Comments on “How Tight is the Labor Market?” by Abraham and Haltiwanger

*My comments may not reflect the views of CBPP.*
Overview

• Fits squarely into the growing literature recognizing that a) “it takes a village” (of indicators) and b) the “faults in our stars.”

• “a” and “b” are well-recognized by the Fed.

• Starting point: Every working-age person, even if they’re working already, can be a factor in the amount of slack. “Effective” labor supply > u-based labor supply.

• The unemployed, in fact, account for just 30% of “effective searchers” (though they have rel. high search intensities).
Key findings

• Effective searchers shave some of the cyclicality off the cycle.

• In booms, effective searchers create more effective labor supply than is reflected in u (procyclical search intensity).

• In busts they create a bit less slack (by reducing search intensities).

• Recognizing heterogeneity among searchers improves tightness assessment.

• Adding job-to-job transitions boosts explanatory power.

• Time variation of recruiting intensity raises good questions about mismatch arguments.
Broader assessment of A&H re “Fed listens”

• “our performance metric...how well the generalized measure does in explaining changes in the job-filling rate over time compared to the standard measure of labor market tightness.” [my bold]

• How important is that metric to the problem at hand?

• We need to evaluate what info “effective searchers” & their intensities add to understanding price dynamics. (A&H agree, btw...
Slack indicators and inflation

Variance in core inflation (net of expectations) explained by:

- Unemp Rate: 0.301
- NEI_PT: 0.347
- U6: 0.329
- Standard tightness: 0.163
- A&E tightness: 0.193
- GenEffSrch: 0.301
Slack indicators and nominal wage growth

Slack indicator coeff on wg growth (x std dev)

- Unemp Rate: -0.040
- NEI_PT: -0.042
- U6: -0.041
- Standard tightness: 0.034
- A&E tightness: 0.035
- GenEffSrch: -0.036
What might Fed officials do with this info?

• Add to dashboard.

• See if it adds to various methods (filtering, principal components, etc.) that combine variables to find latent signal ala Fleishman/Roberts.

• Especially potentially useful in periods like now when we’re scratching our heads re labor market capacity.
Broader lessons for “Fed listens”

• Inflation’s diminished response to capacity constraints (flat PC) in tandem with the equalizing and racial/gender benefits of persistent, high-pressure labor markets creates an asymmetry favoring “lower-for-longer.”

• The distributional and positive racial impacts of HP labor markets strengthen this case.

• A&H: pro-cyclicality of employer search intensity

• Does that create potential for reverse hysteresis?
No Background Check, Drug Test or Credit Check. You’re Hired!

A bakery epitomizes a Zen-inspired approach to hiring: Don’t ask about an applicant’s past. It’s the future that counts.

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Concluding thoughts...

- A&E offer another welcome entry into improving/refining our assessment of slack, finding that there is sometimes more effective supply than revealed by conventional metrics.

- Another vote for Bernstein/Bentele conclusion, one we hope describes an outcome of Fed Listens:

  “...it is perhaps not too optimistic (from our perspective) to suggest that there has occurred a flip in the internal consensus among some monetary policy makers...: from the perspective of accelerating inflation, high-pressure labor markets, once viewed as guilty until proven innocent, are now viewed as innocent until proven guilty.”