ECONOMIC RESEARCH

Seeing the Workforce through the Lens of Economics

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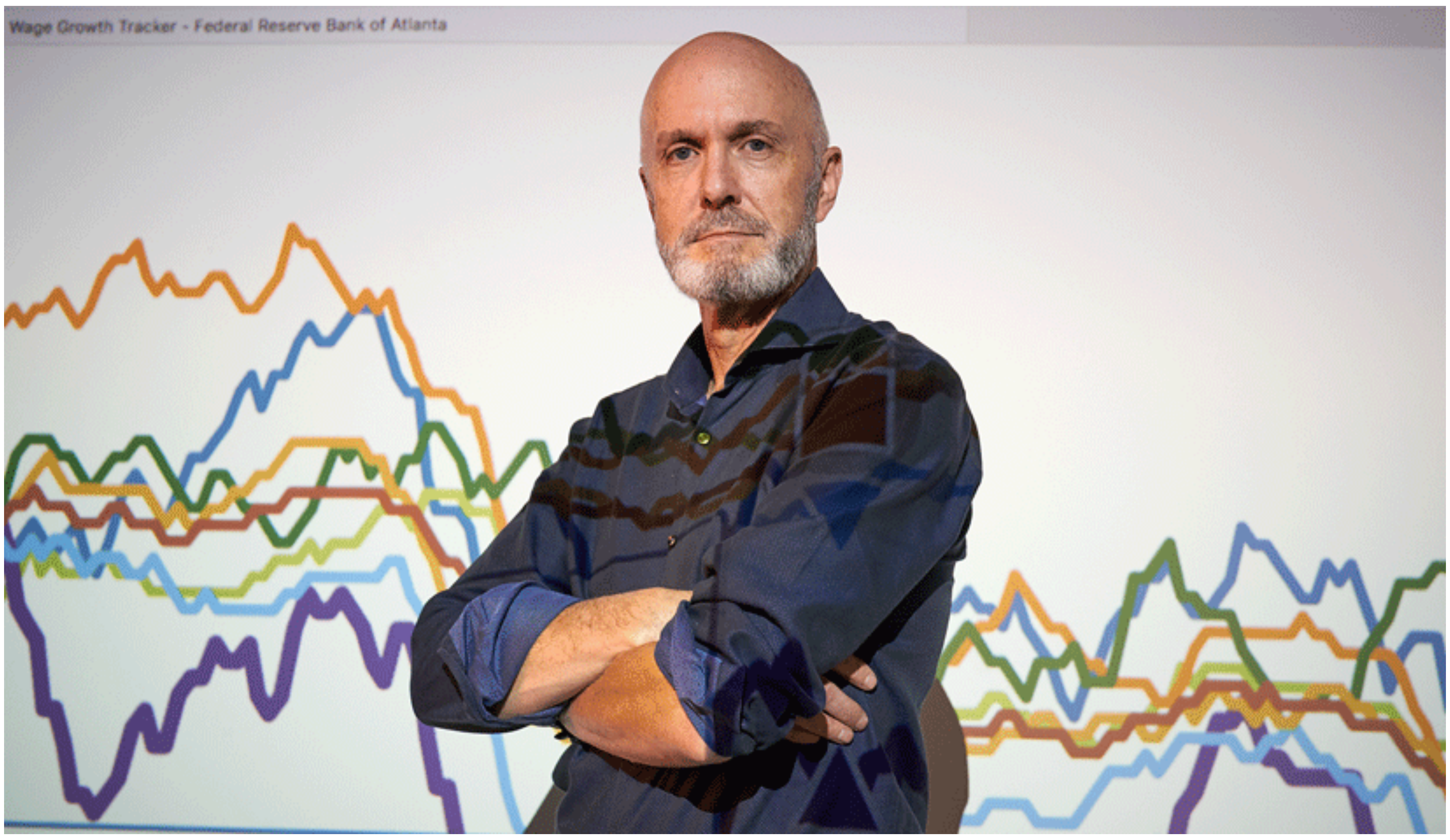


Atlanta Fed economist John Robertson. Photo by David Fine.

For John Robertson, the study of economics is not so much about money. It's more about choices people make, like working or looking for work.

An Atlanta Fed research economist, Robertson views economics as a framework for untangling problems. "There are other ways to think about issues," said Robertson, a native of New Zealand, "but economics can be a useful pair of glasses to put on to look at a problem, to think about data and information in a coherent way."

Much of the information Robertson scrutinizes involves the nation's labor markets. Maximizing employment is part of the Federal Reserve's dual mandate for monetary policy, along with fostering low and stable inflation.

On both fronts, recent years have given him much to puzzle over. Indeed, the dire labor market conditions of the Great Recession turned Robertson's attention to employment issues after he had served as a macroeconomic forecaster in his first 10 years at the Atlanta Fed.

It wasn't just that the "headline" unemployment rate more than doubled—though it did, peaking at 10 percent in October 2009. Other labor market signals also flashed red. At the job market's lowest point, nearly one in every eight adults in the United States was unemployed, wanted a job but wasn't actively seeking employment, or was working part-time but wanted full-time work, according to the Atlanta Fed's broad ZPOP measure, a measure of labor force utilization. Meanwhile, the proportion of adults in the labor force—either working or hunting for work—plummeted to its lowest level in over 30 years.

None of these conditions lent themselves to straightforward answers. Robertson notes that one of the advantages of working in a policy environment is that it tends to foster teamwork. So when Robertson confronted such a complex puzzle, he and his colleagues in Atlanta as well as across the Federal Reserve System began devising new ways to analyze the labor market.

One number: The product of millions of transitions

Each month, the U.S. Bureau of Labor Statistics publishes a single number—jobs gained—that can unsettle global financial markets. But that figure results from vast numbers of people changing their labor market status, Robertson pointed out. They switch jobs, lose jobs and become unemployed, move from unemployed into jobs, enter or leave the labor market entirely, and so on.

"We get 100,000 or 200,000 net new jobs each month out of millions of labor market transitions," Robertson explained. "It's fascinating to think about how complex the labor market is."

But for people who prefer clarity, it can be maddening. Instead, labor market economists must embrace ambiguity. Robertson is able to do just that, colleagues say.

"John keeps all the multiple dimensions of, say, the relationship between wage growth and employment in his head at one time," said Julie Hotchkiss, Atlanta Fed research economist and senior adviser. "It's this ability that has allowed the Atlanta Fed to develop and implement the cool internet tools that contribute to our reputation as a leader in labor market analysis." (More on those tools and indicators below.)

Quest for full employment embodies complexity, ambiguity

The Federal Reserve's mandate to foster conditions conducive to full employment is a prime example of the sort of fluid concepts that fuel the research and debate that inform monetary policymaking.

Full employment, basically, is when everyone who is able to work and wants a job can find one. It's also what economists consider the lowest possible level of unemployment that won't cause inflation to accelerate. (Economists differ on where that precise level is.)

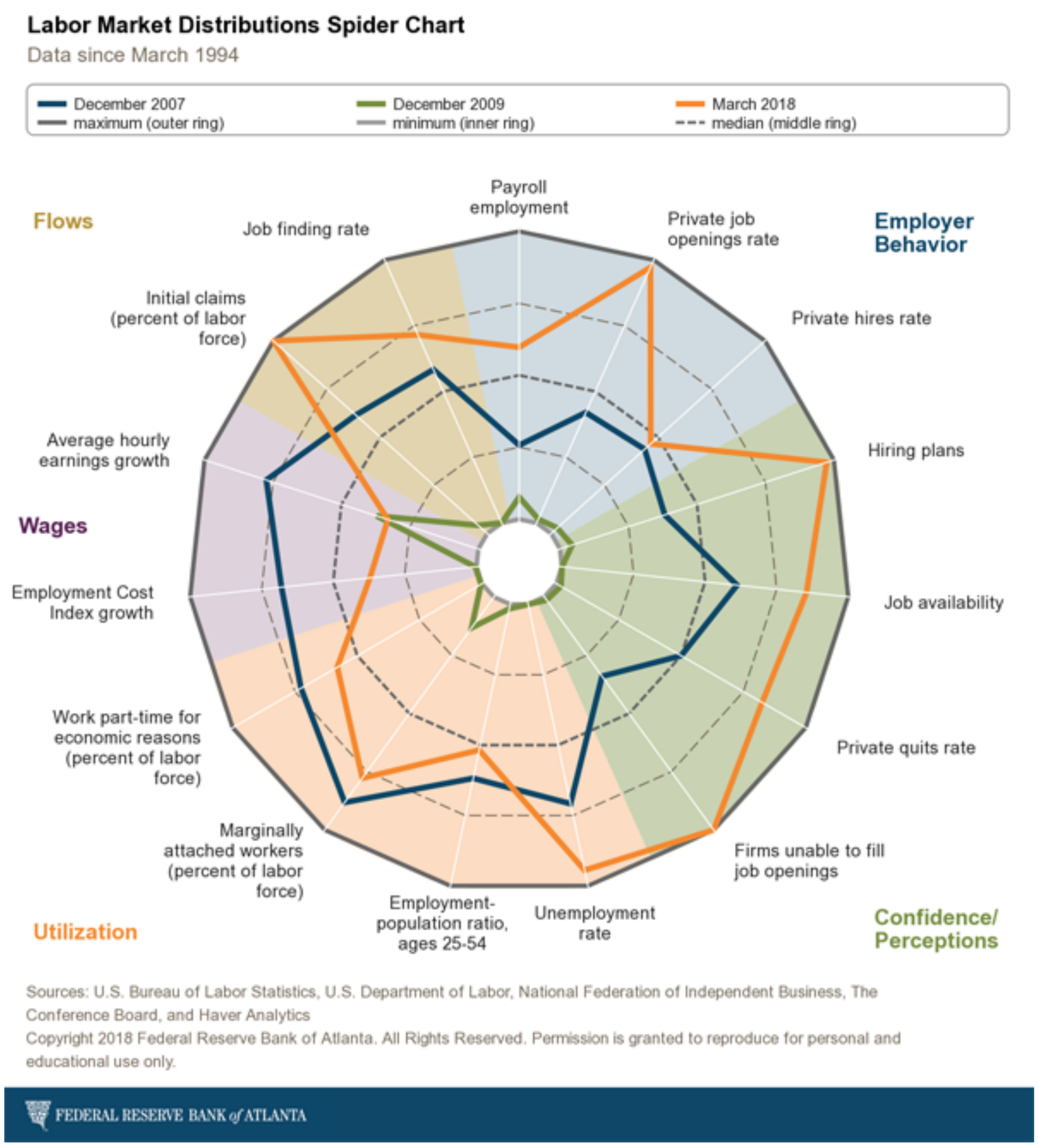
Right now, economists generally agree that the economy has nearly reached full employment. Yet if we were actually there, as some observers believe, it is likely that wages would have risen more vigorously, Robertson said.

Facets of the labor market are clearer than they used to be. More and better data allow economists to paint a more nuanced, multidimensional picture of the nation's labor market. Yet even the trove of information yielded by instruments such as the U.S. Census Bureau's Current Population Survey still leaves gaps.

As Robertson explained, the relevant surveys ask a lot of "what" questions: What is your employment status? What are you doing if not working? "There's very little why," Robertson said. "So you try to tease out the possible whys by looking at a whole bunch of whats, viewed through the lens of basic economic reasoning."

Knowing where we are

In the wake of the Great Recession, Robertson noted, policymakers focused on how much the labor market was recovering. With this recovery in mind, the labor market experts at the Atlanta Fed created a tool, the [Labor Market Distributions Spider Chart](), to depict the status of 15 dimensions of the labor market and visually condense information about many facets of the jobs market into one picture.



A couple of those facets involve wages. Data on wages since the Great Recession have presented yet another puzzle. Classic supply-and-demand theory suggests that worker pay should rise quickly as the demand for workers intensifies relative to growth in supply.

However, the supply may be larger than traditional measures suggest, Robertson said. Or other factors could be at work, such as persistently low inflation and labor productivity, both of which would work against firms having to increase worker pay faster.

In analyzing wages, Ellie Terry, an economic policy analysis specialist at the Atlanta Fed, and Robertson devised an indicator of wage growth that has gained widespread notice. The Wage Growth Tracker measures wage growth from the workers' perspective, as opposed to some metrics that gauge compensation costs of employers. They pointed out that the Wage Growth Tracker appears to be more correlated with overall labor market conditions than other measures of wage growth, but Robertson is also quick to note that no approach is inarguably right or wrong. "The various data we study generally complement rather than substitute for one another because they measure different things," he said.

Such a nuanced comment might sound unsatisfying for those seeking tidy answers. But this ambiguity is part of what absorbs an economist. "That's kind of the fun thing," Robertson said. "I'm learning every day. And my understanding improves a little bit, but then some other new puzzle emerges."

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