MARCH 28, 2022

FGA

The "Bidenflation" Crisis: How Expanded Welfare Benefits and Labor Shortages Are Driving Up Prices

Hayden Dublois
Deputy Research Director

Jonathan Ingram
Vice President of Policy and Research

TheFGA.org/paper/bidenflation-crisis

KEY FINDINGS

INFLATION IS SKYROCKETING.

LOW- AND MIDDLE-INCOME AMERICANS ARE BEING HIT THE HARDEST.

HIGH PRICES ARE BEING DRIVEN BY INCREASING COSTS FOR BUSINESSES.

EXPANDED WELFARE BENEFITS ARE CAUSING LABOR SHORTAGES AND KEEPING COSTS HIGH.

THE BOTTOM LINE:

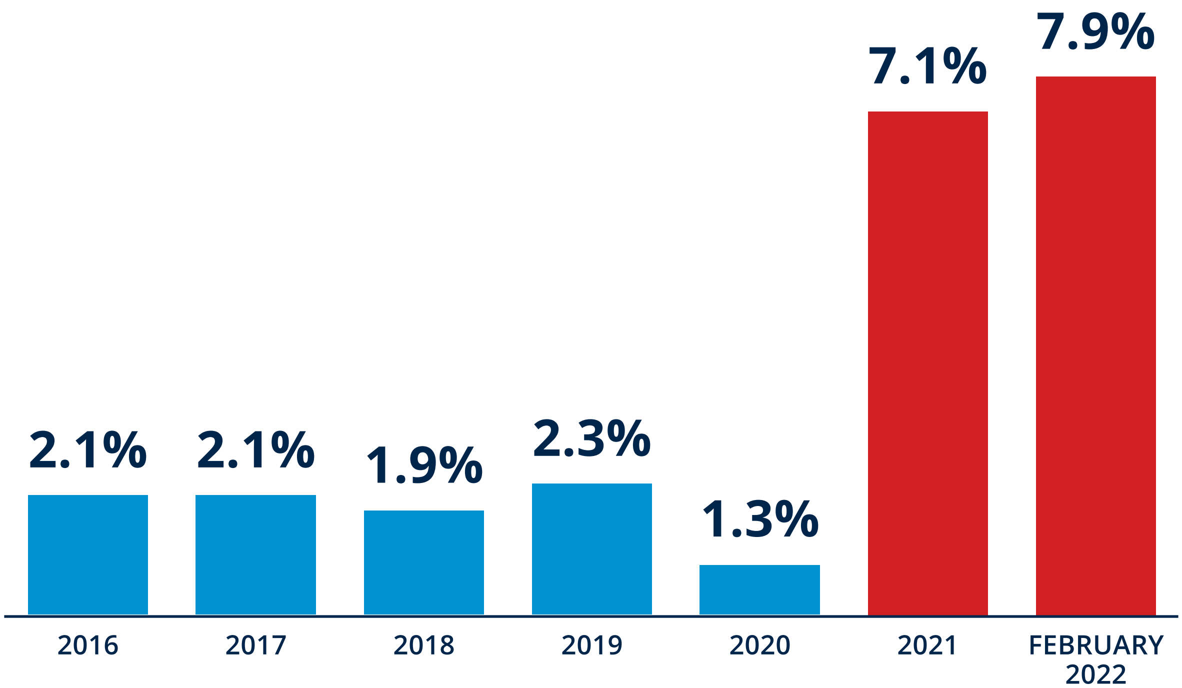
TO STOP RUNAWAY INFLATION, POLICYMAKERS MUST HALT THE WELFARE TRAIN SO AMERICANS CAN GET BACK TO WORK.

Overview

Americans are struggling—prices are through the roof for those items still available on store shelves. In 2021, inflation hit a 40-year high, with goods and services growing 7.1 percent over the year.[1] Worse yet, the inflation crisis grew even more dire as 2022 began.[2] This crisis—which the Biden administration frequently claimed was "temporary" or "transitory"—is all too real for millions of Americans.[3-4]

INFLATION HIT A 40-YEAR HIGH IN 2021

Annual inflation rate, by year



Source: U.S. Department of Labor

Massive new government spending and severe labor shortages have created an environment where inflation is rapidly growing, eating into workers' earnings and busting their family budgets. Until lawmakers take meaningful steps to get individuals back to work and stop wasteful spending, Americans will continue to hurt at the gas pump, grocery store, and more.

Low- and middle-income Americans are being hit hardest

Inflation is directly impacting purchases made by everyday Americans, with items like fuel, food, and vehicles seeing some of the sharpest increase in prices.[5] Roughly 75 percent of Americans report being concerned with inflation, with 70 percent reporting that inflation has impacted their family budgets.[6] Nearly two out of five Americans say inflation has significantly impacted their budgets and one-third are very concerned about being able to meet monthly expenses.[7]

PRICES FOR EVERYDAY GOODS ARE INCREASING AT AN UNSUSTAINABLE RATE

December 2021 year-over-year price increases by category

CATEGORY	ANNUAL PRICE INCREASE
Gas	49.6 percent
Fuel oil	41.0 percent
Used vehicles	37.3 percent
Utility gas services	24.1 percent
Meats, poultry, fish, and eggs	12.5 percent

Source: Bureau of Labor Statistics

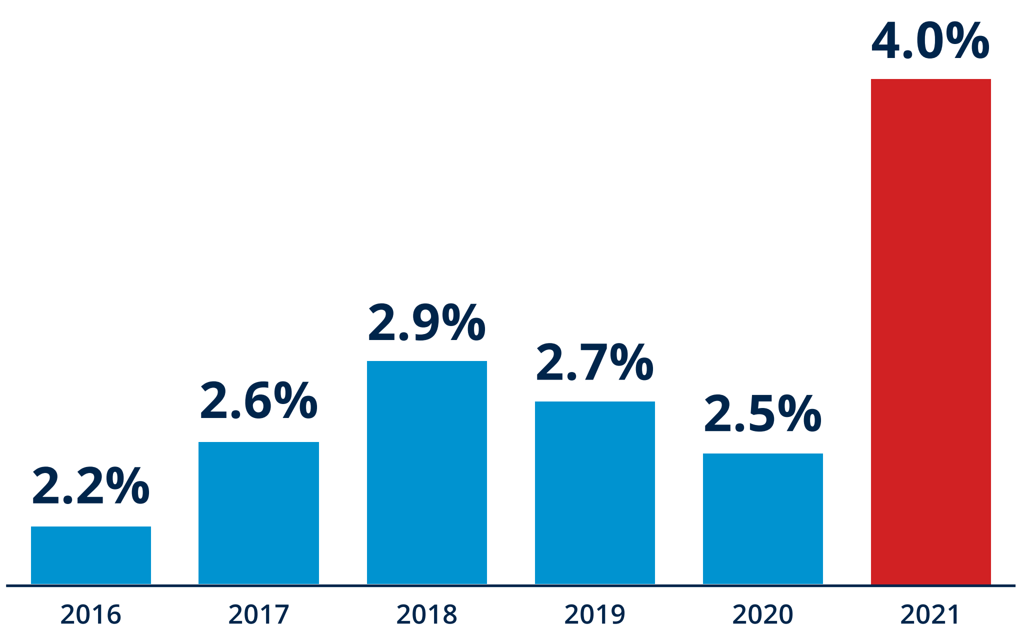
Unfortunately, these price increases have eaten away virtually all of the wage growth Americans have seen recently.[8]

Increasing costs for businesses are driving higher prices for American families

The high prices Americans face are directly attributable to increasing costs for businesses across the country. Employers' compensation costs—including wages, insurance benefits, retirement benefits, unemployment taxes, paid leave, and more—saw the highest wage growth in two decades.[9-10] In 2021 alone, producer prices increased by more than 20 percent—the largest annual increase since 1946.[11]

EMPLOYERS' COSTS REACHED RECORD HIGHS IN 2021

Annual growth in employers' total compensation costs, by year



Source: U.S. Department of Labor

If higher employer costs were not bad enough, workers' productivity saw the fastest drop in 2021 in more than 60 years—meaning businesses were paying more and getting less.[12]

These sharp increases in labor costs are due in large part to an unprecedented worker shortage, forcing businesses to face dramatic cost increases which are inevitably passed along to consumers.[13]

Unfortunately, this has devolved into a vicious cycle. Government programs have paid far too many able-bodied adults to stay home, causing major workforce shortages, which drive up costs for businesses, which are passed along as higher prices to consumers, which starts the cycle over again.

> **If higher employer costs were not bad enough, workers' productivity saw the fastest drop in 2021 in more than 60 years—meaning businesses were paying more and getting less.**

Expanded welfare benefits are causing labor shortages and keeping costs high

Employers across the country have more than 11 million open jobs they are desperate to fill—a near-record high.[14]

This isn't being driven by layoffs—it is caused by a record-number of employee quits combined with a drop off in labor force participation.[15-16] In fact, labor force participation is near a 45-year low.[17] Nearly three million workers are still missing from the American economy—most of them in their prime working years.[18-21]

NEARLY THREE MILLION WORKERS ARE STILL MISSING FROM THE AMERICAN ECONOMY—MOST OF THEM IN THEIR PRIME WORKING YEARS.

This massive contraction of the labor force directly coincides with increased paid benefits to stay home, such as hiked unemployment insurance payments, massive ObamaCare subsidies, a 25 percent increase in food stamp payments, and much more.[22] Indeed, individuals' "reservation wage"—the lowest wage they would be willing to accept a job—spiked to a record-high $71,000 per year in 2021, with the largest increases concentrated among those without college degrees.[23-24]

Coupled with the suspension of work requirements, these welfare expansions have significantly contributed to the ongoing labor shortage crisis.[25]

Bottom Line: To stop runaway inflation, policymakers must halt the welfare train so Americans can get back to work.

The only way to end the cycle of higher costs for businesses and increased prices for consumers is to break it at its source by addressing the labor shortage. This requires addressing the key government policies that are actively encouraging workers not to return to work.

Congress can play a role by letting temporarily expanded welfare-like programs expire or return to their pre-pandemic levels. It can also reverse the suspension of work requirements in food stamps for able-bodied adults without dependents on the program to encourage Americans to reenter the labor force.

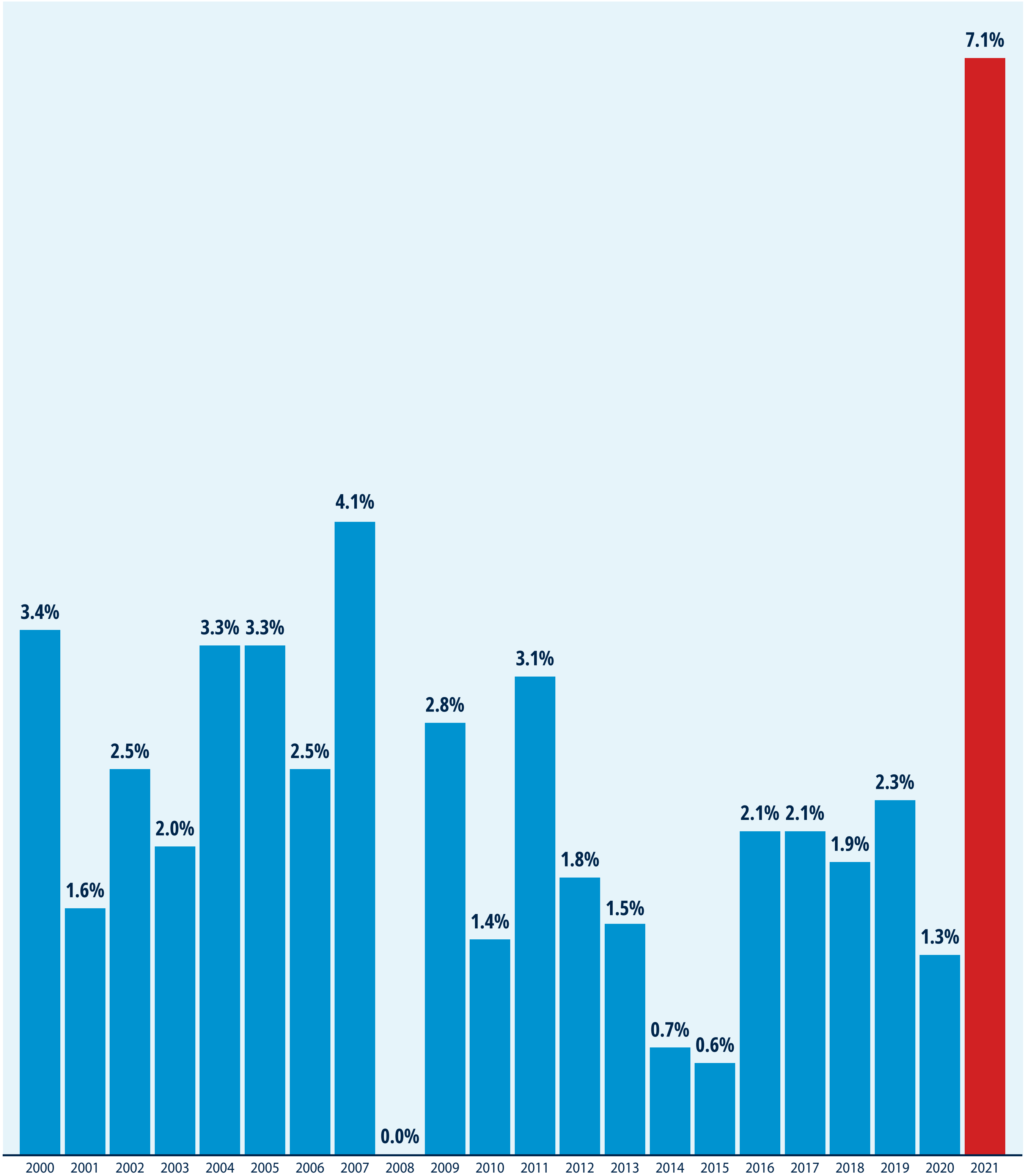
However, in the absence of federal action, states have enormous tools to increase their labor force. For example, states can get around the federal work requirement suspension for food stamps by requiring able-bodied adults under 60 without young children to register and participate in a state employment and training program.[26] This would immediately provide a much-needed boost to the American economy by encouraging individuals to get back to work.[27]

Other state policies—such as indexing unemployment benefits to economic conditions, strengthening unemployment work search requirements, opting out of federal Medicaid restrictions, lowering barriers to entering the labor force, and more—could also achieve the same goal of increasing the size and scope of the labor force to lower costs for businesses and reduce prices for consumers.

PRESIDENT BIDEN HAS DISMISSED AND TRIVIALIZED THE INFLATION CRISIS NEARLY EVERY STEP OF THE WAY.

President Biden has dismissed and trivialized the inflation crisis nearly every step of the way.[28] But policymakers have options at their disposal to fill the void in leadership by eliminating harmful policies that have caused America's labor force to contract. Now, the promise of ending runaway inflation is in the hands of state leaders who have the power to rejuvenate the American labor force.

APPENDIX: ANNUAL INFLATION SINCE 2000



Source: U.S. Department of Labor

REFERENCES

1. Authors' calculations based upon data provided by the U.S. Department of Labor on the year-over-year change in seasonally adjusted consumer price index. See, e.g., Bureau of Labor Statistics, "CPI for all urban consumers: All items in U.S. city average, all urban consumers, seasonally adjusted," U.S. Department of Labor (2022), https://data.bls.gov/timeseries/CUSR0000SA0.
2. Ibid.
3. Will Feuer, "Biden again rejects inflation concerns, claims price spikes are temporary," New York Post (2021), https://nypost.com/2021/07/22/biden-again-rejects-inflation-concerns-claims-its-temporary/.
4. Steve Holland and Andrea Shalal, "Biden says inflation temporary; Fed should do what it deems necessary for recovery," Reuters (2021), https://www.reuters.com/world/us/biden-says-inflation-temporary-fed-should-do-what-it-deems-necessary-recovery-2021-07-19.
5. U.S. Bureau of Labor Statistics, "Consumer Price Index: 2021 in review," U.S. Department of Labor (2022), https://www.bls.gov/opub/ted/2022/consumer-price-index-2021-in-review.htm.
6. Center for Excellence in Polling, "2021 National Voter Pulse Poll," Foundation for Government Accountability (2021), https://excellenceinpolling.com/wp-content/uploads/2021/09/National-Voter-Pulse-Poll-crosstabs-8-20-2021.pdf.
7. Ibid.
8. Jeff Cox, "Inflation has taken away all the wage gains for workers and then some," CNBC (2021), https://www.cnbc.com/2021/11/10/inflation-has-taken-away-all-the-wage-gains-for-workers-and-then-some.html.
9. Authors' calculations based upon data provided by the U.S. Department of Labor on employers' total compensation costs. See, e.g., Bureau of Labor Statistics, "Employment cost index: Total compensation, all civilians," U.S. Department of Labor (2022), https://fred.stlouisfed.org/series/ECIALLCIV.
10. Gabriel T. Rubin, "U.S. Wages, Benefits Rose at Two-Decade High as Inflation Picked Up," Wall Street Journal (2021), https://www.wsj.com/articles/us-employers-labor-costs-inflation-11643331612.
11. Authors' calculations based upon data provided by the U.S. Department of Labor on year-over-year changes to the producer price index. See, e.g., Bureau of Labor Statistics, "Producer Price Index by commodity: All commodities," U.S. Department of Labor (2022), https://fred.stlouisfed.org/series/PPIACO.
12. Jeff Cox, "Labor productivity rate falls at the fastest pace since 1960," CNBC (2021), https://www.cnbc.com/2021/12/07/labor-productivity-rate-falls-at-the-fastest-pace-since-1960.html.
13. Bureau of Labor Statistics, "Job Openings and Labor Turnover survey: Total nonfarm job openings," U.S. Department of Labor (2021), https://data.bls.gov/timeseries/JTS000000000000000JOL.
14. Ibid.
15. Bureau of Labor Statistics, "Job Openings and Labor Turnover survey: Total nonfarm quits rate," U.S. Department of Labor (2021), https://data.bls.gov/timeseries/JTS000000000000000QUR.
16. Bureau of Labor Statistics, "Civilian labor force participation rate," U.S. Department of Labor (2021), https://data.bls.gov/timeseries/LNS11300000.
17. Ibid.
18. Authors' calculations based upon data provided by the U.S. Department of Labor on the change in the labor force participation rate between February 2020 and December 2021, and the civilian noninstitutional population estimates for February 2022.
19. In February 2020, the labor force participation rate was 63.4 percent. By February 2022, it had fallen to 62.3 percent. See, e.g., Bureau of Labor Statistics, "Civilian labor force participation rate," U.S. Department of Labor (2021), https://data.bls.gov/timeseries/LNS11300000.
20. In February 2022, the total civilian noninstitutional population aged 16 or older was 263.3 million. See, e.g., Bureau of Labor Statistics, "Civilian noninstitutional population," U.S. Department of Labor (2021), https://data.bls.gov/timeseries/LNU00000000.
21. If the labor force participation rate in February 2022 had matched its February 2020 rate, the labor force would have been more than 2.9 million people larger.
22. Hayden Dublois and Jonathan Ingram, "How the new era of expanded welfare programs is keeping Americans from working," Foundation for Government Accountability (2021), https://thefga.org/paper/expanded-welfare-keeping-americans-from-working.
23. Center for Microeconomic Data, "Labor market survey shows improvement in expectations; average reservation wage increases compared to a year ago," Federal Reserve Bank of New York (2021), https://www.newyorkfed.org/newsevents/news/research/2021/20210907.
24. Individuals' average reservation wage declined slightly in July 2021, coinciding with more than half of states ending federal pandemic-related unemployment programs and bonuses ahead of schedule. By November 2021, it had risen to more than $70,000 per year, again. See, e.g., Center for Microeconomic Data, "Labor market survey: Reservation wage – Average lowest wage respondent would be willing to accept for a new job," Federal Reserve Bank of New York (2021), https://www.newyorkfed.org/microeconomics/sce/labor#/expectations-job-search18.
25. Hayden Dublois and Jonathan Ingram, "How the new era of expanded welfare programs is keeping Americans from working," Foundation for Government Accountability (2021), https://thefga.org/paper/expanded-welfare-keeping-americans-from-working.
26. Alli Fick and Scott Centorino, "The missing tool: How work requirements can reduce dependency and help find absent workers," Foundation for Government Accountability (2021), https://thefga.org/paper/one-tool-unleash-economic-recovery-solve-labor-crisis.
27. Ibid.
28. Andrew Feinberg, "Biden dismisses inflation as 'global challenge' despite disastrous 40 year record-high price report," UK Independent (2022), https://www.independent.co.uk/news/world/americas/us-politics/biden-inflation-cpi-december-prices-b1991778.html.

15275 Collier Boulevard | Suite 201-279
Naples, Florida 34119
(239) 244-8808

TheFGA.org | @TheFGA | TheFGA | TheFGA