Summary of Audience Q&A
Session #2: "Maximum Employment"

Date: June 4, 2019

Moderator: Lisa Cook (Michigan State University)

Presenter: Katharine Abraham (University of Maryland)

Discussant: Jared Bernstein (Center on Budget and Policy Priorities)

Summary Prepared by: William Wascher, Deputy Director in the Division of Research and Statistics, Board of Governors of the Federal Reserve System

Following the presentation of "How Tight is the Labor Market?" by Katharine Abraham and co-author John Haltiwanger, and discussion by Jared Bernstein, conference attendees talked about the appropriate measure of full employment relevant to the Federal Reserve's dual mandate.

One focus of the audience discussion was on the extent to which the generalized measure of labor market tightness (GMLT) developed by Professors Abraham and Haltiwanger could be used to gauge the effect of labor market slack on wages and prices. There was widespread agreement among commenters that the GMLT series would be a useful addition to other labor market indicators. Larry Meyer (Monetary Policy Analytics) asked whether there was a "natural rate" for the GMLT measure and whether it has changed over time, and suggested including it in a Phillips curve to look for a relationship with wage and price inflation; Mr. Bernstein had also raised this issue in his discussion of the paper. Relatedly, Austan Goolsbee (University of Chicago) wondered whether more disaggregated information by industry or occupation could be used to look for a relationship between GMLT and wages, while Janice Eberly (Northwestern University) asked whether microdata could be used to see whether job-to-job transitions have a different effect on wages than do unemployment-to-work transitions. More broadly, Jan Hatzius (Goldman Sachs) asked Professor Abraham where she thought the labor market was relative to full employment defined as the level consistent with 2 percent inflation over the medium term.

In her response, Professor Abraham agreed that more work will be needed to establish a link between GLMT and wage and price inflation. However, she noted that the JOLTS data used to measure job vacancies were only collected beginning in 2000-01 and that they are based on a relatively small survey and thus do not provide very much in the way of geographic, occupational, or industry detail; she worried that these limitations would make testing for such a link challenging but said that this suggests that expanding the JOLTS survey to get more detail would be valuable. She also said that, at this time, she did not have an estimate of the natural rate of GMLT. In contrast, Mr. Bernstein argued that the absence of greater wage pressures suggests that the labor market is closing in on, but not at, full employment. He also viewed the unusually low level of labor's share of income as indicating that there is substantial room for noninflationary wage growth.

Another part of the discussion revolved around the potential benefits of pushing the labor market beyond full employment. In her reply to Mr. Bernstein, Professor Abraham agreed that in a tight labor market, employers ramp up their recruiting intensity and look for other ways to bring people into jobs whom they might not otherwise have considered; the big question is whether those efforts are going to yield persistent effects for such workers in terms of their future employment outcomes. Mr. Bernstein agreed that the historical evidence for such "reverse hysteresis" is relatively weak, but wondered whether we just haven't run a high-pressure labor market for long enough to see such effects. Lewis Alexander (Nomura Securities International) asked whether pushing the economy beyond full employment would create additional benefits by reducing the disinflationary biases associated with low neutral interest rates. Both Professor Abraham and Mr. Bernstein agreed that the benefits of bringing more people into the labor market outweighed the risks of higher inflation at present. Mr. Bernstein added that, based on the Summary of Economic Projections, the FOMC is currently running that experiment.

Several questions were raised about the measurement of the GLMT index and how it relates to some other measures of labor market tightness. William Wascher (Board of Governors of the Federal Reserve System) questioned the inclusion of job-to-job flows in the index, noting that although such flows lead to the creation of a new vacancy, they also result in the filling of an existing vacancy. Mr. Wascher and Mr. Hatzius also asked about the relationship of GMLT with other indicators of labor market tightness such as the quit rate and indicators of job shortages from employer surveys. Professor Abraham responded that she thought that including job-to-job flows was appropriate, but that they have not yet looked at the relationship between GMLT and some other measures of labor market tightness. However, she was skeptical of the relevance of employer reports of worker shortages as an indicator of mismatch, noting that employers have a lot of flexibility in how they structure the jobs that they are attempting to fill. Julia Coronado (Macropolicy Perspectives) asked whether technological changes that have sharply reduced the costs to employers of posting job vacancies might have resulted in a structural break in the authors' measure of recruiting intensity, noting that some firms now maintain a permanent set of vacancy postings and use their HR staff to search through the applications in the hopes of finding a "diamond in the rough." Mr. Goolsbee made a similar observation that employers' current methods of recruiting are far different now from when they used to post help-wanted advertisements in newspapers and thought that using an aggregate measure of vacancies might be misleading. Professor Abraham noted that such changes were not just a recent development but agreed that the effect of new technologies on measures of vacancies was worth thinking about.

With regard to the measure of effective search intensity, Sam Schulhofer-Wohl (Federal Reserve Bank of Chicago) emphasized that it can be difficult to distinguish cyclical vs. structural influences on search intensity, and asked whether the authors' assumption that the long-term unemployed were less effective job searchers for structural reasons might be letting monetary policy off the hook. Sylvain Leduc (Federal Reserve Bank of San Francisco) noted that, in contrast to this paper's conclusions, past research often found that search intensity was countercyclical. Abraham responded that they are inferring search intensity from labor market

outcomes rather than directly measuring it, but said that she was skeptical of the ability of time-use surveys to accurately measure time spent on job search. Nonetheless, she agreed that it would be important to give more thought to the question of how structural changes in the labor market might be affecting their measure of labor market tightness.

There was also some discussion of structural factors that may be inhibiting labor market performance for lower-skilled workers. Diane Swonk (Grant Thornton) commented that the current labor market was similar to that in the late 1990s and that policymakers and economists need to think more about the structural barriers that prevent some workers from finding jobs. Relatedly, Robert Kaplan (President, Federal Reserve Bank of Dallas) commented that research in the 11th District indicates that lagging math, science, and reading skills is an important structural problem for at-risk groups and asked what education policies might be effective in addressing this problem. Professor Abraham agreed that increasing the emphasis on improving early childhood education is important to improving economic outcomes.