## Research Working Papers

# Labor Market Dynamics, Monetary Policy Tradeoffs, and a Shortfalls Approach to Pursuing Maximum Employment

by: Brent Bundick, Isabel Cairó and Nicolas Petrosky-Nadeau

October 15, 2025

This paper assesses policy strategies that pursue maximum employment by mitigating shortfalls rather than deviations.

RWP 25-13, October 2025

This paper reviews recent academic studies to assess the implications of adopting a shortfalls, rather than a deviations, approach to pursuing maximum employment. Model-based simulations from these studies suggest three main findings. First, shortfalls rules generate inflationary pressure relative to deviations rules, which offsets downward pressure on inflation stemming from the presence of the effective lower bound. Second, since monetary policy leans against these inflationary pressures, a shortfalls rule implies a limited effect on average outcomes in the labor market. Finally, studies suggest that monetary policy can offset higher-than-desired average inflation under a shortfalls rule by leaning more strongly against deviations of inflation from the 2 percent objective, thereby keeping longer-term inflation expectations well anchored.

JEL classifications: E32, E52, E58

### Article Citations

- Bundick, Brent, Isabel Cairó, and Nicolas Petroksy-Nadeau. 2025. "Labor Market Dynamics, Monetary Policy Tradeoffs, and a Shortfalls Approach to Pursuing Maximum Employment." Federal Reserve Bank of Kansas City, Research Working Paper no. 25-13, October. Available at https://doi.org/10.18651/RWP2025-13

### Related Research

- Bundick, Brent, and Nicolas Petrosky-Nadeau. 2021. "From Deviations to Shortfalls: The Effects of the FOMC's New Employment Objective." Federal Reserve Bank of Kansas City, Research Working Paper no. 21-04, July. Available at https://doi.org/10.18651/RWP2021-04
- Cairó, Isabel, and Avi Lipton. 2023. "Labor Market Discrimination and the Racial Unemployment Gap: Can Monetary Policy Make a Difference?" Board of Governors of the Federal Reserve System, Finance and Economics Discussion Series

no. 2023-065, September. Available at https://doi.org/10.17016/FEDS.2023.065

## Author


### Brent Bundick

Vice President


Brent Bundick is a Vice President and Economist in the Economic Research Department of the Federal Reserve Bank of Kansas City. In that role, he conducts research on the macroeconomy and serves as an advisor to the Bank's leadership on monetary policy and macroeconomic issues. He rejoined the Bank in 2014 after completing his Ph.D. in Economics from Boston College. Prior to graduate school, Brent worked in the Department as a Research Associate and Assistant Economist. He also holds a M.S. in Mathematics and Statistics from the University of Missouri – Kansas City and a B.A. in Economics and Mathematics from the College of William and Mary. Brent's research has examined the effects of uncertainty on the macroeconomy and how changes in central bank communication affect inflation, labor markets, and the broader economy.