring 2020. The Landenberg, Pa., resident was laid off from his position as a director of business planning for a nonprofit professional association.

Mr. Lage has common variable immunodeficiency, or CVID, a genetic condition that prevents his body from producing antibodies to fight illnesses. Worried about getting sick, he retired early and has avoided almost all of his prepandemic activities such as going out to eat and socializing. He plans to continue doing so for the foreseeable future.

Through a Facebook group for people with his condition, he learned that there are many people like him. One recent member posted a picture of a zebra – an animal that people with CVID have adopted as a sort of mascot – sitting in a car looking out the window.

"The world is moving on," Mr. Lage said. "We're not able to yet."

The fate of people such as Mr. Lage is at the heart of one of the economy's biggest puzzles: whether certain adults will re-enter the labor market as the pandemic fades. Employers have struggled to find workers to meet strong consumer demand and have bid up workers' wages as a result, one of several factors that pushed inflation to a four-decade high of 8.5 percent in March.

For each month over the past year, the team has anonymously surveyed 5,000 people – not always the same ones – age 20 to 64 who earned at least $10,000 in the prior year. The survey asked whether they plan a full, partial or no return to normal activities after the pandemic. Consistently, 1 in 10 have said they plan no return. In the early months of this year, when the Omicron variant was surging, that share rose to 13 percent.

After controlling for work status – some of those people were working remotely – and other variables such as age and gender, the team concluded that roughly three million people are staying out of the workforce to remain socially distant. The team didn't ask health details such as whether those people have "long Covid," to avoid health-privacy concerns.

Other data suggest that fear of Covid remains an issue for some workers but has fallen from higher levels earlier in the pandemic.

The Census Bureau has surveyed adults throughout the pandemic, asking among other questions whether they didn't work in the past week because they were afraid of getting Covid or spreading it.

That figure peaked at above six million early in the pandemic, fell sharply a year ago after vaccines became widely available and remained around three million for much of 2021. In mid-March 2022, the figure fell to 2.3 million from three million in February.

Household savings rose to record highs over the pandemic as the federal government distributed stimulus checks and enhanced unemployment benefits. Some economists think that sidelined workers will rejoin the labor force to cope with the surge in inflation as they spend down savings.

The Fed is counting on a further pickup in labor-force participation as it attempts to bring inflation back down to its 2 percent target over the next two years without extremely aggressive rate increases. The hope is that a larger labor pool will alleviate the pressure on employers to raise wages at a pace that the Fed considers unhealthy in the long run.

The number of people looking for work has been slow to respond to strong demand for workers "for reasons that appear to be clearly related to the pandemic," Fed governor Lael Brainard said in an interview at the recent WSJ Jobs Summit. "But what has been encouraging in the last few months of the employment reports is that we are seeing a rebound in participation."

Fed officials have signaled plans to raise interest rates relatively quickly this year to a level closer to an estimated neutral setting that doesn't provide any economic stimulus. Ms. Brainard, who is awaiting Senate confirmation to serve as the Fed's vice chairwoman, cited the potential for an increase in workforce participation as a tailwind that could reduce the need for more-aggressive interest-rate increases, which otherwise would be needed to bring supply and demand into better balance.

"I expect those supply constraints to lift at the same time as we see demand moderating, and that is why we can expect to see the recovery sustain, even as we bring inflation down," she said.