The Adverse Effect of Fiscal Stimulus in the United States on Labour Market Recovery During 2021

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Abstract

This paper seeks, through the descriptive analytical method, to highlight the negative effect that the fiscal stimulus packages had on the U.S. labour market recovery during 2021, by analysing the effect of unemployment compensation provisions on the incentives of individuals that were unemployed due to the economic impacts of the COVID-19 pandemic. First, the paper discusses the situation of the U.S. labour market since the beginning of the pandemic, majorly through unemployment rates and the number of jobs lost by the economy. Afterwards, it explains the monetary response towards the pandemic on part of the Federal Reserve System, and the fiscal response by the U.S. government and congress, which took the form of trillions of dollars in stimulus spending packages that included some provisions related to enhancing the amount and duration of weekly unemployment benefits. Lastly, the paper analyses the effect of those provisions on the recovery of the labour market, and concludes that the average weekly benefits received under the relief bills were equal to or even greater than the average weekly earnings in some industries such as trade, leisure and hospitality, which incentivized workers in these industries to remain unemployed for longer periods of time and search for better paying jobs, thereby negatively affecting the recovery of the labour market during the second and third quarters of 2021.

Keywords: Fiscal Stimulus- Labour Market Recovery- USA.

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التأثير السلبي لحزم التحفيز المالية في الولايات المتحدة على تعافي سوق العمل خلال عام 2021

ملخص

تسعى هذه الورقة من خلال اعتمادها المنهج الوصفي التحليلي إلى تبيان الأثر السلبي لحزم التحفيز المالية على تعافي سوق العمل في الولايات المتحدة الأمريكية خلال عام 2021، من خلال تحليل أثر أحكام تعويضات البطالة التي تضمنتها تلك الحزم على حوافز الأفراد العاطلين عن العمل جراء الآثار الاقتصادية لجائحة كوفيد-19. حيث تتناول أولاً أوضاع سوق العمل الأمريكي منذ بداية جائحة كوفيد-19، سواء من حيث معدلات البطالة أو عدد الوظائف التي خسرها الاقتصاد الأمريكي. تقوم الورقة بعد ذلك بتوضيح الاستجابة الاقتصادية لجائحة كوفيد-19، ويتم مناقشة الاستجابة النقدية من جانب نظام الاحتياطي الفيدرالي من جهة، والاستجابة المالية من قبل الحكومة والكونغرس الأمريكيين من جهة أخرى، والتي تمثلت في إنفاق تريليونات من الدولارات على شكل حزم تحفيز مالية، متضمنةً مجموعة من الأحكام ذات الصلة بتمديد وزيادة قيمة تعويضات البطالة الأسبوعية. تنتقل الورقة أخيراً إلى تحليل الأثر السلبي لتلك الأحكام على تعافي سوق العمل، وتخلص إلى أن متوسط تعويضات البطالة المعززة كانت مساوية أو أكبر من متوسط الأجر الأسبوعي في بعض القطاعات الاقتصادية كالتجارة والترفيه والضيافة، وهو ما أعطى حافزاً للعاملين في هذه القطاعات للبقاء عاطلين عن العمل لفترات أطول أثناء بحثهم عن وظائف ذات أجر أفضل، الأمر الذي انعكس سلباً على تعافي سوق العمل خلال الربعين الثاني والثالث من عام 2021.

الكلمات المفتاحية: حزم التحفيز المالية– تعافي سوق العمل– الولايات المتحدة الأمريكية.

Introduction

The COVID-19 pandemic has been representing one of the worst global economic downturns in decades. It has caused sharp unemployment in many parts of the world, as economic activity fell to unprecedented low levels due to containment measures aimed at limiting the spread of the novel coronavirus. In response, the government of the United States, which in 2020 witnessed the worst recession since the Great Depression, spent trillions of dollars in fiscal stimulus over the years 2020 and 2021. Those stimulus packages included, inter alia, extended unemployment benefits and expanded payments thereof that were to expire on early September 2021. The effect of those more generous benefits on the recovery of the labour market, as all systematic interactions in a given economy, can be best understood by analysing their effect on the incentives of unemployed individuals, whose enhanced weekly benefits proved to be a greater source of income than weekly earnings in industries such as trade, leisure and hospitality, thereby enabling workers in these industries to remain unemployed for longer periods of time while seeking for better paying jobs, leaving employers struggling to fill in open positions. Accordingly, this paper argues that enhanced unemployment benefits under U.S. fiscal stimulus and relief bills negatively affected the economic recovery in general, and that of the labour market in particular, leading to a sort of "jobless recovery" in the second and third quarters of 2021.

1. The Situation of the U.S. Labour Market During the COVID-19 Pandemic

After reporting the first COVID-19 case and death in January 21, 2020 and February 29, 2020, respectively, and reporting local transmission cases thereon that contributed to the United States lead over the world in reported cases by March 26, 2020,[1] U.S. president Donald Trump declared a national emergency on the 13th of March 2020,[2] which was followed by several containment and social distancing measures on both national and state levels throughout 2020, some of which persist until today.

The effect that the COVID-19 pandemic has had on the U.S. labour market cannot be analysed without demonstrating the pandemic's general effect on economic activity, since

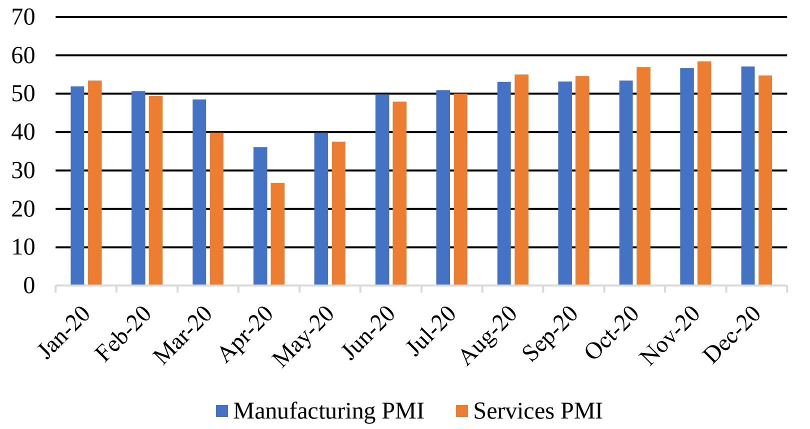
[1] Erin Schumaker, "**Timeline: How coronavirus got started**", ABC News, September 22, 2020, abcnews.go.com/Health/timeline-coronavirus-started/story?id=69435165.

[2] Philip A. Wallach, "**The federal government's coronavirus response-Public health timeline**", Brookings Institution, March 31, 2020, brookings.edu/research/the-federal-governments-coronavirus-actions-and-failures-timeline-and-themes.

partial economic shutdown impeded it in such a way that put the U.S. economy on its path towards recession. One way to understand this latter effect is through a general gauge of economic activity level in the manufacturing and services sectors called the Purchasing Managers Index (PMI,) which is based on a monthly survey of supply chain managers across these sectors. As shown in figure (1,) the IHS Markit US Manufacturing PMI dropped from 50.7 points in February 2020 to 48.5 points and 36.1 points in March and April,[3] respectively. The IHS Markit US Services PMI likewise dropped from 53.4 points in January 2020 to 49.4 points in February, 39.8 in March, and a steep decline towards 26.7 points in April.[4] A reading above 50 indicates an expansion in activity, whereas a reading below 50 indicates a contraction. This shows that activity in the services sector was hit hardest by restrictive measures, given that many services require close physical contact that increases the likelihood of coronavirus transmission, such as leisure and hospitality, retail trade, and others. Without going through further economic indicators that do not fall within the scope of this paper, such as household consumption, investment, and international trade, the generally decreased economic activity eventually caused the U.S. economy to contract by 3.405%[5] in 2020.

[3] "**United States Manufacturing PMI**", FX Empire, fxempire.com/macro/united-states/manufacturing-pmi.
[4] "**United States Services PMI**", FX Empire, fxempire.com/macro/united-states/services-pmi.
[5] "**GDP growth (annual %) – United States**", the World Bank, data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=US.

Figure (1): IHS Markit US Manufacturing and Services PMI for the year 2020



Source: Collected data from various webpages at fxempire.com

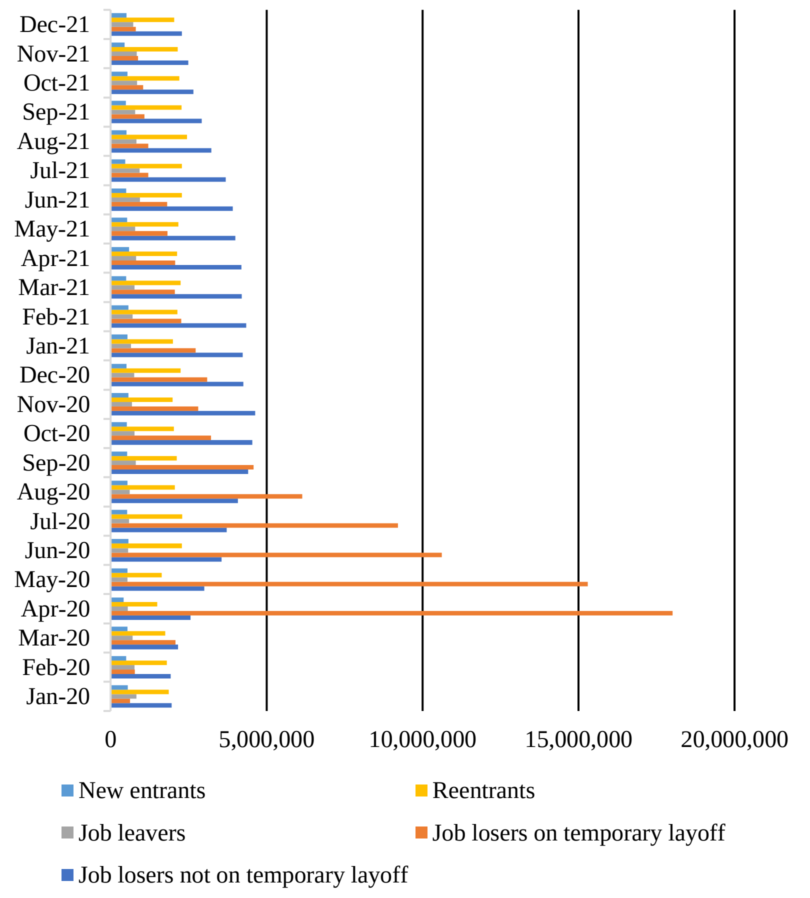
The economic downturn has consequently caused severe damage to the U.S. labour market, which witnessed sharp unemployment and thousands of jobs lost every month, not to mention the decreased labour force participation, particularly among older workers. The national rate of unemployment reached an all-time recorded high of 14.8% in April 2020, up from 3.5% in January and February, and 4.4% in March,[6] and then remained at elevated levels for the remainder of the year[7] and throughout most of 2021, and did not fall below 5%[8] until September 2021. In this context, it is important to mention the fact that workers who were unemployed consisted largely of those on temporary layoffs, which spiked during the first half of 2020 amid businesses' uncertainty in regard to the

[6] "**Employment Situation News Release**", U.S. Bureau of Labor Statistics, January 8, 2021, bls.gov/news.release/archives/empsit_01082021.htm.
[7] Ibid.
[8] "**Employment Situation News Release**", U.S. Bureau of Labor Statistics, January 7, 2022, bls.gov/news.release/archives/empsit_01072022.htm.

economic prospects of the COVID-19 pandemic, while suffering from lower revenues and struggling to keep up with their finances. Figure (2) shows the number of people unemployed by reason of unemployment in 2020 and 2021.

Job losses similarly reached recorded highs, albeit not equal among all sectors. The number of jobs lost, or gained, in 2020 and 2021 varied from one industry to another based on both how severely that particular industry was affected by the economic repercussions of the pandemic, and how strict the prevailing containment measures were.

Figure (2): Number of Unemployed People in the United States by Reason of Unemployment 2020-2021



Source: "**Key economic indicators in the time of COVID-19 -Reasons for unemployment**", BLS Beta Labs, beta.bls.gov/covid-dashboard/home.htm

In April 2020, however, all sectors recorded job losses, and the U.S. economy lost a record 20.787[9] million jobs, with the services sector, as demonstrated earlier, being hit the hardest by 17.447[10] million job losses. Subsequently, and after the loosening of restrictive measures in several states during the second quarter,[11] the economy added jobs in every remaining month of the year, with the exception of December 2020, in which the economy lost 306,000[12] jobs. The effects on employment, although to a much less extent, persisted during 2021, and the unemployment rate did not return to its pre-pandemic rate of 3.5% even by December, when the unemployment rate was still 3.9%.[13]

Those who become unemployed in the United States are entitled to file for a weekly joint state-federal cash benefits program called Unemployment Insurance,[14] which was first laid out in the Federal Social Security Act of 1935[15] with the aim of providing financial assistance to the unemployed due to no fault of their own. The benefits are generally calculated as a percentage of the worker's earnings over a 52-week period, and are to reach a maximum amount set individually by each state.[16] Workers may apply after meeting certain requirements, such as becoming unemployed not through one's own fault, which means not becoming separated from work willingly or due to being fired for a just cause, in addition to meeting specific state requirements with regard to wages earned or

[9] "**Employment Situation News Release**", U.S. Bureau of Labor Statistics, July 2, 2020, bls.gov/news.release/archives/empsit_07022020.htm.

[10] Ibid.

[11] Hannah Miller, "**Reopening America: A state-by-state breakdown of the status of coronavirus restrictions**", CNBC, April 30, 2020, cnbc.com/2020/04/30/coronavirus-states-lifting-stay-at-home-orders-reopening-businesses.html.

[12] "**Employment Situation News Release**", op. cit., bls.gov/news.release/archives/empsit_01072022.htm.

[13] "**Key economic indicators in the time of COVID-19 - Civilian unemployment rate**", BLS Beta Labs, beta.bls.gov/covid-dashboard/home.htm.

[14] Office of Employment Insurance, "**Unemployment Insurance Fact Sheet**", United States Department of Labor – Employment and Training Administration, oui.doleta.gov/unemploy/docs/factsheet/UI_Program_FactSheet.pdf.

[15] "**The Social Security Act of 1935**", U.S. Social Security Administration, ssa.gov/history/35act.html#TITLE%20III.

[16] Office of Employment Insurance, "**Unemployment Insurance Fact Sheet**", op. cit., oui.doleta.gov/unemploy/docs/factsheet/UI_Program_FactSheet.pdf.

time worked during a "base period."[17] The number of weekly benefits claims increased significantly as a result of the pandemic, and as the U.S. government and congress sought to mitigate the economic downturn through many rounds of fiscal stimulus, the employment situation was also addressed in these packages by expanding the duration and the amount of weekly benefit payments.

2. The Response Towards the COVID-19 Economic Downturn in the United States

The monetary and fiscal responses to the pandemic were both swift and significant. The Federal Reserve lowered its benchmark interest rate, the Federal Funds rate, from 1.75% to 1.25% on March 3, 2020, and once again to 0.25% on March 15.[18] The Fed also announced in March that it would increase its holdings of U.S. treasury and mortgage-backed securities by a total of $700[19] billion in what is known as "quantitative easing," and reimplemented this policy again during the rest of 2020 and in 2021 by directly purchasing $120[20] billion worth of bonds per month in the open market, in order to support "the flow of credit to households and businesses," and in line with the Fed's objective of achieving "maximum employment".[21] Nevertheless, faced with a largely vaccinated population and a stronger economy, the Fed began to scale back its quantitative easing program in December 2021.[22]

The fiscal response followed suit. During the course of 2020 and 2021, several fiscal stimulus and relief packages were passed, in addition to several presidential executive orders.[23] In the context of unemployment benefits, three bills are of major concern. the first being the Coronavirus Aid, Relief, and Economic Security Act- known as phase three, which was signed into law on March 27, 2020 and is the largest single economic

[17] Office of Employment Insurance, "**Unemployment Insurance Fact Sheet**", op. cit., oui.doleta.gov/unemploy/docs/factsheet/UI_Program_FactSheet.pdf.

[18] "**Federal Funds Target Range – Upper Limit**", Federal Reserve Economic Data – St. Louis Fed, fred.stlouisfed.org/series/DFEDTARU.

[19] "**Press Release - Federal Reserve issues FOMC statement**", Federal Reserve Board, March 15, 2020, federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm.

[20] "**Press Release - Federal Reserve issues FOMC statement**", Federal Reserve Board, December 16, 2020, federalreserve.gov/newsevents/pressreleases/monetary20201216a.htm.

[21] "**Press Release - Federal Reserve issues FOMC statement**", op. cit., federalreserve.gov/newsevents/pressreleases/monetary20201216a.htm.

[22] "**Press Release - Federal Reserve issues FOMC Statement**", Federal Reserve Board, December 15, 2021, federalreserve.gov/newsevents/pressreleases/monetary20211215a.htm.

[23] "**Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019**", Trump White House Archive, August 8, 2020,trumpwhitehouse.archives.gov/presidential-actions/memorandum-authorizing-needs-assistance-program-major-disaster-declarations-related-coronavirus-disease-2019.

relief package in U.S. history. The package appropriated $2.3 trillion for, but not limited to, the following purposes:[24]

-The Pandemic Unemployment Assistance program (PUA,) which is an expansion of unemployment benefits to include individuals usually not eligible to regular unemployment insurance, i.e., The self-employed, freelancers, gig workers, and others, in addition to the Pandemic Emergency Unemployment Compensation program (PEUC,) which included those who exhausted their regular unemployment benefits. These programs would last until December 31, 2020.

-An expansion of weekly benefits payments by $600 until July 31, 2020.

-A $1,200 one-time direct cash payment per adult, and an additional $500 for every child.

-$100 billion for health care providers, and $16 billion for the Strategic National Stockpile to help meet the needs of medical supplies related to the COVID-19 pandemic, such as ventilators and face masks.

-Loans, loan guarantees, and other investments worth $500 billion to large businesses, states, and municipalities that have suffered losses due to the COVID-19 pandemic.

-$349 billion in loans and grants to small businesses through the PPP (Paycheck Protection Program)[25] and the expanded EIDL program (Economic Injury Disaster Loan.)

-Grants for states, local and tribal governments worth $150 billion.

The fourth phase of fiscal stimulus was attached to the main $1.4 trillion omnibus budget bill for the 2021 federal fiscal year, which was signed into law by President Donald Trump on December 27, 2020. The bill, cited as the Consolidated Appropriations Act (CAA,) appropriated $900 billion in stimulus and relief spending for different purposes such as:[26]

-Extended unemployment benefits by an additional 11 weeks. This included an extension of both the PUA and PEUC programs.

-Expanded unemployment benefits payments by $300 a week until March 14, 2021.

-A $600 direct one-time cash payment per person, including for dependents ages 16 and younger.

[24] U.S. Congress, "**Coronavirus Aid, Relief, and Economic Security Act**", Sec. 1102, 2102, 2104, 2107, 2201, 4003, 5001, congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf.

[25] The Paycheck Protection Program (PPP) is a program established by the CARES Act that aims to help small businesses in the times of COVID-19, by providing them with the necessary financial resources that enable them to maintain their current employees and hire back any employees who may have been laid off, in addition to covering any applicable overhead costs.

[26] U.S. Congress, "**Consolidated Appropriations Act, 2021**", Sec. 201, 203, 206, 272, 323 of Division N, Title III of Division M, congress.gov/116/plaws/publ260/PLAW-116publ260.pdf.

-$284.45 billion in forgivable loans for small businesses through the PPP.

-$22.945 billion for the Public Health and Social Services Emergency Fund, of which $3.250 billion for the Strategic National Stockpile, and $19.695 billion for the Biomedical Advanced Research and Development Authority to cover the expenses of manufacturing, producing and purchasing vaccines and therapeutics, and their necessary ancillary supplies, in addition to $22.4 billion for COVID-19 testing, contact tracing, and surveillance.

-An amount of $81.880 billion in education funding for the Education Stabilization Fund.

The final major stimulus package during the period, the American Rescue Plan Act of 2021, was signed into law on March 11, 2021 by president Joe Biden. The bill appropriated $1.9 trillion for various relief and stimulus purposes such as:[27]

-An extension of unemployment benefits, including the previously extended PUA and PEUC programs, until September 6, 2021.

-An extension of the previous extra $300 weekly unemployment benefits payment until September 6, 2021.

-$10,200 in unemployment benefits would be free from federal taxes through 2021 for households earning less than $150,000 in annual income.

-Direct one-time cash payments of $1,400 for individuals with an income of $75,000 per year, plus $1,400 per dependant. The amount of payment then decreases for individuals earning more than $75,000 in annual income and phases out completely for those earning $100,000.

-An increase in the maximum annual Child Tax Credit to $3,000 per child ages 6 through 17 in age, up from $2,000, in addition to $3,600 for each child under the age of 6. These payments would begin to phase out in case of a joint return for couples earning more than $150,000 a year and in the case of an individual who is head of household earning more than $112,500. The increase would last through 2021.

-$219.9 billion in financial aid for the State Fiscal Recovery Fund, of which states will receive $195.3 billion, $20 billion for Tribal governments, and $4.5 for U.S. territories.

Those economic measures, among others, aimed at helping businesses of all kinds stay afloat during the economic downturn, by providing them with the necessary financial resources that enable them to stay open and maintain their employees, in addition to assisting households facing reduced incomes and lost jobs with maintaining a proper

[27] U.S. Congress, "**American Rescue Plan Act of 2021**", Sec. 9011, 9013, 9016, 9601, 9611, 9901, congress.gov/117/bills/hr1319/BILLS-117hr1319enr.pdf.

standard of living. Intentions, however, are a matter of politics and political rhetoric, not Economics. Instead, Economics is about the consequences that follow the actions and affect the society as a whole, not the intentions behind them.

3. Fiscal Stimulus and the U.S. Labour Market Recovery: Between Intentions and Effects

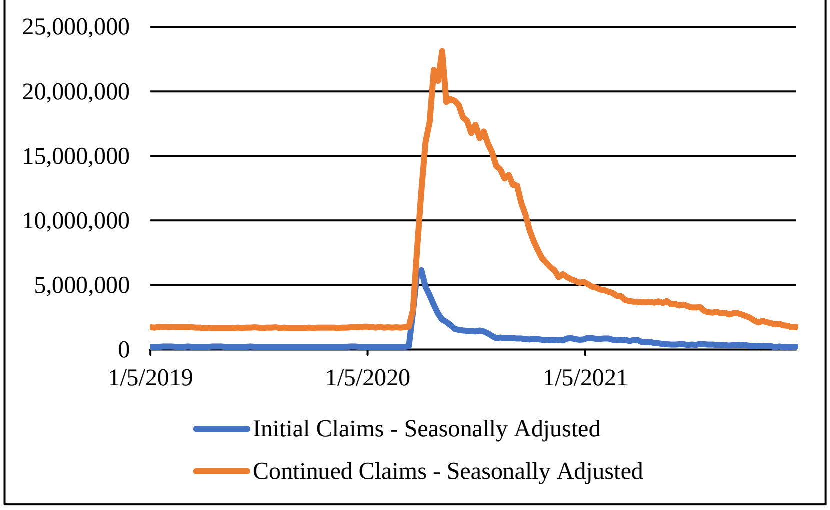
The number of weekly initial unemployment insurance claims increased greatly in 2020 compared with 2019, particularly in the week that ended March 21, when initial claims reached 2.923[28] million. The number of claims then peaked to a significant 6.149[29] million claims in the week that ended April 4, before it began to generally drop in the following months and year. Moreover, what is of even greater importance is the figure for continued claims,[30] which skyrocketed to all-time highs in 2020, and remained at elevated levels for most of 2021 compared with 2019, largely due to the various unemployment compensation provisions that were included in the COVID-19 fiscal stimulus packages. Figure (3) shows the trend in the number of weekly initial and continued claims for the years 2020 and 2021.

[28] "**Weekly Initial Claims**", Federal Reserve Economic Data – St. Louis Fed, fred.stlouisfed.org/series/ICSA.

[29] Ibid.

[30] Continued claims are the number of people who have already filed an initial claim and who have experienced a week of unemployment and then filed a continued claim to claim benefits for that week of unemployment.

Figure (3): Number of Weekly Initial and Continued Claims 2019-2021



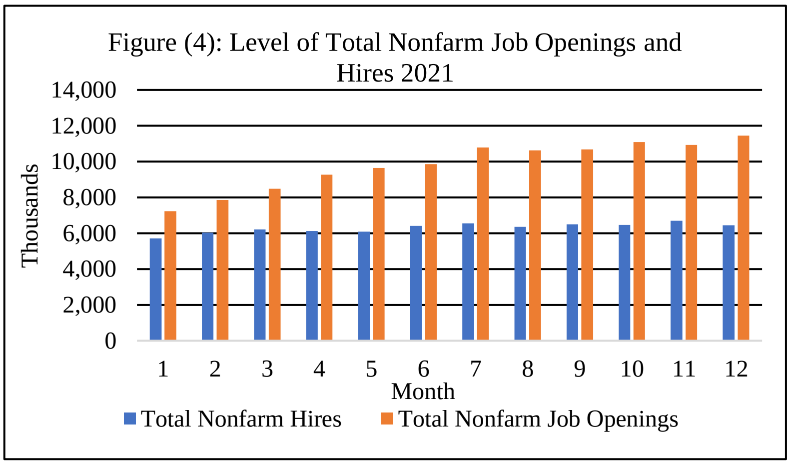
Source: Collected data from various webpages at fred.stlouisfed.org

Most states greatly eased or lifted containment measures in 2021,[31] and the U.S. economy was back on track towards recovery. To begin with, restrictions were never imposed equally across states, with some mandating fairly few restrictive measures and others imposing strict ones, which was partly subject to political affiliation and reflected bipartisan differences that affected individuals' perceptions of the COVID-19 pandemic and thus their pre-emptive behaviour. In general, the U.S. economy was largely reopened in the 2nd half of 2021, and real GDP grew by 6.3% in Q1, 6.7% in Q2, and at a slower rate of 2.3% in Q3, before rebounding with a growth rate of 6.9%[32] in the fourth quarter. The labour market, oppositely, did not follow a similar path of recovery. During 2021, Job openings were increasing significantly, yet there was a constant gap between the total number of job openings and the number of hires, with the former continuously growing

[31] "**COVID-19 restrictions – Map of COVID-19 case trends and restrictions**", USA Today, March 18, 2022, usatoday.com/storytelling/coronavirus-reopening-america-map.

[32] "**Domestic Product and Income – Percent Change from Preceding Period in Real Gross Domestic Product**", U.S. Bureau of Economic Analysis, apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey.

and the latter remaining almost at the same level, representing a rising unmet demand for labour alongside an economic recovery, i.e., a "jobless recovery." In January 2021, total nonfarm openings reached 7.232[33] million and total hires were 5.719[34] million, and by September, openings increased to 10.673[35] million and total hires were still at 6.504[36] million, which is near the level hires were generally at for the previous months. Figure (4) shows the level of total nonfarm job openings and Economics, as mentioned earlier, is about cause-and-effect relations, not intentions and one of the most efficient ways to analyse this causation is through the incentives that economic measures create to individuals.



Source: "**Job openings, hires, and separation levels, seasonally adjusted**", U.S. BLS, bls.gov/charts/job-openings-and-labor-turnover/opening-hire-seps-level.htm

The denotation of this in regard to labour market recovery is that when supplemental and extended benefits take effect under fiscal stimulus, individuals' incentives are surely to be affected. Undoubtedly, the enhanced benefits that were included in the two major packages signed during 2020 had a somewhat rational reason to them. However, their

[33] "**Graphics for Economic News Release – Job openings, hires, and separation levels, seasonally adjusted**", U.S. Bureau of Labor Statistics, bls.gov/charts/job-openings-and-labor-turnover/opening-hire-seps-level.htm.
[34] Ibid.
[35] Ibid.
[36] Ibid.

extension in the final phase of fiscal stimulus was much less justified in economic sense, as the economy was largely open and the number of available job openings was growing. The continuous gap between job openings and hires in 2021 partly reflected those changed incentives. On a 12-month average, workers in the United States received $317.26[37] in weekly benefits in the month that ended April 30, 2021, this average increased to $333.27[38] in the month that ended August 31, and after including the $300 extra weekly benefits, the average person received $633.27 in August. What this means is not precisely that workers would lose the incentive to return to work until supplemental benefits expire, but rather means that some workers would have an incentive to take more time in searching for jobs with a better pay and be more selective, especially when their earnings under unemployment benefits are close to or even greater than their usual earnings in a particular industry, and this holds most true in the lowest paying industries.

Table (1): Weekly Unemployment Benefit Amount January through September 2021 – 12 Month Average

Month Ending	Weekly Benefit Amount
04/30/2021	$317.26
05/31/2021	$317.62
06/30/2021	$321.48
07/31/2021	$326.54
08/31/2021	$333.27
09/30/2021	$340.11

Source: "**Unemployment Insurance Data – Monthly Benefit and Claim Data**", U.S. DOL – Employment and Training Administration, oui.doleta.gov/unemploy/claimssum.asp

A general pattern of 2021 unemployment rates by selected industries shows that unemployment rates remained high and nearly unchanged in the period starting April through August in industries that have lower average weekly earnings than elsewhere. Trade, leisure and hospitality are the primary examples of such industries, which altogether employed around 21%[39] of total persons employed in 2021. Evidence suggests

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37 "**Unemployment Insurance Data – Monthly Benefit and Claim Data**", U.S. Department of Labor – Employment and Training Administration, oui.doleta.gov/unemploy/claimssum.asp.

38 Ibid.

39 "**Employed persons by detailed industry and age - 2021**", U.S. Bureau of Labor Statistics, bls.gov/cps/cpsaat18b.htm.

that the unemployment rates in these industries only started to notably decline when the extra benefits programs expired in September, despite the fact that there were hundreds of thousands of unfilled job openings during the period. The average of weekly earnings of workers in the leisure and hospitality industry was the lowest across all industries. This average was $396.45 in April 2021, $397.58 in May, $406 in June, $415.04 in July, and $412.50 in August, well below the average weekly benefits received under the relief bill, while the unemployment rate in this industry for the same months was 10.8%, 10.1%, 10.9%, 9%, and 9.1%, respectively. The second lowest paying industry was retail trade, with an average of $570.40 in weekly earnings in April, $571.02 in May, $571.96 in June, $573.50 in July, and $573.48 in August, and the unemployment rate for the trade industry-wholesale and retail- for the same months was 6.2%, 6.6%, 6.2%, 6%, and 6.1%, respectively. The unemployment rate for leisure and hospitality then significantly dropped to 7.7% and 7.5% in September and October, respectively, and the rate of unemployment for trade likewise dropped to 5.7% and 5.2%, which is after the enhanced benefits expired.[40] This pattern is better understood when comparing the unemployment rate in these two particular industries with other industries that witnessed significant declines in their unemployment rate alongside the economic recovery, as is shown in table (2.)

Table (2): Unemployment Rate by Selected Industries April 2021 – September 2021, not Seasonally Adjusted

Industry	Apr	May	Jun	Jul	Aug	Sept
Mining, quarrying, and oil and gas extraction	14.3%	9.6%	10.3%	8.9%	10.2%	7.3%
Construction	7.7%	6.7%	7.5%	6.1%	4.6%	4.5%
Manufacturing	5.8%	4.8%	5.4%	4.2%	3.6%	3.9%
Transportation and utilities	6.8%	7.2%	6.0%	6.8%	5.9%	5.4%
Information	5.9%	5.8%	6.1%	5.6%	4.4%	4.0%

[40] All statistics in this paragraph are based on the BLS Employment Situation news release for April 2021 through October 2021. Archived Employment Situation news releases can be accessed at: bls.gov/bls/news-release/empsit.htm.

Financial activities	2.7%	3.0%	3.4%	3.0%	3.2%	2.5%
Professional and businesses services	5.9%	5.4%	5.2%	5.1%	4.6%	4.4%
Education and health services	3.4%	3.4%	4.4%	4.4%	4.3%	3.3%
Wholesale and retail trade	6.2%	6.6%	6.2%	6.0%	6.1%	5.7%
Leisure and hospitality	10.8%	10.1%	10.9%	9.0%	9.1%	7.7%

Source: BLS Employment Situation News Releases for April.htm2021 - September 2021 at: bls.gov/bls/news-release/empsit

What can be observed from table (2) is that unemployment in the trade, leisure and hospitality sectors remained at higher rates than most of the other industries by September. This indicates that the employment situation in higher paying industries was generally recovering throughout 2021, contrary to the employment situation in the trade, leisure and hospitality industries, which showed little signs of recovery and had persistent and almost unchanged unemployment rates during the period.

The fact that workers in low paying industries had an incentive to remain unemployed for longer periods of time can also be generally noticed in the statistics for duration of unemployment. Among all industries in 2021, the number of people that were unemployed for 15 weeks and over was greatest in the trade, leisure and hospitality sectors, and of the total workers unemployed for this duration, workers in these industries alone represented around 30%,[41] up from 25.7%[42] in 2019. Moreover, workers in these industries who were unemployed for 27 weeks and over also constituted around 30.3%

[41] "**Unemployed persons by occupation, industry, and duration of unemployment - 2021**", U.S. Bureau of Labor Statistics, bls.gov/cps/cpsaat32.htm.

[42] "**Unemployed persons by occupation, industry, and duration of unemployment - 2019**", U.S. Bureau of Labor Statistics, bls.gov/cps/aa2019/cpsaat32.htm.

of the total unemployed for this duration,[43] up from 24.9% in 2019.[44] Nonetheless, this is not to say that workers in trade, leisure and hospitality were the only ones being kept away from work by enhanced benefits. Other industries' workers, albeit to a less extent, were also affected in a similar way, particularly in the more generous states where the average weekly benefit amount is higher than the national average. Overall, the effect tends to be stronger in industries where weekly earnings are lower.

Spending is not free, and it comes at a cost. The cost of enhanced unemployment benefits is most assuredly not the extra and prolonged payments, since these are internal transactions within an economy that do not reduce the total wealth of the society. Instead, the real cost of supplemental benefits from the standpoint of the society as a whole is what could have been produced by the workers who had their incentives adversely affected and thus were willing to remain unemployed for longer periods of time, i.e., the forgone production of goods and services. This leads to two negative outcomes that are contradictory to the intentions of the U.S. congress and government. The first being the weaker economic recovery during the third quarter of 2021 due to, inter alia, a shortage of labour, which affects the standard of living of the society at large, this is clear and well understood, while the second being the upward pressures placed on wages and salaries as employers practically had to compete with the benefits programs in order to attract workers. The Employment Cost Index for wages and salaries in the retail trade industry increased by 1.2%[45] in the three months that ended June 2021, and then by a faster growth rate of 1.7%[46] in the three months that ended September 2021. The same index for the leisure and hospitality industry increased by 2.8%[47] in the three months that ended June 2021, and by 2.6%[48] in the three months that ended September 2021, which was the second highest increase across major industries. In other words, it would cost the employers more to hire additional employees, and these higher wages are then converted into higher prices at points of sale. Additional factors that constrained the labour market recovery need further examination, and are largely without the scope of this paper, such

[43] "**Unemployed persons by occupation, industry, and duration of unemployment - 2021**", op. cit., bls.gov/cps/cpsaat32.htm.
[44] "**Unemployed persons by occupation, industry, and duration of unemployment - 2019**", op. cit., bls.gov/cps/aa2019/cpsaat32.htm.
[45] "**Employment Cost Index News Release**", U.S. Bureau of Labor Statistics, January 28, 2022, bls.gov/news.release/archives/eci_01282022.htm.
[46] Ibid.
[47] Ibid.
[48] Ibid.

as employment disruptions that are related to parents' need to stay home for reasons of childcare as schools shifted to online teaching, not to mention the fear of becoming infected with COVID-19.

Conclusion

Economic measures in general, and government spending in particular, must be analysed carefully in order to distinguish between their initial intentions and their later consequences, which might turn out to contradict each other at some point. The same principle applies to U.S. fiscal policy during the COVID-19 pandemic. The various stimulus packages that were passed during 2020 and 2021 aimed at helping businesses stay afloat during the economic downturn and boost economic growth at a later stage, while the enhanced benefits programs that were included aimed at boosting consumption and assisting households facing reduced incomes. Unintentionally, these enhanced benefits incentivized unemployed workers in low paying industries such as trade, leisure and hospitality to remain unemployed for a longer period of time while seeking for a better paying job, after their weekly benefits turned out to be close to or even more than their usual earnings. Consequently, this was one of the main factors that negatively affected the labour market recovery during 2021, particularly during the second and third quarters of the year.

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