Opening Remarks

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Uneven Outcomes in the Labor Market Conference
Federal Reserve Bank of Atlanta

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Key points

- Atlanta Fed president Raphael Bostic gives the opening remarks at the Uneven Outcomes in the Labor Market Conference on February 5.
- Bostic says that "an economy that works for everyone," the Atlanta Fed's tagline, is one that features a labor market in which everyone can maximize their human capital and potential and find work commensurate with that potential.
- Bostic believes that refining our understanding of maximum employment matters in part because, unlike the price stability part of the Fed's dual mandate, maximum employment evolves with changing economic circumstances.
- Bostic says he and his staff have identified nearly a dozen potentially structural changes to labor markets associated with the pandemic.
- For one, he notes, he and his staff see signs suggesting that the work-from-home phenomenon is here to stay, though the amenity benefits of the shift to work-from-home could be unevenly distributed across industries, occupations, locations, and demographic groups.
- Also, he says, lower-wage workers generally enjoyed the biggest proportional pay increases. But that gap in pay hikes has largely closed as a strong labor market has boosted labor force participation to a surprising degree and settled wage growth back into more normal patterns.
- Bostic emphasizes that while it's dangerous to proclaim with certainty that any pandemic-era phenomenon will shape future labor markets, these are potentially significant developments that will be important considerations as the

Federal Reserve pursues a monetary policy path seeking to achieve both of our mandates.

Thank you for joining us for this important conference. I'm absolutely thrilled that the Atlanta Fed is one of the six regional Reserve Banks that have joined with the Board of Governors to bring you this exploration of persistent disparities in labor market outcomes along with the latest thinking on how we can remedy those disparities.

At the Atlanta Fed, our tagline is "an economy that works for everyone." Such an economy will feature a labor market in which everyone can maximize their human capital and potential and find work commensurate with that full potential. The appeal of having this kind of economy is that it will be more resilient, more innovative, and more prosperous.

In this context, few topics are more important than uneven labor market outcomes, because the path to full participation—that is, an inclusive economy—starts with everyone having a good job. Over the next four days, we will see presentations on issues critical to practitioners and policymakers, including:

- How subsidized childcare could affect women's labor force participation
- Why labor force participation among men remains below prepandemic levels and generally continues a 60-year decline
- The effect on labor market outcomes of firm structure and access to financing
- The indispensable role of public policy in seeking to understand and improve outcomes

I'm especially pleased there will be presentations about workforce development and education. These topics have long been a special focus of the Atlanta Fed—we have a Center for Workforce and Economic Opportunity, for example—because we believe workforce development and education are essential for spreading opportunity and advancing the concept of maximum employment.

The definition of maximum employment has evolved

As you may know, maximum employment is one of two parts of the Fed's monetary policy mandate. A core goal of this conference is to expand the body of knowledge that informs the definition and measurement of maximum employment by examining and explaining disparities in labor market outcomes within and among demographic segments.

Refining our understanding of maximum employment matters in part because gauging progress toward the two sides of the Fed's mandate differs in an important way. The price stability objective is clear: we pursue 2 percent inflation over time. However, maximum employment is a more ambiguous notion that evolves with changing economic circumstances.

For instance, when I started this job in 2017, the accepted wisdom was that full employment meant an unemployment rate of roughly 4 1/2 percent.

Well, that's changed. Outside the brief but severe pandemic recession, unemployment has been below 4.5 percent for nearly seven years, and in many months by a significant amount. My colleagues have acknowledged this shift. The median long-run expectation among Federal Open Market Committee participants for unemployment is now about 4.1 percent.

So, as we formulate policy to try and foster sustained maximum employment, it is critical to ground policy in the best current research and dispense with assumptions and conventional wisdom that do not characterize today's labor markets.

The challenges we face in closing labor market gaps are as acute as ever. Disparities persist along many dimensions—race, gender, rural-metropolitan geography, and even among ZIP codes within cities. And the pandemic exacerbated many of those challenges.

Remote work is here to stay—but for everyone?

My staff and I have identified nearly a dozen potentially structural changes to labor markets associated with the pandemic. Now don't worry, I'm not going to review all of them here. Instead, I will discuss a few changes that I think are significant.

First, we see signs suggesting that the work-from-home phenomenon is here to stay. That is good news for higher-wage workers in metropolitan areas, but less meaningful to people in lower-wage service jobs.

Research, including work by Atlanta Fed staff, suggests that in coming years, some 40 percent of workdays will be performed remotely in densely populated areas and about half that much in less populated places. And the occupational breakdown of those likeliest to work from home probably won't change much, as lower-wage workers in frontline, public-facing jobs will be much less likely to work remotely than higher-paid professionals.

Thus, it appears that the amenity benefits of the shift to work-from-home could be unevenly distributed across industries, occupations, locations, and demographic groups.

If historical patterns hold, workers from certain demographic groups will be less likely to enjoy the amenity benefits of working from home. Presentations by practitioners and other participants at the Federal Reserve's *Racism and the Economy* webinar series suggest that Black and Latino workers may fall into this category, as they are disproportionately in occupations linked to a location, such as food preparation, cleaning, and health service support.

On a more hopeful note, remote work opportunities may erase barriers to work for some. For example, the chance to work at home could improve job opportunities for those with disabilities. Remote work might also help workers who face transportation challenges or those whose family responsibilities require flexibility in their schedules.

The narrowing pay hike gap has boosted labor force participation

Next, the pandemic was quite unusual in terms of wages. When the virus's penetration was most intense, in a departure from usual economic downturns, lower-wage workers generally enjoyed the biggest proportional pay increases. Available labor was particularly scarce, so employers had to pay up to attract employees. Our Bank's Wage Growth Tracker shows that growth in the bottom half of the wage distribution was significantly higher than in the upper half during the thick of the pandemic. Coupled with significant pandemic policy support, this has meant that lower-wage workers are in a stronger economic position than they would ordinarily be. This truth may have contributed to the increase in entrepreneurship we witnessed during the past several years.

However, that gap in pay hikes has largely closed as a strong labor market has attracted more people off the sidelines, boosting labor force participation to a surprising degree. That means that supply and demand for labor are more aligned and wage growth across the pay spectrum is settling back into more normal patterns.

The pandemic triggered other meaningful shifts in the labor market. For one, it appears to have sped up a retirement boom that was already in train because of an aging population. The faster-than-usual exodus of older workers early in the pandemic contributed greatly to the extreme tightness of the labor market in 2021 and 2022. Though baby boomers will continue retiring apace, it remains an open question as to whether we will see another sudden spike in retirements.

We have also witnessed interesting labor force participation effects during the pandemic era. We saw an initial drop in participation among women, especially women with young children, as the virus exploited weaknesses in the childcare sector. Opioid abuse also spiked during this time, resulting in a drop in participation of younger men. These dynamics point to lost economic potential, a barrier to sustainable maximum employment.

More recently, the surprises in labor force participation have been to the upside. For example, women have returned to the labor market in force, and have enjoyed some of their highest participation rates in US history. This has contributed to supply increasing more than many expected, feeding a more rapid decline in inflation than many had forecast.

Private-sector employment growth fueled by health care and social assistance

I want to also point out that we have seen some interesting sectoral labor market developments. As you know, unemployment across the US economy remains historically low. Yet employment growth is slowing, and in recent months job creation has been heavily concentrated in one comparatively small sector: health care and social assistance.

Health care and social assistance account for only 14 percent of private-sector employment, but have accounted for 60 percent of private employment growth over the past several months.

Health care makes up the bulk of employment in this sector, and there are good reasons to believe health care employment will continue to punch above its weight in employment growth.

For one, health care employment plummeted early in the COVID wave and still hasn't caught up to its prepandemic trend line. Longer term, an aging population should continue to fuel job growth in health care and social assistance. An older population uses more health care, and the US Bureau of Labor Statistics recently projected that the 65-and-older population will increase by 14.4 million people over the next 10 years.

It's dangerous to proclaim with certainty that any pandemic-era phenomenon will shape future labor markets. But these are all potentially significant developments that could be important drivers of labor market dynamics in the future. They, and other forces, will thus shape our understanding of maximum employment and will be important considerations for us as we pursue a monetary policy path seeking to achieve both of our mandates.

Let me stop there.

This conference is an excellent example of the role the Federal Reserve can play in bringing together research, policy, and practice on these issues, and connecting people who might otherwise not meet. These convenings can be incredibly powerful in moving us forward, toward better understanding and addressing uneven outcomes in labor markets.

Thank you again for joining us. Please participate, engage, and enjoy the next four days.