THE FULL-EMPLOYMENT RATE OF UNEMPLOYMENT IN THE UNITED STATES

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CONTEXT: HOW DOES THE PAPER RELATE TO THE LECTURE MATERIAL?

- This paper introduces the concept of Full-Employment Rate of Unemployment (FERU).
- This unemployment model encapsulates the socially efficient allocation of labor.
- This model is an improvement over previous models such as NAIRU, NRU, and other models.
- FERU aims to balance out the unproductive use of labor of both unemployment and recruiting efforts.
- $U^* = \sqrt{uv}$.

QUESTION: WHAT IS THE RESEARCH QUESTION ADDRESSED BY THE PAPER?

- $U^* = \sqrt{uv}$.
- If $v > u$, the labor market is inefficiently tight.
- If $u > v$, the labor market is inefficiently slack.
- $1 - u - v$ represents the share of socially productive workers in the labor force.
- $uv = A$.
- $u^* = v^* = \sqrt{A}$.

ANSWER: WHAT ARE THE MAIN ELEMENTS OF THE ANSWER TO THE RESEARCH QUESTION?

FERU is applied to three eras in U.S. history:

- **Great Depression (1930s)**
  - ‣ Low labor market tightness, inefficient unemployment, job shortages made the labor market inefficient.
- **Post-War Boom (1940s-1970s)**
  - ‣ High labor market tightness, high inflation, inefficiently tight labor market.
- **COVID-19 Pandemic (2020-2024)**
  - ‣ Initially low market tightness, but became tight due to rapid recovery.
  - ‣ Labor shortages and inflation emerged post-pandemic.
  - ‣ The pandemic-era labor market became too tight too fast.

GRAPHICAL ILLUSTRATIONS

Figure 15. FERU, NRU, and NAIRU in the United States, 1930Q1–2024Q2
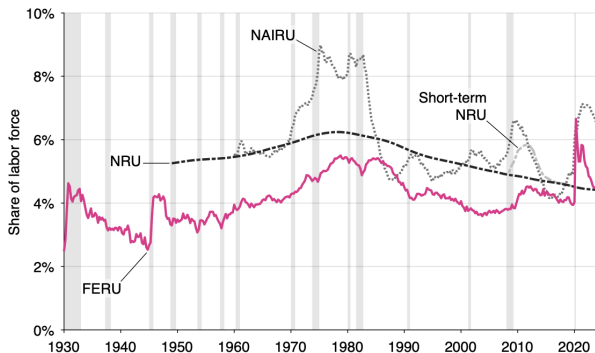
POSITIONING: HOW DOES THE MATERIAL IN THE PAPER CONTRIBUTE TO PREVIOUS LITERATURE?

- This paper critiques other methods of unemployment such as:
  - Non-Accelerating-Inflation Rate of Unemployment (NAIRU).
  - Natural Rate of Unemployment (NRU).
  - Mortensen-Pissarides Model.
  - Models based on the Beveridge Curve.
- This paper also builds on previous literature, including:
  - Barnichon (2010) - Post-War Period.
  - Petrosky-Nadeu and Zhang (2021) - Great Depression and World War II.
  - U.S. Bureau of Labor Statistics (2020 Pandemic).

CONCLUSION

- FERU remains quite stable, fluctuating between 2.5% and 6.7%, with an average of 4.1%.

- FERU provides a strong framework for assessing the socially efficient allocation of labor.