

# General Discussion: Maximum Employment and the Participation Cycle

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*Chair: Lisa D. Cook*

**Ms. Swonk:** I had a couple of questions and related somewhat to what Betsey (Stevenson) was talking about as well, but the Kansas City Fed had done a study where they estimated that we got over 2 million excess retirees between February 2020 and June 2021. And the over-55 crowd is definitely a different crowd than it once was. I'm wondering how much we can even think about those workers coming back with an ongoing pandemic, or even something that becomes more endemic. And then the other issue is, that I've been. It becomes more endemic. Then the other issue is that I've been struggling with, in addition to the childcare one that Betsey was so eloquent about is, long-haul COVID. Because long-haul COVID, if you look at the initial COVID data, the long-haul COVID sufferers, people who literally could have their employment curbed or their ability to participate affected, overlap dramatically with the women who also were hardest hit by the recession itself and I wondered what your thoughts were on that?

**Mr. Gourinchas:** I wanted to come back to a point that Betsey raised in her discussion. Obviously, it sounds like if people's attachment to work is much lower when they're unemployed, programs that would subsidize people to stay employed during a recession or a transitory shock would be helpful. Here, I want to tie that back to the discussion

this morning in the panel about the contrasted experience of Europe and the U.S. Many European countries use this type of short-time work program, where the government pays the workers to stay employed. In the U.S., there was a conscious decision to work through the unemployment system at the state level instead, and in doing so potentially separate the worker from his/her job. I think the argument was at the time that the U.S. has a very vibrant labor market that can process flows on a much bigger scale, maybe than some of the European countries. I wanted to give a chance to the authors to come back to this point and maybe offer their views on that.

**Mr. Furman:** You do a lot to compare the similarities between 2014 and the present. Of course, job openings now are more than double what they were in 2014. The demand side of the labor market is just so different now. For some things I've looked at, like the flow from unemployment into employment, that's surprisingly low right now, relative to its historic average. It's especially low relative to what you would expect given the high level of job openings. I wanted to push you just to understand in what ways what we're seeing now might be different from what we've seen in the past, based on the overall picture, not just what's going on between participation and unemployment, but looking at the supply side and the demand side, and the job match side of the labor market.

**Ms. Şabin:** First of all, thank you, Betsey. As always, very insightful. I really liked the discussion of women with kids because the mechanism that we uncovered here is exactly why female labor force participation rate increased in the 1970s and the 1980s as Claudia Goldin's work has shown us. It's married woman with kids who did not take time off every time they went through pregnancy and childbirth. That was the persistence in their participation that increased their participation rate. Single woman without kids, their participation rate did not change much. The mechanism is not new; it's behind what we have seen before. Of course, COVID has a similar effect on women. We have seen it in the SCE (Survey of Consumer Expectations). The survey showed that women spend three hours more on kids' online education than men. These channels are all effective and we see it as excess weakness for participation of women. In terms of retirements and their impact, most early retirements or

excess retirements happened in the 65-plus age category. In terms of whether they're going to come back or not, before the pandemic, we have done some work and uncovered in the SCE and also Ameriks et al. uncovered in the Vanguard Survey that that older workers would work at flexible jobs. They would go back to work if conditions are good, and now we have the age-bias health risk. And the other thing they asked for is lower hours, 10 to 15 hours. In that sense, I think that is still potential labor supply, which is not going to show itself until we resolve the health crisis. In terms of the 2014 analogy, I totally agree with Jason (Furman). The analogy goes only until the unemployment rate and the participation cycle. The employer side measures are showing us a tighter labor market, but we have the same problem that we had in 2014. Vacancies imply a higher job finding rate than we actually see, and in the Great Recession, we attributed this to reluctance of firms, their recruiting intensity being lower. This time, we are attributing this to workers' higher reservation wages. If you look at the SCE again, we see that especially for low-skilled workers, reservation wages are higher. So, we have seen a similar low job-finding rate, this time coming from a different source, but it's a similar shift in the unemployment-vacancy domain.

**Mr. Gorodnichenko:** I wanted to add to Diane's (Swonk) question that the dynamics of for many workers is very different in this crisis than during the Great Recession. You show that after the Great Recession, the labor force participation, if anything, increased for older workers. Now, if you look at 65-plus, they exit the labor force in droves. And whether these people will be re-employed in the future, whether they will be interested in working again, I think it's a great question. A very much open question. And based on your response to Diane's question, I saw that maybe their Perry Okun explanation for the labor force participation is more relevant. It's not about whether you are unemployed or employed. It's more about "are you willing to take the risk." And then, if the conditions are right, if your pay is sufficiently high, maybe these are the marginal people who are going to enter the labor force and increase employment-to-population ratio.

**Ms. Şabin:** Lisa (Cook), if I could clarify this. There's a lot of heterogeneity in the labor market and we acknowledge this,

totally. However, the biggest heterogeneity is in labor force status. Unemployed are eight times more likely than the employed to leave the labor force. We are acknowledging all sorts of heterogeneity. And also we are acknowledging that there will be entry and there will be exit. But what seems to be the most important part is that people who are in the labor force, when they lose their jobs, can they find jobs easily or not? It's the same analogy as relation of the unemployment rate and the duration of unemployment. It's about the persistence of the state, not about the entry and exit, they are always happening. And we are not saying that these workers are not going to enter, they could enter, but that's not the main mechanism. What seems to be the most important determinant of labor force attachment is not age, gender, or race. It seems to be the employment status. I want to clarify that.

**Ms. Cook:** I don't see any other hands at the moment, so, I do have one question for you then I'll give you the opportunity to respond to Betsey, if you'd like. From the paper, you're saying that the participation cycles by race and ethnicity vary less than unemployment cycles with the exception of the end of expansions, when the cyclical upward pressure is more pronounced for Black and Hispanic workers. So, what's the best explanation for that? What ideas do you have about why that is and is this information that the Federal Reserve can use?

**Ms. Sahin:** That's actually a great question. Since these are the groups that experience bigger increases in unemployment rate, there is more room for these workers' participation cycles to improve. Actually, if you look at college-educated workers, at some point later in expansions, their participation cycle flattens when their unemployment rate gets closer to its frictional level, and that's the mechanism. And the mechanism tells us that since this happens and this persist, even when, after we have another recession, so that's our finding. And again, the mechanism that drives it is just job-finding and job-loss. And I realized that I skipped the question about what we should be doing, Europe versus the U.S. And also Betsey's comment about if you pay everyone to be employed, we will have participation. I think it's true. If you pay everyone to be employed, they will be employed, but I don't think that's how the U.S. labor market works. But in terms of policy design, I think what

Pierre-Olivier (Gourinchas) suggested is, do we want to protect the matches or do we want to keep people in the labor force by using different measures? For example, *Kurzarbeit* in Germany is a way to keep people employed. And that's why we see lower responses in terms of exit rates. And there are similar policies in Scandinavian countries where we see that people stick to the labor force because they get the benefits and there are ways of helping them finding jobs. So, I think there's always a trade-off whether we want to protect the matches or not. I don't know if this was related to what you were asking.

**Ms. Stevenson:** I was just going to clarify, I wasn't trying to say pay everybody to be employed and I don't think that was the question either. But the idea is, your paper finds that if you're employed, you retain the low exit rate to nonparticipation of being an employed person. And if you move to being an unemployed person, you get the high exit rate to out of participation. And the question is, is it enough to give you that low exit rate if I called it a job and gave you something to do?

**Ms. Şahin:** That's a great question. So, we have a wedge in attachment. Right? And that's time varying. If a lot of unemployed people find really bad part-time jobs, they're not going to be that attached and we take that into account in our framework. So, the quality of the job matters for the attachment wedge. We are not treating this wedge as a constant. We are actually taking into account the fact that unemployed and employed, their attachment varies over time, depending on the quality of the jobs that are available, or when we have unemployment insurance extensions, etc. So, we are not really treating this as a constant, that's an endogenous object in our calculations.

**Mr. Hobijn:** Can I chime in for one second on this? Because I think the two questions by Betsey and Lisa are actually related. I think one of the benefits of following the participation cycle in the way we do it, if that's something we can do for different groups in real time for policy purposes on top of looking at the unemployment rate and getting a different sense of what a policy has different impacts across the different groups. And then there's other aspects, that monetary

policy has no impact on necessarily, or maybe should internalize more which is the cost of job loss. Both through the loss of matches, but also the loss of attachment to the labor force, potentially. I think that has discussed in some has been discussed in some literature, some welfare reform, but not necessarily in the context here, but the benefit of doing this and then being able to use the micro data in real time to do this, I think is to also make sure that we can follow in real time, whether there are potential differential effects of policy and whether the benefits and the costs are very different across different groups in the labor market.