

# Assessing Shortfalls from Full Employment

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*Note: The views expressed here are not intended  
to convey the views of any other person or institution.*

# FOMC Statement of Longer-Run Goals and Policy Strategy

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*“The FOMC is firmly committed to fulfilling its statutory mandate from the Congress of promoting **maximum employment, stable prices,** and moderate long-term interest rates.”*

*“The FOMC seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity...increases the effectiveness of monetary policy and enhances **transparency** and **accountability**, which are essential in a democratic society.”*

# Federal Reserve Accountability

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- The FOMC is accountable to the Congress (*not the president*).
- Congress has given the FOMC a **very broad** statutory mandate.
- Like other regulatory agencies, the FOMC is responsible for **operationalizing** its statutory mandate in concrete terms.
- Like other regulatory agencies, the FOMC is responsible for **clearly explaining** how it is operationalizing its mandate.

# Operationalizing the Price Stability Mandate

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***“The FOMC reaffirms its judgment that inflation at the rate of 2 percent, as measured by the annual change in the **PCE price index**, is most consistent over the longer run with the Federal Reserve's statutory mandate.... To anchor longer-term inflation expectations at this level, the FOMC seeks to achieve inflation that **averages 2 percent over time.**”***

***Statement on Longer-Run Goals & Monetary Policy Strategy  
August 27, 2020***

# What about Operationalizing the Full Employment Mandate?

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*“The maximum level of employment is a broad-based and inclusive goal that is not directly measurable and changes over time owing largely to nonmonetary factors....Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the FOMC’s policy decisions must be informed by assessments of the shortfalls of employment from its maximum level, recognizing that such assessments are necessarily uncertain and subject to revision. The FOMC considers a wide range of indicators in making these assessments.”*

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# Assessments of Full Employment and the FOMC's Policy Strategy

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*“The FOMC's employment and inflation objectives are generally complementary. However, under circumstances in which the FOMC judges that the objectives are not complementary, it **takes into account the employment shortfalls and inflation deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.**”*

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# FOMC Transparency & Accountability

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- The FOMC should **publish quantitative assessments of full employment** in its quarterly economic projections.
- The FOMC should publish the **methods used in producing these assessments**, along with measures of uncertainty and explanations for any substantial revisions.
- The FOMC's assessments of full employment should be clearly conveyed in the Fed's **semiannual reports to Congress**.

# Measures of Employment Shortfalls

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- **Conventional Unemployment (U3)**
  - *Actively searching for work in past 4 weeks*
- **Broad Unemployment (U6)**
  - *Individuals who actively searched for work in past year, want a job and available now*
  - *Part-time workers seeking a full-time job*
- **Employment-Population Ratio (EPOP)**
- **Employment Gap (Levin 2013 ff.)**
  - *unemployment gap + participation gap  
+ underemployment gap*

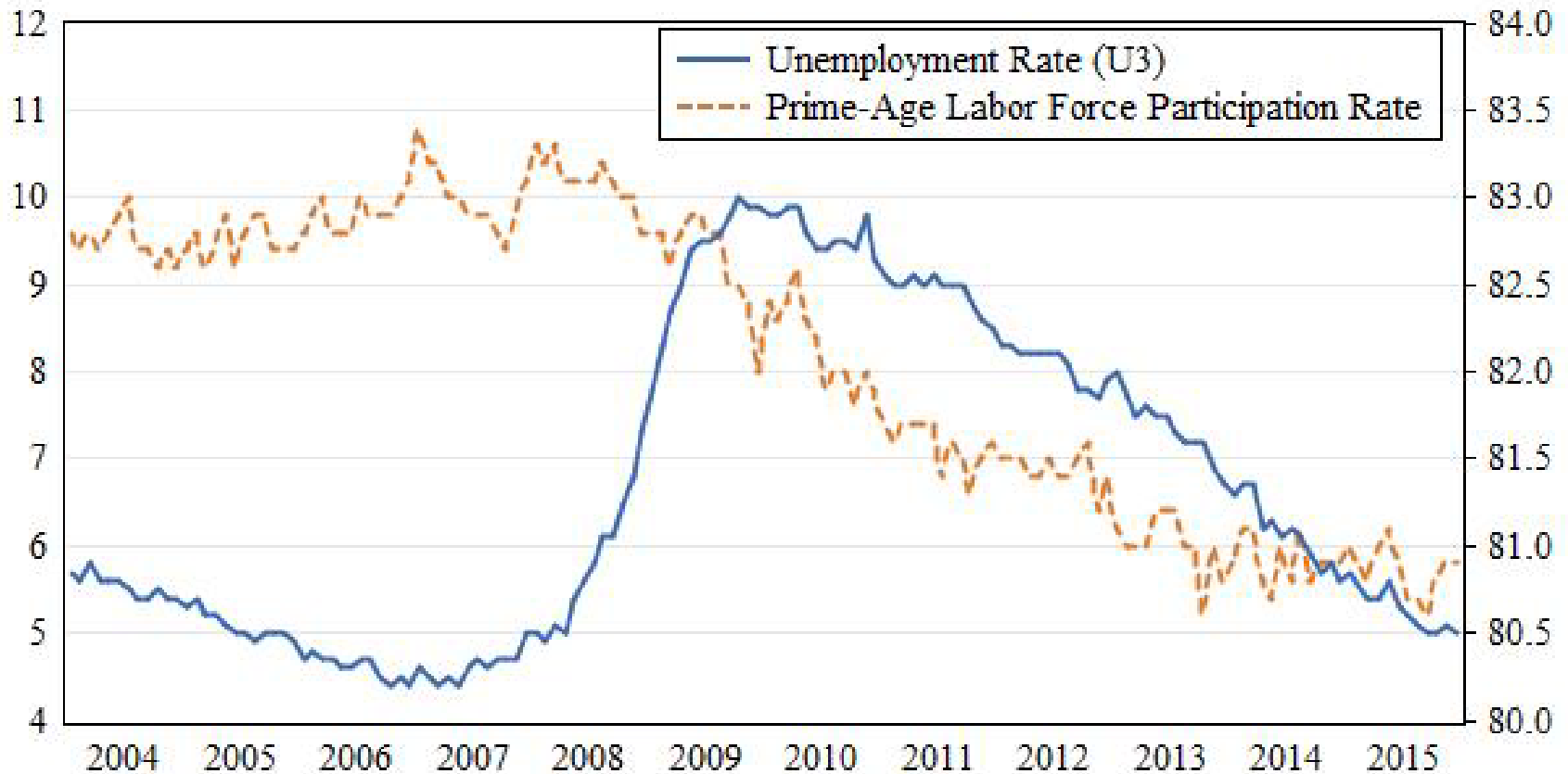


# Shortcomings of U3

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- **Distinguishing Active vs. Passive Search**
  - **Active:** *submitting a resume, contacting a potential employer, having a job interview.*
  - **Passive:** *attending a job training program, reading about job postings in newspapers or on the internet.*
- **Churn:** *month-to-month transitions in status between U3 and NLF (not in labor force)*
- **Dropouts:** *individuals who give up searching, depart the labor force for a protracted period*

# Misleading Signals from U3

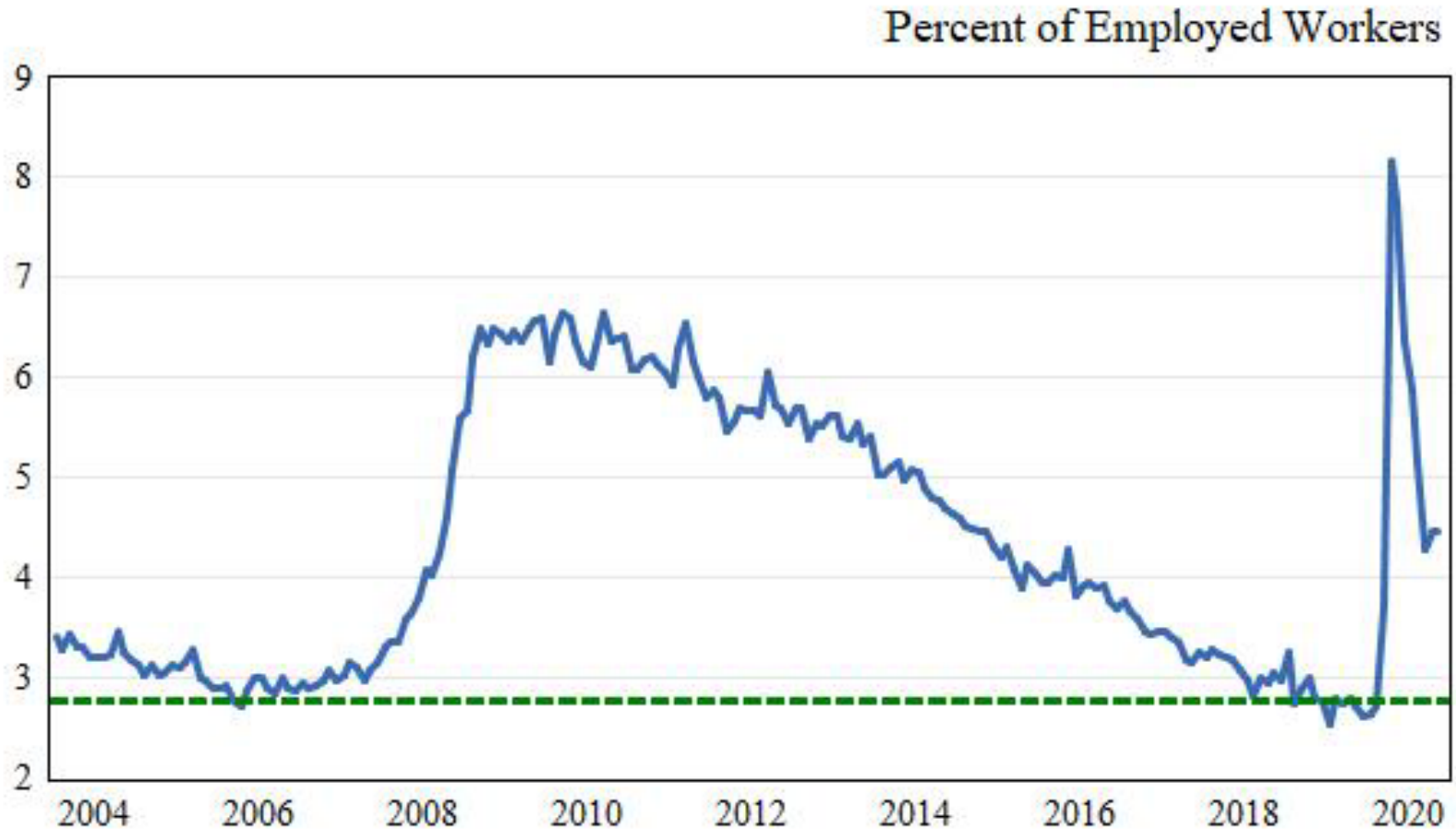


# Shortcomings of U6 and EPOP

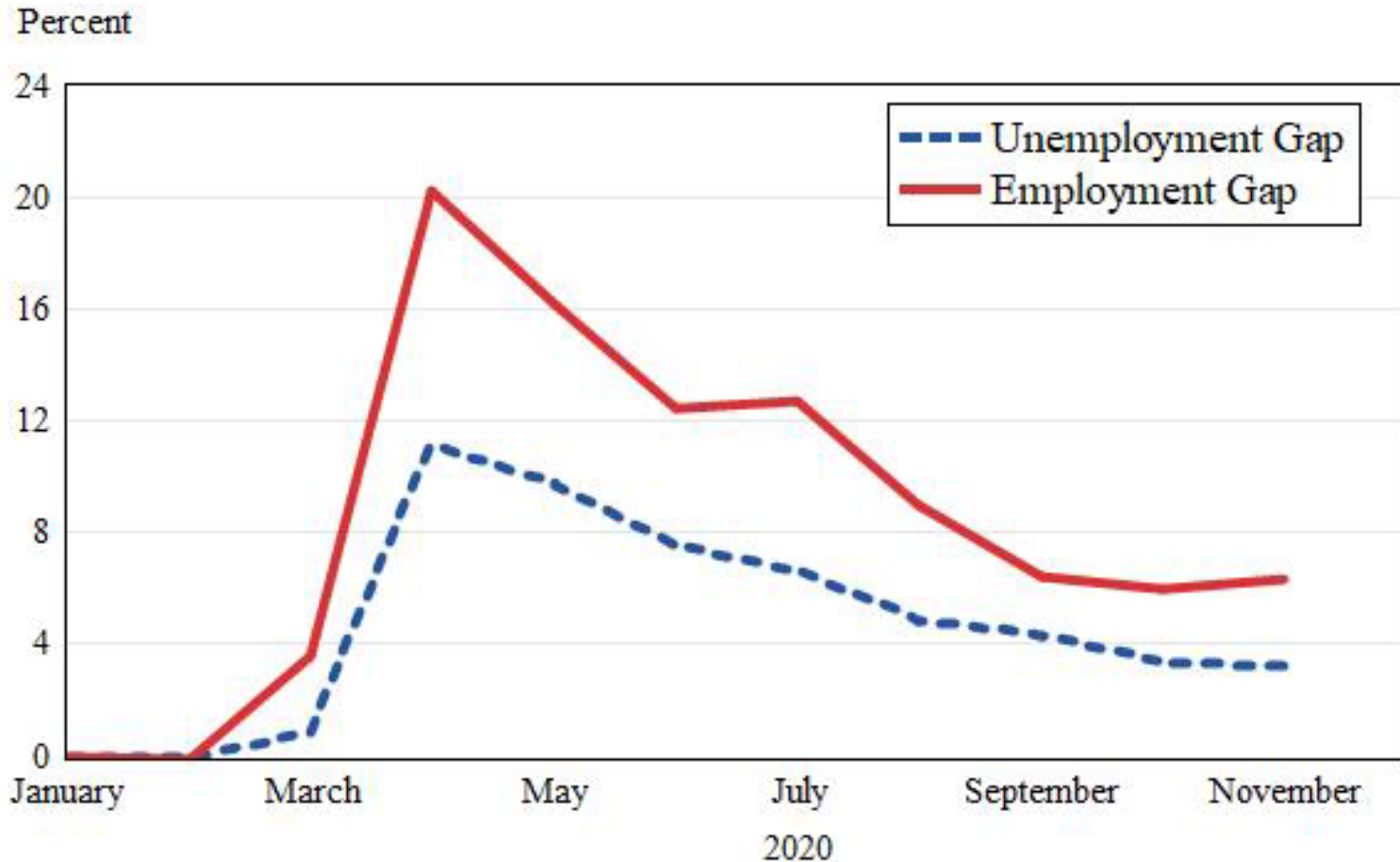
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- **Dropouts:** *U6 excludes individuals who haven't actively searched within past year*
- **COVID-19:** *U6 excludes individuals who lost their jobs but haven't actively searched for work since the start of the pandemic.*
- **Underemployment:**
  - *U6 includes involuntary part-timers (PTER) but does not adjust to an FTE basis*
  - *EPOP does not include PTER*
  - *U6 and EPOP do not incorporate changes in hours of full-time workers*

# Underemployment Rate (PTER)



# The Employment Gap



**Note: The unemployment gap is the deviation of U3 from its January 2020 rate, and the employment gap is the deviation of employment (total hours, FTE) from its January 2020 level as a percent of the labor force in January 2020.**

# Disparities across Demographic Groups

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- The Census Bureau has been conducting a **Household Pulse Survey** on a weekly/biweekly basis since late April 2020.
- That survey indicates **30% of US households** are still experiencing losses in employment income due to the pandemic.
- These adverse labor market outcomes are far more prevalent for **Blacks** and **Hispanics** and for **individuals lacking a college degree**.
- Such disparities are relevant in assessing shortfalls from full employment.

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