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NO. 2

Our Economy: East Texas and Beyond

Director's Welcome

The research staff at CBER is pleased to bring you our second issue of East Texas and Beyond*, our quarterly-ish newsletter. In this one, we take a closer look at the news surrounding the U.S. labor market and examine the new phenomena of the "great resignation" and "quiet quitting." We also discuss the debt limit (or "ceiling") and why it has become such a sticking point for Congress. Finally, we also take a look at the national, state, and local economic conditions and comment on where the economy appears to be headed. If you have a suggestion for a topic you would like to see covered, please get in touch with us.*

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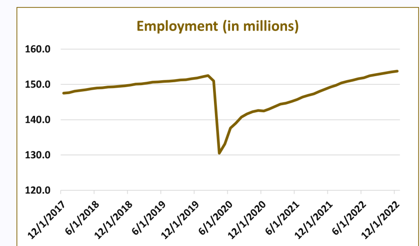
Labor Market Conditions and New Developments

by S. KOSOVICH

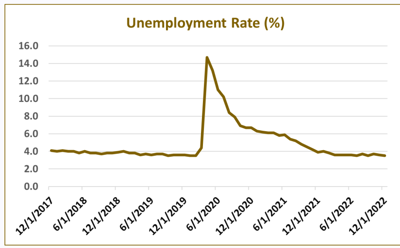
The labor market has undergone substantial changes in the past several years, with many of these changes linked to the COVID-19 pandemic. The major initial impact of the pandemic was substantial job losses; employment fell rapidly as many businesses shut down during the spring of 2020. Other major changes to employment conditions soon emerged. The term 'working from home' became a major part of our lexicon.

A recent National Bureau of Economic Research study[1] found that although working from home only accounted for approximately 5 percent of work hours pre-pandemic, about half of all work hours between April and December 2020 were accomplished via telework.

Other new phrases appeared after 2020, including the concept of "quiet quitting," which refers to workers who remain employed but are no longer engaged in their jobs. The "great resignation" is the hypothesis that Americans started to exit the labor force in increasingly large numbers. Even the notion of 'quiet firing' arose, which referred to the idea that employers could make jobs so unappealing that they would eventually force workers to opt out of their organizations. Some of these concepts would be difficult to quantify, while others can be examined using publicly available labor market data.



Clearly, employment fell rapidly at the arrival of COVID-19 in the United States, as seen in the graph above. After rapid employment losses, hiring rebounded quickly, and the general consensus is that as of early 2023, the labor market is now currently 'tight.' The most commonly cited statistic to indicate a tight labor market is a low unemployment rate, which estimates the percent of the labor force that is not working but actively seeking a job.



The (seasonally adjusted) unemployment rate for December 2022 was 3.5 percent, which is the exact rate estimated for the economy in February 2020, immediately before the widespread arrival of COVID-19 in most parts of the country. As you can see from the graph, the unemployment rate spiked during the spring of 2020, reaching 14.7 percent in April. This is the highest rate ever recorded by the Bureau of Labor Statistics, which has been surveying households since 1948.

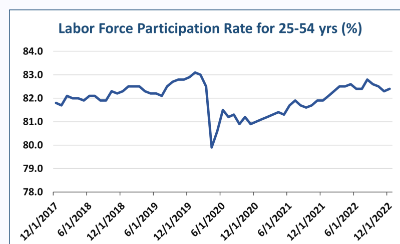
The BLS provides measures that describe many different aspects of the U.S. labor market, some of which are generated from monthly surveys of representative samples of individuals and businesses. Two of the most widely used sources of data on the health of the labor market are the household survey and the establishment survey. The household survey (also known as the Current Population Survey) is jointly conducted by the BLS and the U.S. Census Bureau and is a survey in which information is collected about employment status, hours worked, wages, and other characteristics of individuals for a sample of households. Additionally, the BLS conducts a survey of business establishments (also known as the Current Employment Statistics) to gather information about employment, hours, and earnings from a sample of businesses rather than households. Both surveys help provide a snapshot of the health of the labor market, from different perspectives.

A third survey called the Job Openings and Labor Turnover Survey (JOLTS) has collected additional information on job openings, hires, and quits information since December 2000 for a sample of businesses in the U.S.

There additional sources one could use to understand labor market conditions. These include unemployment claims from states, private sector data on the number of online job postings, as well as employment numbers from proprietary payroll data. Because there is not one source of data on labor market conditions, at any given time there are often contradictory signals with respect to the health of the labor market. One new piece of data might suggest a tightening labor market, while another release suggests softening conditions. By combining the information from these various sources, one can begin to understand the major changes in the labor market since the onset of the pandemic.

Has there been a so-called ‘great resignation’, where Americans have dropped out of the labor market in droves? From the household survey, the BLS calculates the labor force participation rate as the proportion of the adult civilian population that is either employed or unemployed. This measure provides an indication of how many adults in the civilian population have some attachment to the labor market. The (seasonally adjusted) rate peaked at 67.3 percent in January of 2000, and has indeed declined since then. The rate fell to 63.3 percent by February 2020, before dropping to 60.1 during the pandemic, and stood at 62.3 percent in December 2022.

Some of the secular decline in participation rates can be attributed to the aging population of the U.S., as more of the working age population reaches retirement age. If one focuses only on prime-age adults (25-54 years old) the change looks less stark; the participation rate was 83 percent in February 2020 and had returned to 82.4 percent in December 2022.

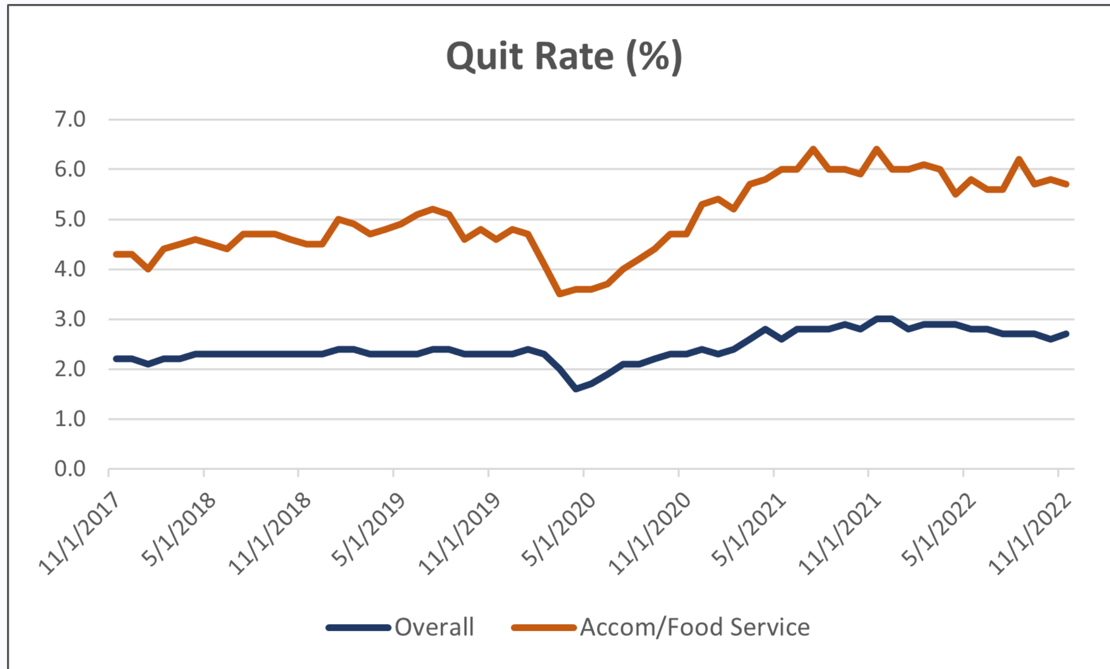


The JOLTS data can provide additional insight about how individuals are moving in and out of the labor market, as it provides data on job openings, hires, and job separations, which includes quits, layoffs, and discharges. The quit rate, which is the number of workers who voluntarily leave their jobs as a percentage of total employment, did reach an all-time high of 3 percent in December 2021. However, this could simply be an indication of the current tightness of the labor market, where workers move to new employers offering higher wages or better job conditions.

The quit rate for certain sectors of the economy spiked at even higher rates during the pandemic. Perhaps not surprisingly, the rate peaked at 6.4 percent in the food services and accommodations sector during the pandemic. Job openings in this industry also spiked, as businesses struggled to attract workers back to work in restaurants and hotels because many of these workers found jobs in other sectors of the economy after being laid off during the pandemic.

In summary, if we are in the midst of a ”great resignation,” it is proceeding rather slowly. It should also be noted that the U.S. labor market is quite dynamic, and at all times there is a churn of workers from employment to unemployment or retirement, from school to employment or unemployment, etc. Additionally, the turnover rate is much higher in some sectors of the economy, such as in food service and hotel accommodations.

In terms of the trend toward telecommuting, there is less data available to understand the post-pandemic changes. Definitions of telework differ as to how much of a job must be done away from a job site to be considered working from home. According to the most recent estimates from the Census Bureau’s American Community Survey, 17.9 percent of workers primarily worked at home during 2021. Of course, some jobs can more easily be shifted toward telework, and many so-called knowledge workers have not physically returned



to work. As of 2021, for example, almost half of all workers in the District of Columbia were working from home (American Community Survey).

Again, it is difficult to predict how many jobs have permanently shifted toward telework, but there is some evidence that many workers value the ability to do some work from home. According to a Gallup poll conducted in 2022, 56 percent of full-time workers believe their jobs could be done remotely, and only 6 percent of workers would prefer jobs that always required work at an office/on-site.

What about quiet quitting? Again, data are somewhat limited to measure the extent to which workers are engaged at work. The BLS does provide quarterly estimates of labor productivity, and during the pandemic total economic output fell in the U.S., but hours worked fell by more, causing an increase in estimated worker productivity. This trend has reversed somewhat, but there is no indication that worker productivity has fallen rapidly. In its most recent survey of worker engagement, Gallup finds that only 32 percent of workers surveyed reported being engaged with their work. This lack of engagement is not a new trend; in the year 2000 (the first year in which Gallup asked this question) only 26 percent of workers reported being engaged with their jobs. Maybe it should be alarming that the vast majority of workers in Gallup's poll are either classified as not-engaged or actively disengaged at work, but this is clearly not a new phenomenon.

As of early 2023, there are a few stories that can be told about current labor market conditions. In general, the current labor market is tight, but in the past several weeks many of the largest technology firms are proceeding with layoffs.

One additional underdiscussed trend is a recent decrease in wage inequality. Although measuring inequality is somewhat sensitive to the definitions chosen, recent wage gains have been strongest for low-wage workers, and for those workers in occupations not requiring a college degree. This is the first time in several decades that wage inequality appears to be falling, and it is unclear whether the trend will continue.

Finally, much has recently been written about ChatGPT and the potential disruptive impact of artificial intelligence on the job market. Yogi Berra and Niels Bohr are both credited with coining the expression that "prediction is difficult, especially about the future." This phrase is definitely applicable to the study of labor markets. ■

Notes

[1]Jose Maria Barrerojk, Nicholas Bloom, and Steven J. Davis, "Why working from home will stick", Working Paper 28731 (Cambridge, MA: National Bureau of Economic Research, April 2021), http://www.nber.org/papers/w28731.

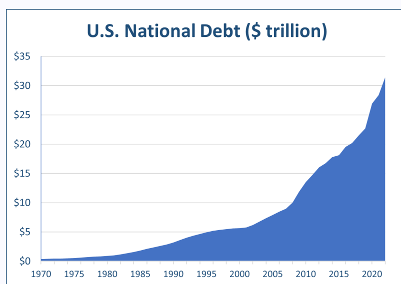
The Debt Ceiling Showdown

by M. Scanlan

On January 13th of 2023, U.S. Treasury Secretary Janet Yellen warned the country that the government would reach its debt ceiling of $31.4 trillion on Thursday January 19th, and if Congress didn't act there would be unpaid obligations and a possible government shutdown. As the deadline approached there was anticipation and apprehension over the looming faceoff in Congress over extending the debt ceiling. Recently elected Speaker of the House Kevin McCarthy was ready to flex his newly

acquired power to force fiscal concessions from Democrats. When Thursday finally arrived, Treasury Secretary Yellen announced that her office was able to take "extraordinary measures" and postpone some government outlays, thus delaying the debt ceiling showdown until later in the spring. Given this recent drama and its inevitable repeat in the coming months, we should spend a little time understanding the U.S. national debt and the self-imposed debt ceiling that caused all the excitement.

How Big Is the Debt?



To understand the U.S. debt, we must first understand deficits; while these two terms are often used interchangeably, they are not the same. A government budget deficit occurs when governmental spending exceeds tax revenues in a given year. To cover the shortfall, the Treasury Department is authorized to issue government debt in the form of Treasury bonds that are sold to the public. This means deficits are a yearly shortfall while the national debt is the sum of all past deficits. For example, in 2022, the government spent $6.27 trillion but only brought in $4.90 trillion in revenue resulting in a $1.38 trillion deficit for the year. When this is added to the $30.01 trillion debt from the beginning of 2022 it means we rang in the new year of 2023 with a total debt of $31.39 trillion, which can be written as $31,390,000,000,000.

For context, in 2022 the U.S. national debt was greater than the second, third and fourth largest debts in the world combined (China, Japan, and UK). If you have some extra time, type "debt clock" into your favorite search engine and watch the debt grow right before your eyes.

Country	Gross Debt (Trillions)
USA	$31.52
China	$14.19
Japan	$13.21
UK	$3.71
France	$3.65
Italy	$3.53
Germany	$3.29
India	$3.23
Canada	$2.25
Brazil	$2.06

What Is the Debt Ceiling?

The debt ceiling, also known as the "debt limit," is the upper threshold on borrowing that the U.S. Treasury is authorized to engage in on behalf of Congress to pay for all outstanding obligations. It is analogous to having a credit card with no spending limit but deciding to set yourself an artificial ceiling to encourage responsible spending habits.

The debt limit dates all the way back to 1917 when Congress wanted to put a ceiling on the amount of newly developed government bonds being issued in bulk during World War I. Though the name "debt ceiling" sounds like a hard threshold that can never be crossed, it has been raised 78 times since 1960. Some of these were smooth transitions while others involved painful partisan fights.

The debt limit debates this year will likely be very contentious given the relatively even split in Congress along with the rise of the defiant Freedom Caucus within the Republican party.

What Happens if the Debt Ceiling Isn't Raised?

If Congress is not able to compromise and pass a new higher limit, there will be real and painful implications for the economy. Once the debt limit is officially reached, the government can no longer meet any of its outstanding financial obligations. The result would be a government shutdown and a default on existing debt.

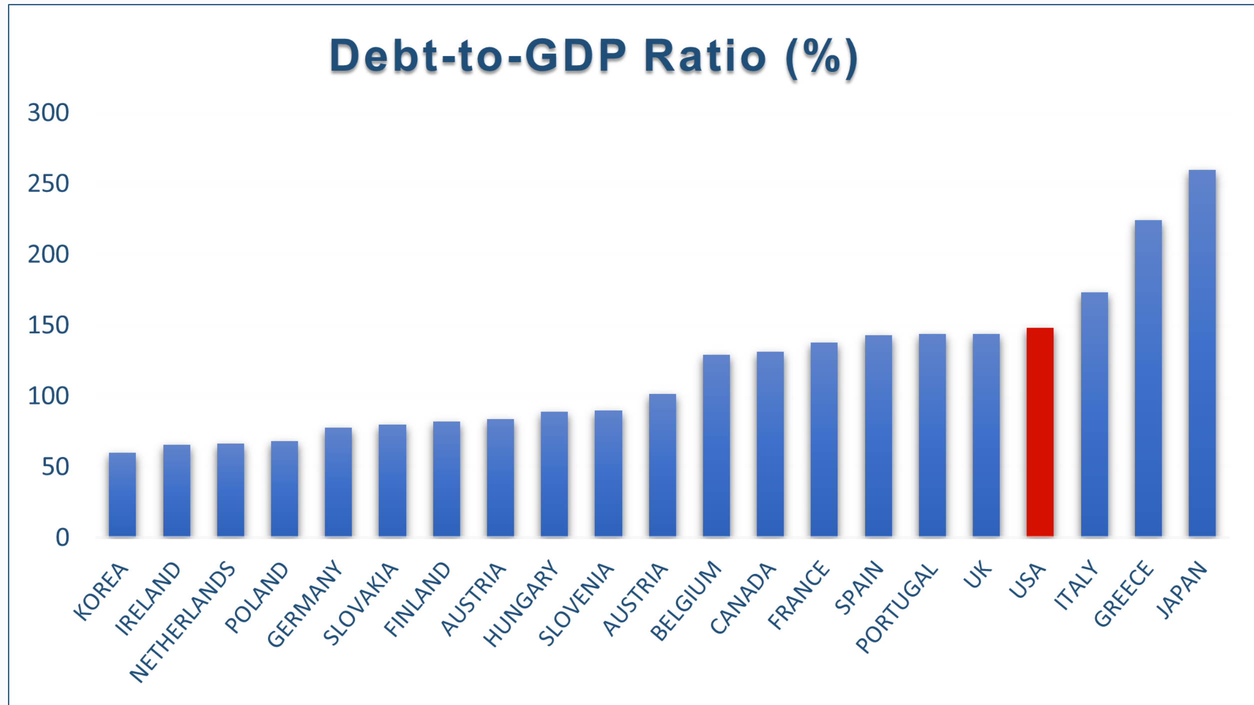
During a shutdown, the government is unable to pay salaries for federal employees or for those in the military. National parks may close, and air travel will see massive delays since both TSA and air traffic controllers are federal employees and would not receive paychecks. Social Security and Medicare checks could be stopped under this type of shutdown, and new applicants will not be processed during this period. Any new loans or mortgages that rely on the IRS for Social Security number verification will be delayed. All government offices would fully close down or rely on workers to come in without pay until the ceiling is raised.

Government shutdowns have become relatively common, with the U.S. experiencing three within the last 10 years. These shutdowns usually occur as a result of a deadlock in the budget process and generally last about two weeks. While this type of shutdown does cause pain and discomfort across the country, facing a default on debt at the same time is exponentially worse. Similar to how missed credit card payments by an individual can lead to a lower credit rating and higher interest rates on their credit cards, missed bond or interest payments by the government will drive up borrowing costs. Even the threat of a default may be enough to spook investors away from U.S. Treasurys thus raising borrowing costs. This issue may seem minor, but a full default on debt would directly impact the country's debt rating, driving up borrowing costs for the country by tens to hundreds of billions of dollars, and could call into question the dollar's preeminence as the world's reserve currency. The resulting turmoil in the financial markets would, almost certainly, push an already fragile economy into a significant recession.

What Will Republicans ask for?

Republicans do not want to see the country default on its debt, but they know the threat of delaying changes to the debt ceiling will give them bargaining power to push through budget cuts they campaigned on during the recent election cycle.

Texas Hill County Representative



Chip Roy summarized it this way: "You only have so many leverage and negotiating points. The debt ceiling is one of those." During the contentious elections for Speaker of the House, Roy was instrumental in convincing Speaker McCarthy to promise that he would require significant spending cuts before agreeing to call a vote on raising the debt ceiling.

Though few specifics have been mentioned by Republicans regarding proposed fiscal spending cuts, some of the likely candidates include:

- Cuts to, or restructuring of, Social Security and Medicare
- Dollar for dollar spending cuts for any amount the debt ceiling is raised
- Reform to health care costs
- A cap on discretionary spending at 2022 levels
- A push for a balanced budget amendment to the Constitution

The problem they will face is that most, if not all, of these items will be non-starters and will be almost impossible to pass. A balanced budget amendment along with cuts to Social Security and Medicare are opposed by all Democrats and many Republicans. Even former President Trump has come out as being strongly opposed to any cuts to the two programs. Cutting discretionary spending is also tricky for Republicans since nearly half of all discretionary spending is on the military budget, which they are reluctant to lower.

Solutions

Given that Speaker McCarthy has already promised to deliver spending cuts and the administration has been adamant that no strings can be tied to raising the debt ceiling, it appears that Democrats and Republicans are resolved to engage in a high stakes game of chicken. Neither side wants to see the U.S. default on its debt and fall into a financial crisis, so how can this be resolved? Here are some likely outcomes listed from most to least likely.

1. There is an agreement to cut or cap non-military discretionary spending spread out over multiple years. This would allow Republicans to claim large savings even though the cuts in any given year are moderate.
2. Republicans ask the Treasury to prioritize payments on bonds along with payments to Social Security, Medicare, and the military when the limit approaches. This would take defaulting off the table while still causing a partial government shutdown that Republicans can leverage. Treasury Secretary Yellen has expressed pessimism about the feasibility of this plan.
3. A suspension of the debt ceiling until after the 2024 election when the balance of power may be shifted. This would likely be tied to an agreement to explore restructuring Social Security and Medicare.
4. Printing a trillion-dollar coin, depositing it at the Federal Reserve and then drawing from this deposit to fund the government. This seems fanciful, but it is allowed under a little-known law that permits the Treasury to mint platinum coins if there is a potential default. This is not a long-term solution and is not something the Fed will likely agree to participate in.
5. Congress could vote to change the debt limit from being based on a firm number to a limit

based on the country's debt-to-GDP ratio. This is a more sensible measure and one used by many countries around the world. It is akin to banks checking debt-to-income ratios for home-buyers, and is popular among economists since it helps put the size of the debt in perspective.

6. Congress could vote to eliminate the debt ceiling entirely. The U.S. is one of only two nations in the world that have a hard debt ceiling based on gross debt; the other is Denmark. In Denmark, however, the ceiling is set far above the country's current debt, making it effectively a non-issue.

There is no solution that will be popular among all members of Congress, and both sides want to appear strong heading into the presidential election season. Negotiations should commence right away and focus on finding common ground on the future trajectory of the debt and extending the debt ceiling well before the country faces a default. ■

Economic Snapshot: National and Local Conditions

Overall, the economy appears to be doing quite well. The last quarter of 2022 saw strong GDP growth of 2.9% (annual basis). This increase is driven primarily by strong consumption spending, which makes up nearly two-thirds of our economy, as well as inventory investment and net exports. Residential investment is continuing to fall, making it seven consecutive quarters of declines in home buying. It is worth noting that initial GDP growth figures are often revised, sometimes substantially, when additional data become available.

Regionally, the Texas economy is forecast to perform better than the U.S. economy overall. According to the analysts at the Dallas Fed, there is a modest job growth of 1.4% forecast for Texas, indicating a "soft landing" and not a recession.

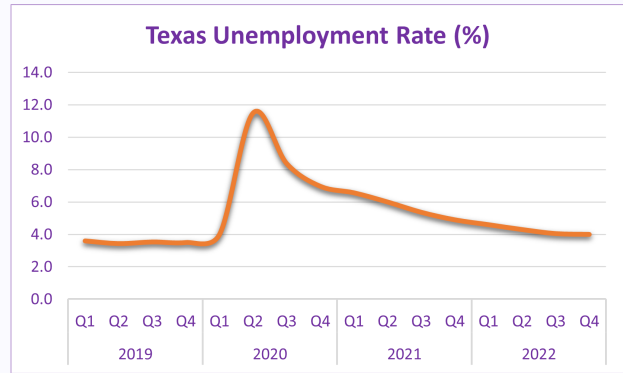
A number of factors make Texas different – and able to tolerate economic downturns better – from the rest of the country. First, unemployment rises less sharply in the state during recessions, primarily due to fewer labor market regulations. Workers tend to take a bigger hit in terms of declining wages, but the unemployment rate increases are more muted. Second, labor force participation has fully recovered in Texas, whereas in other parts of the U.S. this is not the case. Third, domestic migration into Texas, which surged during the pandemic and continued into 2021 and 2022, boosts the available supply of labor. Also, international migration has increased after stalling in 2020. Both types of migration act as a shock absorber of sorts, mitigating the impact of a slowdown in economic activity.

On the other hand, it is worth pointing out that migration into the state does not benefit all parts uniformly: the main destinations for new residents are metro areas of Austin, Houston, Dallas-Ft. Worth, and San Antonio. Rural areas often "bleed" residents to the cities and may instead experience population declines, even as the state continues to grow.

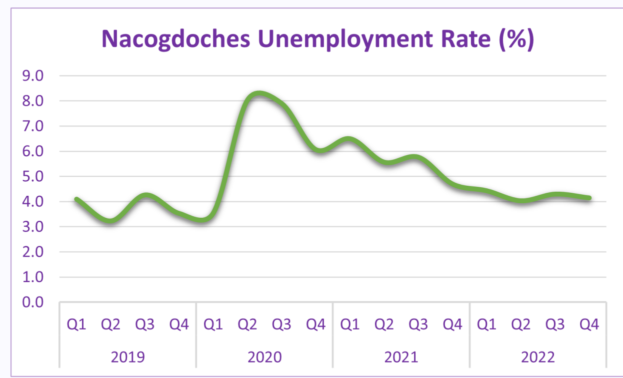
Labor Markets

National labor market conditions are covered in detail in the leading article by Steve Kosovich, so we will focus on state and local news.

Texas unemployment continued to fall through the end of 2022, mirroring the US. As of the end of 2022, US unemployment was at 3.6%, while in our state, it remains slightly higher at 4%.



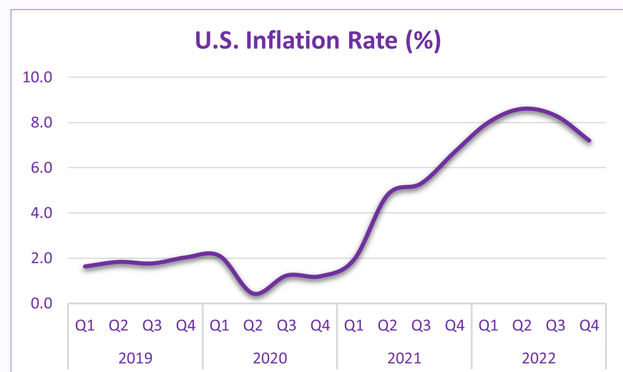
Locally in Nacogdoches, we are also seeing steady declines in the unemployment rate; in Q4 of 2022, it was 4.2% – a tad higher than both state and national rate.

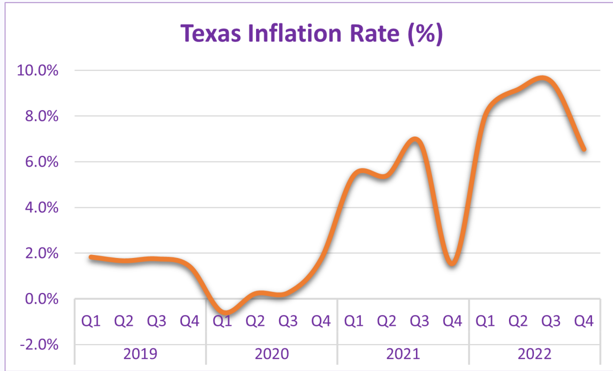


Early in 2023, these encouraging trends show signs of continuing: for example, new unemployment insurance claims fell by 3% during the third week of January. This is in sharp contrast to the many stories covered in news media of massive layoffs, primarily in the tech sector.

Price Levels and Cost of Living

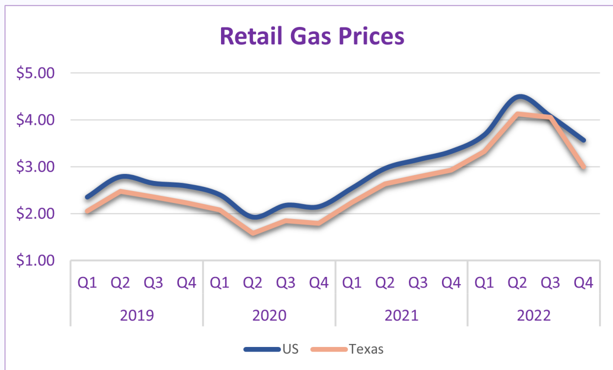
Rates of inflation, measured by core CPI, are slowing down; this is true nationally and in Texas. The fourth quarter of 2022 saw 7.2% inlation nationally and 6.6% in the state. In both cases, monthly measures are showing a declining trend, so the latest figures are even more encouraging.





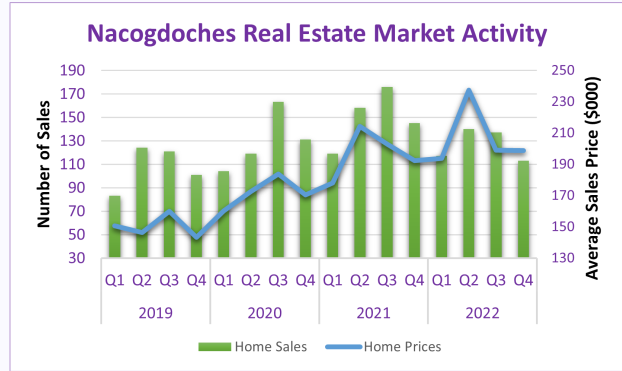
Overall, lower inflation and continued strength in the economy are great news. The Fed is seeing its policy working and is consequently able to slow down the pace of its rate hikes. The latest interest rate increase was only 0.25%, which is significantly smaller than the previous 3/4 of a percent hikes we saw. Additionally, the prospect of a 'soft landing' rather than a deep recession seems more promising.

Retail gasoline prices in Texas are still lower than those in the U.S., and both have continued to fall through the end of 2022. The national average was $3.57 per gallon, and in Texas – $3.00.



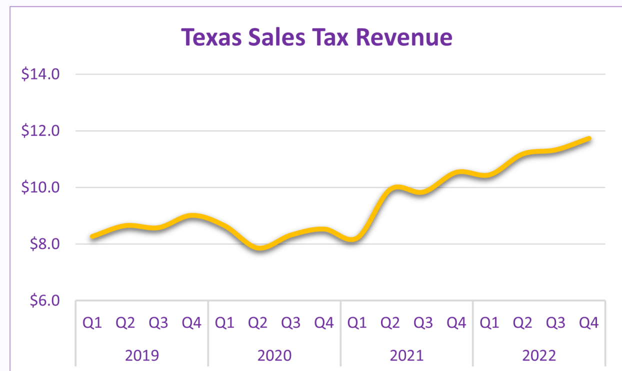
Housing Markets

Real estate activity is declining, both in terms of volume of transactions and median prices of homes bought and sold. High – though recently declining – mortgage rates are most definitely responsible for this trend.

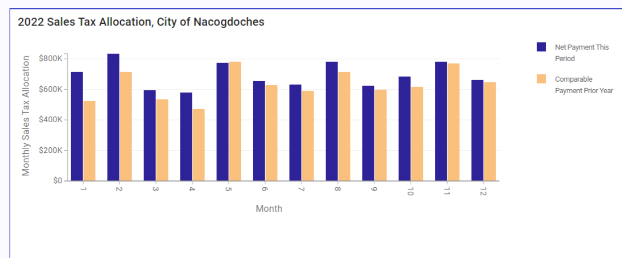


Sales Tax Revenues

Statewide sales tax revenue continues to increase.



Locally, in Nacogdoches, sales tax revenue tends to fluctuate so much monthly (even if one adjusts for seasonal variations) that it is often difficult to ascribe much meaning to the patterns. However, it is clear that on a year-over-year basis, sales tax receipts were higher in 2022 than in 2021 in virtually every month, and often by a sizable percentage.



CBER: Who We Are

Meet the team of faculty members in Stephen F. Austin State University's Department of Economics and Finance who are affiliated with the center.

Dr. Rebecca Davis
Energy and Environmental Economics
PhD, University of Tennessee

David Kaiser
Banking and Financial Services
MBA, Western Washington University

Dr. Stephen Kosovich
Labor Economics
PhD, University of Oregon

Dr. Mikhail Kouliavtsev
Industrial Organization, Antitrust Policy
PhD, Temple University

Dr. Beverly Mendoza
International Economics and Trade
PhD, Indiana University

Dr. Mark Scanlan
Tax Policy
PhD, University of Florida

CBER Staff in the Media

- ☞ Is it fair for car insurance companies to consider your gender, age or occupation? (S. Scanlan, *WalletHub*)
- ☞ Causes of current inflation and what can be done about it. (M. Kouliavtsev, *WalletHub*)
- ☞ What causes car insurance premium increases? (B. Mendoza, *WalletHub*)
- ☞ Credit cards' terms of service and sustainability of reward credit cards. (R. Davis, *WalletHub*)
- ☞ Perks, discounts and advantages of car insurance options aimed at military personnel. (M. Scanlan, *WalletHub*)
- ☞ Economics Reading Group talks with economist John List, author of *The Voltage Effect* (*SFA News*)

Other Research by Our Colleagues

- ✓ Jones, S. K. ESG Risk in Times of Crisis: Evidence from the COVID-19 Pandemic. *Journal of Finance Issues*, 20(2).
- ✓ Jones, S. K. Is ESG more Resilient than Conventional Investments? Evidence from the COVID-19 Pandemic. *Journal of Business and Economic Policy*, 9(3).
- ✓ Scanlan, M. A. Race and Age Disparities in Information and Communications Technology. *Proceedings of the Institute for Global Business Research*.
- ✓ Scanlan, M. A. Going Digital? How Black and Hispanic Seniors Adapted During COVID. *Global Journal of Business Disciplines*.