

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

Discussant: Jared Bernstein

Center on Budget and Policy Priorities*

*Monetary Policy Strategy, Tools, and Communication Practices
Conference*

Chicago Federal Reserve Bank

6/4-5/2019

*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).

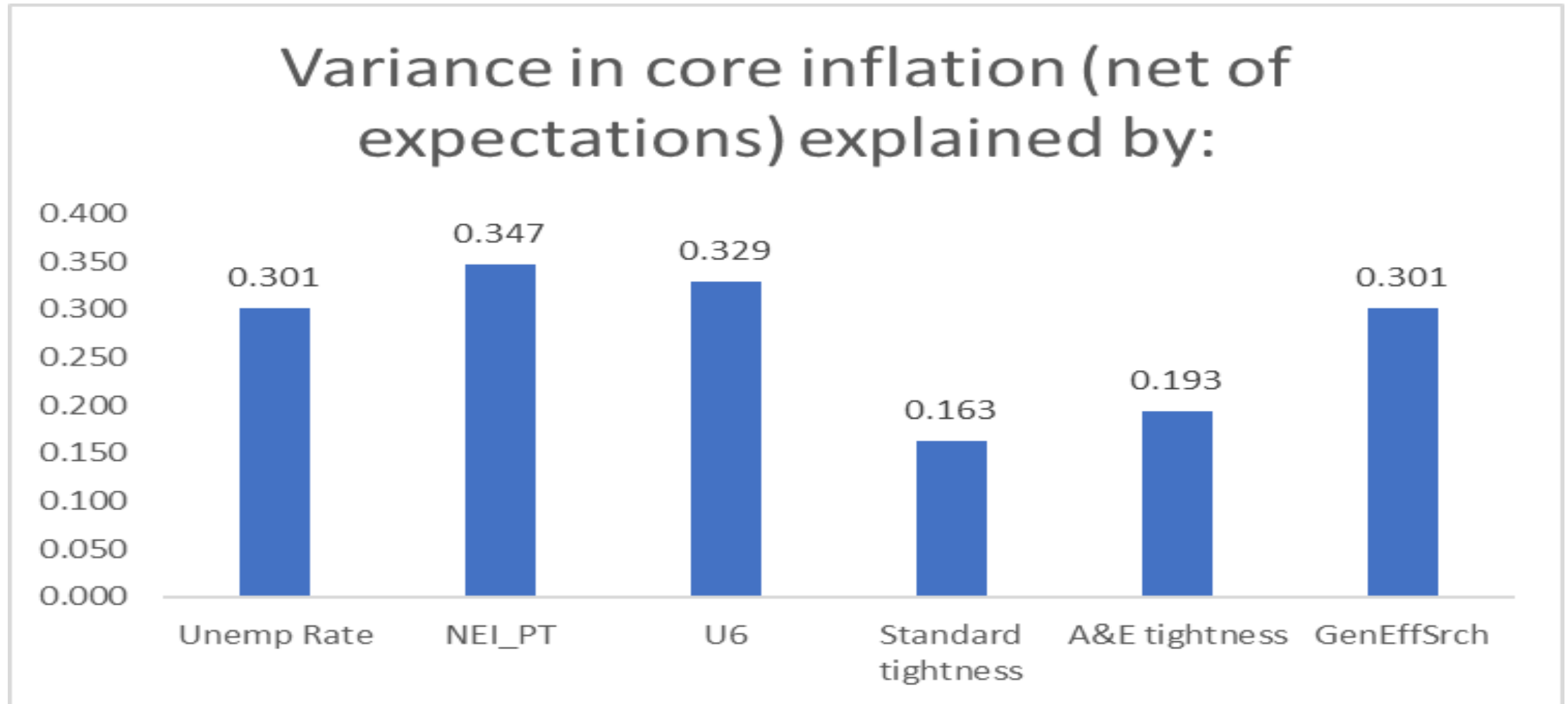
Key findings

- Effective searchers shave some of the cyclical 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.

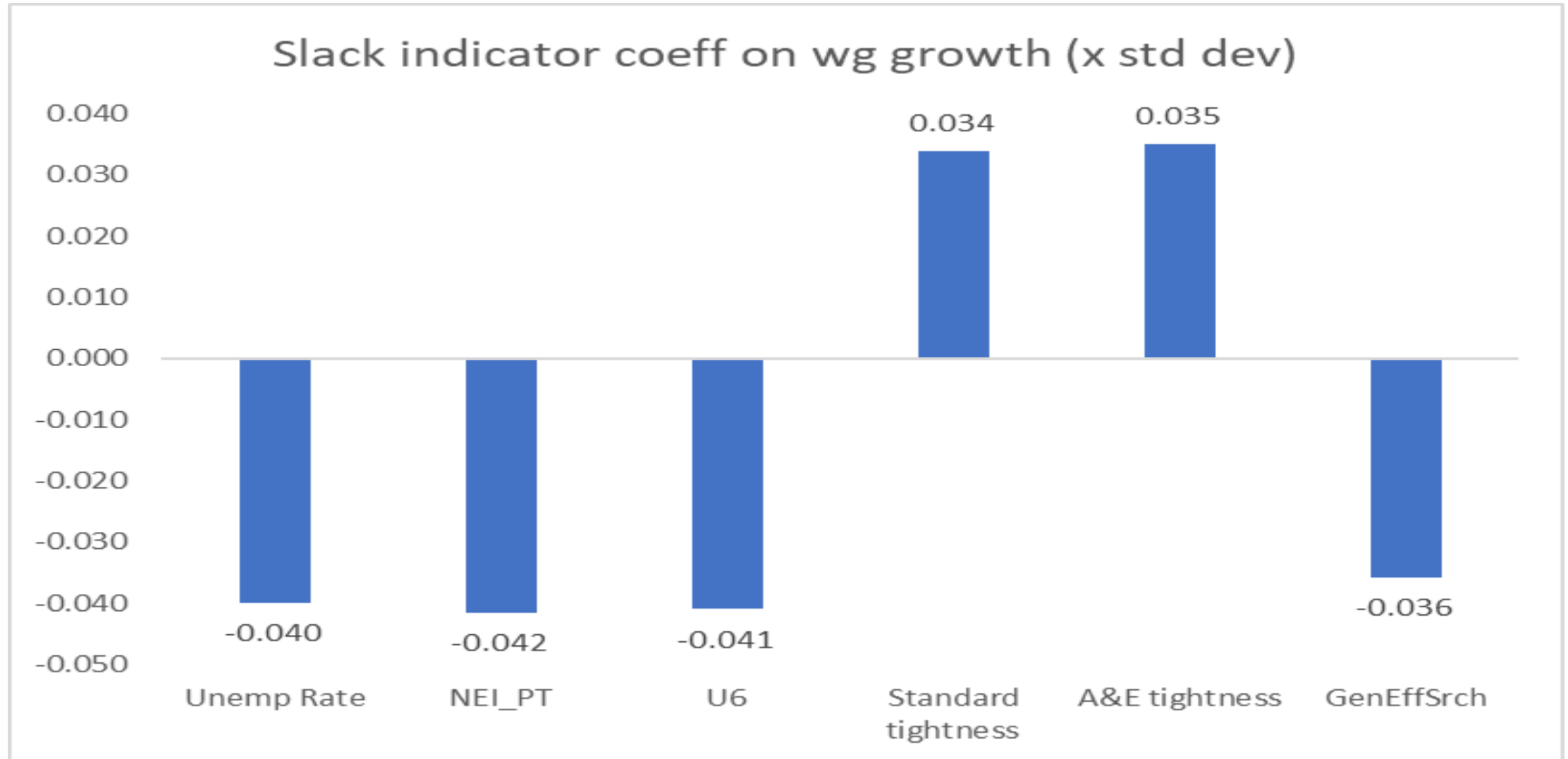
Broader assessment of A&H re “Fed listens”

- “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



Slack indicators and nominal wage growth



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.



By Tina Rosenberg

Ms. Rosenberg is a co-founder of the [Solutions Journalism Network](#), which supports rigorous reporting about responses to social problems.

May 29, 2019



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.***”