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Remarks as Prepared for Delivery

EMBARGOED UNTIL 8:45 A.M U.S. Eastern Time,
Friday, November 17, 2023 – OR UPON DELIVERY

Full Employment: A Broad-Based, Inclusive Goal

Opening Remarks at the Federal Reserve Bank of Boston's 67th Economic Conference, "Rethinking Full Employment"

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November 17, 2023
Boston, Massachusetts

The views expressed today are my own, not necessarily those of my colleagues on the Federal Reserve Board of Governors or the Federal Open Market Committee.

Key Takeaways

1. Collins emphasized that the two aspects of the Fed's dual mandate are complementary.

While there often is a tradeoff between inflation and employment in the short run, history has shown that price stability is essential for a well-functioning economy – it is an important precondition for maximum employment that is sustainable over time. So, both aspects of the dual mandate are interrelated and complementary.

2. A challenge for the Fed, explored at this conference, is how to operationalize a broad concept of full employment when setting monetary policy.

Full *employment* has often been defined by referencing an *unemployment* rate. But no one statistic can adequately characterize the labor market, since aggregate numbers do not show the wide range of experiences across people, sectors, and places.

3. Collins emphasized the connection between the full employment goal and the Fed's role in fostering a vibrant economy that works for everyone.

For some people, communities, and places, there are substantial and persistent gaps in economic outcomes – including but not limited to employment. This underutilization of the workforce adversely affects national productivity and prosperity.

4. A better understanding of the behavior of labor force participation is important if the Fed is to meet both its full-employment and price-stability goals, said Collins.

The aggregate unemployment rate becomes an inadequate indicator of full employment when the labor force *participation* rate is changing. If participation increases in a tight labor market, labor supply expands, and higher levels of economic activity may not generate additional price pressures requiring tighter monetary policy. And the higher levels of activity and participation can benefit those drawn into the labor market.

5. It is essential to examine factors that could limit people from participating in the economy, and to support research and collaborations that promote economic progress.

The Fed's mandate and the concern for a vibrant, inclusive economy bring our focus to participation in the workforce, and the challenges that can prevent people from doing so (for example child care, housing, and infrastructure). Often these impediments are long-run, structural factors that cannot be resolved with monetary policy. However, to assess the productive capacity of the economy, the Fed needs to know how such barriers to employment are evolving. And a better understanding can lead to expanded opportunities for more people.

It is truly a pleasure to be opening my second Boston Fed economic conference, the Bank's sixty-seventh. I'm especially pleased to be doing so with Egon Zakrajšek, our new Director of Research and chief economic advisor.

Along with the entire economic research team, Egon and I are committed to maintaining all that is special about the Boston Fed economic conferences. Over the years, these conferences have engaged a wide range of participants on complex issues with practical policy relevance. These conferences, and the learnings they yield, help us at the Boston Fed pursue our vision of a vibrant economy that works for all; and our mission to serve the public by supporting a strong, resilient, and inclusive economy.

This year, we focus on full employment – one pillar of the Fed's dual mandate. And we build on last year's conference, which addressed the potential effects of the COVID-19 pandemic on the labor market. Of course, our conferences do not always cover labor market issues; however, these topics have been especially critical lately.

We have much to do over the next day and a half – so, let's begin. My role today is not only to welcome you and kick things off, but also to set the stage by providing a bit of my own perspective as a monetary policymaker. Of course, I'll add my standard disclaimer – the views I express are my own, and I'm not speaking for any other Federal Reserve policymaker.

Full Employment in Context

I'll begin with some historical context on full employment as a policy responsibility. In the wake of the Great Depression and World War II, Congress declared – in the Employment Act of 1946 – that the federal government was responsible for fostering "conditions … to promote maximum employment." However, a Federal Reserve mandate for full employment was not formally adopted until the late

1970s.[1] The Federal Reserve Reform Act of 1977 added the goal of “maximum employment” to the Fed’s responsibility for price stability — leading to the *dual* mandate. This legislation was part of a broader effort in Congress to reaffirm the role of government entities in promoting full employment, which culminated in the Humphrey-Hawkins Act of 1978.[2,3]

Of course, the Fed is not the only central bank that tries to balance price stability and full employment. However, our legislative history has made the Fed one of the few central banks where a full-employment mandate is on an explicit equal footing with a price-stability goal.

In this context, I’ll reiterate my perspective on the dual mandate. While there often is a tradeoff between inflation and employment in the short run, history has shown that price stability is essential for a well-functioning economy. In particular, it is an important precondition for maximum employment that is sustainable over time. So, in a very real sense, both aspects of the dual mandate are interrelated and complementary.

Full Employment and a Vibrant Economy

I want to emphasize the connection between full employment and the Fed’s role in fostering a vibrant economy that works for everyone, not just for some people. This is central to the questions we will explore at this conference.

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[1] Earlier legislation had referenced a role of the Federal Reserve, but it was not until 1977 that such a role was codified. See then-Fed Chair Ben Bernanke’s 2013 speech “A Century of U.S. Central Banking: Goals, Frameworks, Accountability”: https://www.federalreserve.gov/newsevents/speech/bernanke20130710a.htm.

[2] Humphrey-Hawkins stated the government’s responsibility to “use all practicable programs and policies to promote full employment, production, and real income, balanced growth, adequate productivity growth, proper attention to national priorities, and reasonable price stability.” The act expired in 2000, though the Federal Open Market Committee is still mandated to present semi-annual reports to Congress assessing the state of the economy and monetary policy.

[3] For more on the history and evolution of the dual mandate, see Aaron Steelman’s *Economic Brief* for the Richmond Fed: https://www.richmondfed.tv/publications/research/economic_brief/2011/eb_11-12

We know that *aggregate* data show average economic conditions, and not necessarily the experiences of specific subsets or groups. But we also know that, for some people, communities, and places, there are substantial and persistent gaps in economic outcomes – including but not limited to employment. A truly healthy economy needs the best ideas, energy, and participation from everyone – with ample opportunities to work, contribute, and prosper.

The Fed's mandate and our concern for a vibrant, inclusive economy bring our focus to participation in the economy and the workforce, and the challenges that can prevent people from doing so. These include real economic issues like child care, housing, and infrastructure such as transportation and broadband.

The Boston Fed has a decades-long history of studying disparities for groups and places.[4] We believe better understanding these gaps can lead to expanded opportunities for more people – and to those opportunities being more equitably available. This helps bring more people into the workforce, and strengthens economic growth and competitiveness. We are committed to examining factors that could limit people from participating in the economy, and where possible, to supporting research and collaborations that expand prospects for progress.

This work relates directly to our mission and mandate. And in that context, it is important to remember that the Fed's portfolio of activities is considerably broader than just our core monetary policy work. In our supervisory, payments, and community-outreach efforts, we promote financial stability and economic inclusion, access to credit for firms and households, and an efficient and reliable payments system. Community

[4] We conduct research, and have hosted conferences, exploring disparities in economic opportunities. Examples include the 1990s Boston Fed work on discrimination in mortgage lending (see https://www.bostonfed.org/news-and-events/news/2020/10/landmark-boston-fed-hdma-paper-recapped.aspx), and the Boston Fed's 2019 research conference, which explored the growing geographic disparities in economic outcomes (see https://www.bostonfed.org/news-and-events/news/2019/10/boston-fed-economic-conference-on-reducing-inequality-between-places.aspx and https://www.bostonfed.org/housedivided2019.aspx).

development activities, including our Working Places initiatives[5], provide examples of how to encourage local partnerships in New England's smaller cities and rural areas, to increase economic opportunities and progress. Our roles and responsibilities in the public interest also include rigorous, nonpartisan research on key economic issues, along with convening stakeholders, policymakers, and experts around issues of importance – such as in conferences like this one.

Assessing and Measuring Full Employment

Turning now to the relationship between full employment and monetary policy, a challenge for the Federal Reserve is how to operationalize a broad concept of full employment. I'd like to highlight some of the issues we face when translating the broad goal of full employment into specific monetary policy decisions.

Full *employment* has often been defined by referencing an *unemployment* rate. Specifically, the economy has been thought to be at full employment when the unemployment rate equals the natural rate of unemployment – the rate of unemployment consistent with a normal pace of economic growth in the medium to longer run. The *aggregate* unemployment rate is a useful summary indicator for broad overall labor market conditions.[6] But no single statistic can easily characterize a complex and evolving labor market.

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[5] The Boston Fed's Working Places programs are based on research into resurgent post-manufacturing cities, and support the Fed's full employment mandate. Research suggested smaller-city economic resurgence depends on a city's ability to mobilize its civic infrastructure — leaders, organizations, networks, and resources — to pursue a shared economic vision. So the programs support cross-sector, local leadership teams (with public, private, nonprofit, and community members) with shared goals. Team goals and strategies are chosen locally, based on need and opportunity. Winning communities receive grants provided by partners (not the Fed) including states, the private sector, and philanthropy. See https://www.bostonfed.org/workingplaces/initiatives.aspx.

[6] In particular, the unemployment rate has proven helpful in modelling the short-run tradeoff between real activity and inflation that is summarized by the Phillips Curve. The Bureau of Labor Statistics also publishes multiple measures of unemployment that try to capture different dimensions of labor

Since aggregate numbers do not show the wide range of experiences across groups of people, sectors, and places, we also review disaggregated labor-market data. For example, one sees persistent disparities in unemployment for different racial and ethnic groups, and across education levels.

Unemployment rates that are persistently higher by race, or by place – as they have been for a long time – reflect underutilization of our country's labor resources, and that adversely affects national productivity and prosperity. Indeed, in the past – even when the unemployment rate was at what was considered the natural rate – many people, groups, and places were excluded from full labor market participation. That is, labor market conditions at "full employment" have not served as a rising tide that equally lifts all boats. That had negative consequences for the affected people, as well as for overall economic performance.

Recent history provides some important insights. First, looking back at labor market developments during and after the 2007-2009 Great Recession, we can see how an aggregate *unemployment* rate becomes an inadequate indicator of full *employment* when the labor force participation rate is changing. After the Great Recession, the aggregate participation rate fell dramatically. Some of this decline stemmed from long-run structural forces beyond the Fed's control, such as population aging. But some of the decline resulted from the large drop in labor demand during the recession, which led to many workers becoming discouraged and dropping out of the labor force. To meet its full-employment mandate, the Fed had to determine how much of the participation decline was structural and how much was cyclical and could potentially be addressed by accommodative monetary policy.

More recently, we've seen another example of how labor force participation matters for full employment. Since the acute phase of the pandemic ended, labor demand has been outstripping the supply of available workers. A goal of current

underutilization. For more detail, see https://www.bls.gov/opub/btn/archive/the-unemployment-rate-and-beyond-alternative-measures-of-labor-underutilization.pdf.

monetary policy is, of course, to restore a better balance in the labor market, with higher interest rates working to slow labor demand in this realignment process.

But recently, part of the move toward a better balance has come through an increase in labor *supply*. The labor force participation rate for prime-aged workers (ages 25-54) is higher today than it was just before the pandemic – a development that few expected even a year ago. And some of the larger gains in participation have occurred among women and minority groups.

A better understanding of the behavior of labor force participation is important if the Fed is to meet both its full-employment and price-stability goals.[7] If labor supply expands to meet demand in tight labor markets, then higher levels of economic activity in such times may not generate additional price pressures requiring tighter monetary policy. And the higher levels of activity and participation can benefit those brought into the labor market, contributing to a vibrant economy that works for all.

A More Inclusive Perspective on Full Employment

This process was at work in the late 2010s, when the aggregate labor force participation rate stopped falling as labor markets became progressively tighter. Members of some disadvantaged groups were drawn into the labor force as this occurred. And the gains to those groups – and to the overall economy – were substantial.[8]

Fed Chair Jay Powell highlighted these significant and beneficial effects on several parts of the population in his August 2020 Jackson Hole speech announcing the new monetary policy framework. He recognized that “the robust job market was

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[7] Other factors impacting full employment, not discussed here, are also important, such as the relationship between job vacancies and unemployment.

[8] After bottoming out in 2015, the labor force participation rate of prime age workers rebounded by about 1.5 percentage points, roughly equivalent to 3 million additional workers. Employment increased by an even larger amount – about 4.3 million – given that the unemployment rate was falling over this period.

delivering life-changing gains for many individuals, families, and communities, particularly at the lower end of the income spectrum. In addition, many who had been left behind for too long were finding jobs, benefiting their families and communities, and increasing the productive capacity of our economy." [9,10]

Consistent with the recognition of the different labor market experiences across individuals and groups, the Federal Open Market Committee, or FOMC, noted as part of the 2020 framework review that full employment is a "broad-based and inclusive goal." The new framework also removed references to the FOMC's longer-run estimates of the unemployment rate in assessing progress toward full employment. These changes de-emphasized the use of a natural or long-run rate of unemployment as the key metric for assessing full employment.

In my view, the revised framework reflects the complexity of assessing full employment in a rapidly evolving economy. And, by moving away from a definition of full employment that is based primarily on aggregate unemployment, the new framework encourages Fed policymakers to better understand potential barriers to participation for some workers during "normal" times.

In many cases, these impediments are long-run, structural factors that cannot be resolved with monetary policy.[11] Government policies designed to reduce skills gaps or ameliorate child care problems over the long run will be fiscal, not monetary, policies.[12]

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[9] See https://www.federalreserve.gov/newsevents/speech/powell20200827a.htm.

[10] In 2019 and 2020 the System held several "Fed Listens" meetings to gain a better understanding of the labor market experiences of different groups that were an important part of the monetary-policy framework review process. Fed Listens: Perspectives from the Public (federalreserve.gov). The System is continuing these "Fed Listens" meetings. See https://www.federalreserve.gov/fedlistens.htm.

[11] These barriers often reflect structural impediments such as lack of child care options, lack of information about job opportunities, or lack of appropriate skills.

[12] Improvements in technology and changes in business practices can also reduce barriers without policy interventions. As an example, the growth of working-from-home is thought to be a key reason why the participation rates of persons with disabilities have risen so much since the pandemic. Our conference

However, to assess the long-run productive capacity of the economy, the Fed also needs to know how such barriers to employment are evolving over time. And the labor force participation increases during the late 2010s and after the pandemic indicate that the impediments could be less problematic when labor markets are tight. As a result, understanding these barriers from both the long-run and short-run perspectives is essential, if the Fed is to fulfill its dual mandate. And of course, as I noted earlier, this also aligns with our broader portfolio of work, including our role as a nonpartisan resource, convener, and partner to support a vibrant economy for our region and the country.

Our Conference

In that spirit, over the next day-and-a-half we'll hear from paper authors, panelists, and discussants on many of the issues surrounding full employment, including how best to measure it. Two panels will explore the challenge of assessing full employment in real time, and whether the Fed should probe for full employment late in expansions. These topics relate to the types of data that the Fed should use to evaluate full employment, as well as to the potential benefits and costs of tight labor markets.

We will also learn more about potential barriers faced by some groups — including women, racial minorities, and people with criminal histories. Other sessions will review the evidence on programs designed to increase workers' skills and will discuss the growth of "gig" work in the economy. Our keynote speaker, Cecilia Rouse, will explore the roles that a strong labor market and supportive government policies may have played in generating the rapid and remarkably equitable recovery from the pandemic.

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last year discussed potential long-run changes in labor markets brought on by the pandemic, so we won't focus as closely on those issues this year.

Concluding Observations

In closing, I want to express my sincere thanks to our keynote speaker, the paper authors and discussants, and the panelists for their contributions to this conference. I know we will also have excellent comments and questions from the floor and during the breaks, so my thanks to each of you for joining us. I also warmly welcome those tuning in to the live stream.

Now it is my pleasure to turn things over to my colleague Chris Foote, who will moderate our first panel.