General Discussion: The Policy Implications of Labor Market Transition

Chair: Maurice Obstfeld

Maurice Obstfeld: I think this has been, looking over the whole conference and these three presentations, it's been a really fascinating and welcome excursion into thinking about labor supply, labor demand, and labor market behavior in great detail, both from a cyclical point of view and over the long term. Which in our monetary models, we often summarize by u-star, and then we move on. But the determinants are really complex and important.

Before moving to audience questions, I just wonder if any of the panelists who've given us fascinating overviews of their own economies, as well as some comparisons, have any comments that are inspired by what they've heard from their colleagues. If not, that's fine, because we have plenty of questions. Thank you.

Christine Lagarde: As part of the questions that Governor Ueda will take, can you distinguish the policymaking role played by the Japanese authorities in relation to opening the job market to both the increased participation of women and the possible increased participation of foreign workers?

Steven Davis: Thanks to the panelists for outstanding presentations. I wanted to pick up on President Lagarde's observation that the COVID shock and its aftermath were different. I agree with that assessment, but I want to expand on her discussion of the ways in which it was different.

Let me first start with an observation that Larry Katz made yesterday, that workers highly value the opportunity to work from home. It's a positive amenity value shock for them. Larry pointed out how this helps us explain the unusual behavior of the education wage premium. I think it also helps explain something that President Lagarde referred to as the surprisingly slow real wage growth in the aftermath of the COVID shock and the lack of catch-up and a wage price spiral.

Using data from the Federal Reserve Bank of Atlanta's Survey of Business Uncertainty, we asked senior executives at hundreds of US businesses the extent to which, both in a backward-looking sense and a forward-looking sense, they were able to reduce wage growth by expanding work from home options for their employees. And, indeed, we found aggregating over the whole US economy about a two percentage point savings in wage growth over the period from 2021 through 2023. These effects were bigger in sectors that had more opportunity to work from home – Information, Finance, and Professional & Business Services – as you might expect. Now that is an unusual development. I cannot think of a good historic precedent for that, but it's also largely played out by the end of 2023. So, it's not something we should count on as necessarily helping us achieve a low sacrifice ratio in future episodes. That's point one.

Second, something Andrew Bailey referred to earlier, the rise in remote work appears to have facilitated some increase in labor supply among people who are mobility impaired, who might have

social or cognitive conditions that make it difficult for them to work every day in the week in the office, and so on. There's some evidence of that. I think we have yet to establish with confidence how big that labor supply effect is, but it may be a part of the explanation for the surprisingly strong behavior of labor force participation and employment in some demographic groups in the aftermath of the pandemic.

Third, there was a very sizable withdrawal from the labor force in 2020. Much of it voluntary, but among people who were particularly vulnerable to the health risks associated with COVID, or because they were living or caring for people who were vulnerable to COVID. That process largely reversed in the wake of vaccines and their spread through the population. This reversal of the labor force withdrawal, I think, also contributed to some of the strength in labor force participation. That process has probably also played out by now, and it's worth keeping in mind. If you want to see an analysis of this, you can take a look at my paper with Jose Maria Barrero and Nick Bloom in their Journal of Labor Economics titled “Long Social Distancing.” Thanks.

Chad Syverson: Governor Ueda mentioned the flow of workers from low productivity to high productivity companies and how that might be changing in Japan. We know that's an important source of productivity growth in general. It also interacts with something that Andrew Bailey talked about in terms of productivity trends in the UK, which ties to all the discussion at this conference about aging populations and workforces.

There is evidence older workers are less likely to move across firms at all, and they're less likely to create productivity gains due to moving from low productivity to high productivity firms. So it looks like that will be a headwind to productivity growth all of us will be facing in the coming decades. Maybe that will be

overcome by AI or other technologies, but I'd be curious to see if any of the panelists have their teams looking at that. Thank you.

Ayşegül Şahin: Fantastic presentation. So, I'm going to say something positive. Aging is not all bad. Because as I age, I feel slower but more stable. And that's what we are dealing with. We are seeing these really low unemployment rates, mostly due to aging.

But at the same time, we are seeing low productivity growth, low firm entry, aging of firms and aging of workers, this dual aging, which is making our economy more stable and somewhat less mobile. So there is the positive side of it that we like to emphasize. But, of course, it comes with negatives.

It comes with declining labor force participation rate. And you have all shown that all the low-hanging fruits on participation is gone now. We have to increase group-specific participation rates. And this is related to Steve's comment. And I think it's important to note that we are trying to increase female labor force participation. But one thing we know is that women care less about wages, more about amenities. And remote work was a good example. But there are other amenities that they care about. And I'm wondering if part of the increase in Japan is due to this emphasis on better workplace environment or flexible schedules, lower part-time penalty. Because it seems to me that that's one untapped resource. That we could still increase participation rate. Thank you.

Roger Ferguson: Picking up on a number of points that have been made about this ageism that's sneaking in here that older people, I'd say we older people, are less productive. I'd like, and Christine sort of mentioned this in passing, I think we should think about a couple other things. There have been some studies in

Germany that I was aware of many years ago, and I did a thing on the macroeconomic impact of aging that suggests three things. One is the fall off in productivity for older people may not be as dramatic as people think. There's work that was done out of it, some German manufacturing that showed people 60, 65, et cetera, can be quite productive on certain kinds of tasks.

The second thing that it showed was we should think about productivity not just by age but by teams, and that teams that are generationally diverse end up perhaps being more productive as older people teach younger people.

And the third thing, not surprisingly, is the kinds of tasks being performed vary quite dramatically across, and some things older people are actually more capable of doing than younger people.

And then obviously we add to that the AI. So I think this general notion that's emerging here, that we older folks should be just sort of left off to the side with our great wealth, and that we sort of think about what does old, old look like, and what are the kinds of environments in which older workers and younger workers can thrive together and make things more productive.

Andrew Bailey: I'll respond particularly on the first question. I will just say to Roger, actually, one of the things I've learned to be very careful about is to say that the population is on average ageing. Otherwise, I've had some angry emails from people saying that I seem to be implying that they are personally less productive, which is not the point.

But on this monetary policy point, it's quite interesting with Christine's presentation to contrast our two experiences here, because in the UK context, I would say, when I look back at what did we not see coming out of COVID? We obviously didn't see Ukraine, and I'll just put that to one side, because that's quite different. What we were forecasting, and indeed all outside

forecasters were forecasting, was that as we came out of COVID, there would be a rise in unemployment, there would be an effect on the labour market, there would be scarring caused by COVID that would lead to a rise in unemployment, and it didn't happen. And it particularly didn't happen in the UK, because as I hope I illustrated with the slides, there was a fall in labour supply.

That came through in non-participation, inactivity, it appears. That created the risk of inflation persistence, which we had to respond to. It's one of the things that we've been doing for a long time, and it's one of the big reasons why we've had to keep policy restrictive.

I think we are now seeing a fall in labour demand, so we are seeing it. But if I can illustrate it best, going back to the point, Maury, you made at the beginning of your comment, in terms of models and the complexity. At the Bank of England, we have essentially three wage Phillips curve models. They've all been under predicting real wage increases, in this post-COVID period. I think because they all fail to capture this increase in non-participation. So, we've had a faster real wage recovery, I think, than Christine was describing. And I think the reason is that we had this negative labour supply shock, which was hard to see, for some time, hard to see in the data.

Christine Lagarde: To Steve, thank you very much for your point. One observation: it could well be that unions, because they participate quite actively in wage negotiations, it could well be that they also believe that inflation would be transitory. Because we observed that the catching-up phase was triggered well into the inflation phase.

Second, you talk about the reversal of the labor force withdrawal. I wonder how much it might have to do with the different fiscal support that was provided on either side of the

Atlantic. Where, in essence, in Europe, support was provided to shore up jobs and employment. Whereas fiscal support was more so delivered by “checks in the mail”, so to speak, in the United States. And that certainly had an impact as well, in terms of a reversal, or no reversal, and no labor force withdrawal, in some cases in Europe.

Ayşegül, yes, I agree with you. Aging is great – as long as we age well. So, we want AI and all these other things to help us age as well as possible. And I think that it's going to lead to the development of a new economy. There's a lot of talk about the “silver economy” and some sectors that are going to develop over the course of time. And as I'm closing in on my 70th year, I realize that not so much has happened in terms of the silver economy. And I very much hope that this is going to happen. And I think that it's going to develop. And it will have to develop, because “*Nécessité fait loi*”. And it will require more diversity, more flexibility, more targeting, and better reading of the intelligence that can be read by massive data management.

Roger, to your point about what does “old, old” look like: I think the real “old, old” does not look like the people in this room, I can assure you. Why is that? Because there is huge brain power here – huge productivity that is being displayed by all of us – and yet some of us are in that category of the aging, or in the category of being older. So “old, old” doesn't look like us.

Kazuo Ueda: So on Christine's question of policies toward foreign labor, I guess the Japanese government has so far emphasized short-term employment rather than creating permanent immigration pathways. So what they have done is to identify sectors, segments of the economy where labor demand far exceeds labor supply and accept foreign workers up to certain finite limits.

Just quickly on labor mobility. As I showed, labor mobility is rising fairly quickly among younger generations, but there's an obvious limit because the population is aging very quickly. But because we are starting from a very low point there's some hope for raising labor mobility further.

Erik Thedeén: Thank you very much for good, very, very good presentations. One, I think, megatrend for the years to come, or maybe also for the years that have been recently, and that's the immigration policies. And I think what we will see, of course, in the U.S., but also increasingly in Europe, is a sharp drop in immigration. That, in combination with the low fertility rate, of course, creates a lot of macroeconomic kind of challenges. Of course, Japan is a little bit different story. You didn't increase immigration, but you might have the same need as we would have.

And it's easy, I think, to say we need more immigration. But we also need immigration that actually could add to productivity and add to, actually, workforce. And I think that some of the political issues has been that some part of the immigration has been from very, very low-skilled labor which has not increased the productivity. So, I was just interested to hear your reflection on that subject. Thanks.

Emi Nakamura: My question was motivated by President Lagarde's comments about labor hoarding. So, I was struck in particular by the picture you showed of labor productivity, which showed the usual relationship for economists where labor productivity fell in the last two recessions in the euro area. But the opposite is true in the United States. Labor productivity actually went up pretty dramatically in both of the last two recessions. And perhaps this is connected with more general

policy differences, which were very stark post-COVID, where the euro area had a lot of policies intended to keep workers in place, whereas the United States pursued a different policy path involving very large UI payments but allowing workers to move.

There were a lot of concerns that have already been referred to about whether the high, unemployment rates would come down as quickly as they did. But I'm asking for your thoughts summing up what we think at this point about the consequences of labor hoarding versus labor mobility, given the very different policies in the US versus Europe.

Neela Richardson: Thank you for the highly insightful comments today. I want to make a quick data comment, followed by a hopefully relevant question. So the quick data comment: when we look at ADP, which pays about one in six workers in the United States, and we only look at hourly workers, which is about 55%, and that's consistent with national numbers, what we see is that hours per week haven't moved over the last year. But if you disaggregate by gender, you see that women work, on average, one hour less per week now than they did before the pandemic.

So, I guess my question then, following up on that payroll data, is what role does the informal sector play in your measures of productivity or your outlook for labor outcomes? Because as these economies, these advanced economies, tilt more towards services, and they have to if they're aging, the informal sector becomes much more relevant, and there's already evidence by the ILO that the informal sector is growing in emerging economies.

I would contend that it's going to grow, if it's not already, in advanced economies, because you need people to take care of the elderly. And that's something that AI can't do. And that's something that women can't do yet.

So, as women who are the caretakers of the global workforce are pulled out of that workforce in Japan, in the US, in Europe, and other places, and pulled into the informal sector, whether they're paid or not, that is going to impact, in my view, productivity. And I just wonder what your thoughts would be on that.

Barry Eichengreen: I have an observation about immigration in Europe and a question for President Lagarde. My impression is different from that of the governor of the Bank of Sweden, that attitudes toward and experience with immigration continue to vary enormously across Euro area countries.

Spain is continuing to attract immigrants hand over fist. They are skilled. They come from Latin America. They speak the same language, to a first approximation. There's a bit of tension over housing costs and so forth. But the prospects for continuing to significantly augment the labor force through immigration are positive in Spain, in contrast with other Euro area countries.

So, the question is whether this is something that monetary policymakers have to think about or whether it kind of balances itself out that the positive supply shock is matched by more consumption in Spain and no inflationary or differential inflationary or deflationary pressure on balance.

Kazuo Ueda: Just wanted to pick up on this question on labor hoarding. Labor hoarding and pro-cyclical movements of productivity have been a permanent feature of Japan's labor market or the economy. But because there has been a trend for shorter working hours, starting with a move from 5 and 1 half days per week to five days in the 1990s, and since the early 2000s, there have been recommendations by the government to cut overtime hours. Now they are turning to almost a regulation to cut overtime hours, because the government wants husbands to go home after 6 o'clock very, very quickly to spend time with

family. So these restrictions on overtime will tend to create less of a pro-cyclical behavior of productivity or labor hoarding phenomenon.

Christine LaGarde: I want to touch on your hoarding question, Emi. First observation: in Europe, productivity has very often been cyclical in nature. So, when GDP increases, productivity increases.

The major difference that we have seen between the U.S. and Europe is that, over the course of the last decades, productivity increased significantly in the U.S., whereas in Europe it did not. It was about 50% lower in Europe. It has a lot to do with the ICT revolution as it started out, and with government policy further supporting research and development, and with the increased innovation that we have seen on this part of the Atlantic rather than in Europe. So, I think that had a lot to do with it.

On hoarding, it's as if you were saying that there are zombie employees, essentially. This may have been the case for a period of time during the COVID period. It probably is not the case anymore. So, there may have been a dip of about three years during which hoarding was supported by state subsidies, by fiscal policy at the time. But I think that is no longer the case now.

Regarding the role of the informal sector, frankly, I don't have an answer to your question, because I don't have enough data, numbers and information at hand about the size of the informal sector. I would say that in some of the euro area member states there is very little of it. In some others, there might be some, but certainly not to a great extent, as far as I know.

To Barry's point, I agree with you. I think that immigration has played, plays and will probably continue to play a significant role in some of the European countries.

I think Erik has a good answer. I think there is a point to be made there, particularly in relation to some of the Nordic countries –

but less so in the euro area, for sure. And that is the case in those countries where services, in particular hospitality services, are a consistent part of GDP. That is the case for Spain, for Portugal, for Greece, for Italy, and for my country, France, as well. Have we observed consequences as a result? If you look at services as a share of the GDP of Spain, it's clearly the case. It is significantly higher than the euro area mean. And in terms of inflation, it's less obvious because inflation numbers for Spain, I'm speaking under the control of two excellent Spanish experts in the matter, the former governor of the Banco de España and the current governor of the Banco de España. But inflation went down more quickly than it did across the euro area. And then it picked up a bit, probably a bit faster than it has in other member states. We try to think in terms of aggregate numbers for the whole of the euro area. But I think it's very relevant to look at member states because Europe is a bit of a laboratory in that we have differences and diversity within the region.

Andrew Bailey: Thanks. I'll start by reinforcing the point Christine's just made on labour productivity. I think I'm right in saying if you look at US labour productivity in manufacturing ex-tech, it doesn't look that different from the rest of us. As Christine says, I think it's just a very different productivity shift in the US. The COVID policies were different in that sense. But I think if you look through to the longer term, I think it's a very different story about potential growth rates.

On hoarding, we certainly did see it, because if I go back to the points I made earlier, when we were seeing a fall in labour supply, we were seeing a Beverage curve shift. The message I was consistently getting from firms was that as the cost of recruiting went up with falling labour supply, then they were hoarding labour. So, yes, we did see it. I think that's now changing, as I said,

because you're having tightened policy. Policy now being restrictive, we're seeing a fall in labour demand.

On female hours, the one point I would make, going back to this point about flexible working. It doesn't seem to me to be surprising that if we've increased flexible working and that benefits female labour supply, benefits women more than men, if we're seeing a fall in average hours, that seems to me to be consistent, actually. So, I think that is what I would expect.

The final point I'll make on immigration. I'm always tremendously careful about saying anything on immigration. So, I'll stick to macroeconomics, if you don't mind. But I think there's a point that does actually cross Eric and Barry's points. And, Christine, I'm going to bring a French economist into play here, Jean-Baptiste Say, because we actually spend a lot of time on Say's law. In other words, the point being, and I think this goes to Barry's point. First of all, I should say, when we look at what moves the population profile looking forwards in the shorter term its of course, immigration, because the birth rate is baked in. So, the Say's law point comes in because the question, really, to Barry's point is, well, does increasing the labour supply in that way have a commensurate effect on demand in the economy or not? And that turns out in our discussions to be an important part of the story, which doesn't get as much focus, I would say, as it probably deserves to.

Kristin Forbes: President Lagarde, you made this important and often overlooked point that immigrants have a higher participation rate. So I was wondering, Governor Bailey, if this might explain some of the puzzling and disturbing trends you showed, but in reverse. More specifically, if after Brexit, immigration fell in the UK, and immigrants have a higher participation rate, then could that just mechanically explain some

of the fall in the participation rate, especially if immigrants tend to be younger, which is where you saw the biggest effects?

Andrew Bailey: It's a great question, but actually immigration didn't fall after Brexit. It increased, as the figures now show. And the reason is that we had a shift from immigration from the EU to immigration from the non-EU, and it actually turned out to be stronger than was expected. So, it would be a great point, other than the fact I'm afraid the evidence doesn't really support it.

Pierre Olivier Gourinchas: I had a question and a comment. The question was already asked by Barry, so I'm not going to talk about this, but I want to end with another piece of good news, going back to Ayşegül's point. In some work we did in our last World Economic Outlook, we looked at the rise of the 'silver economy.' There are really remarkable signs that improvements in cognitive skills and in physical skills, fine motor skills and things like that, have been quite significant over the last decade. For instance, we find that, and I'm sure many people in the room will be very happy to hear this, 70-year-olds now have the cognitive skills and the physical skills of 50-year-olds 25 years ago. This is the good news part. It means that there are potentially a number of people out there who can still contribute and be happy to contribute. It's going to be a question about how we bring them in or keep them in the workplace.

There's still a question of productivity and innovation ability of workers of different ages. You might have very different attitudes towards risk-taking, for instance, when you're a 50-year-old or a 70-year-old and when you're a 25-year-old in terms of creating a new business, going all in with a new idea, et cetera. So, there are still these issues out there, but in terms of labor force participation and increase in labor supply, there is a largely untapped pool out there that is quite significant.

Maurice Obstfeld: I'm all for super-aging. Are there any final words from the panelists?

Christine Lagarde: No, full support to what Pierre-Olivier concluded with. I think that's brilliant.