Years after the darkest days of the financial crisis and despite aggressive monetary stimulus, labor markets remain far from pre-crisis conditions in many advanced economies. Countries hardest hit by the housing bust and financial crises continue to witness high rates of unemployment, with rates in some cases near or above 20 percent.

Several years may be required before many of these labor markets return to “normal,” providing that normal has not been permanently altered by recent experiences. In addition, high rates of long-term unemployment and youth joblessness raise the risks of hardened labor markets.

High rates of unemployment in many countries reflect decisions by firms to lower labor costs by reducing the number of employees rather than wages. Such wage inflexibility, particularly during swings in the business cycle, likely contributes to extended periods of unemployment.

Moreover, there are other longer-term labor market developments that also have implications for economic growth. For example, there is evidence that churn in some labor markets and rates of new firm creation have declined, which may suggest less robust, productive and growing economies going forward. There also is increasing evidence of greater job polarization, where employment in middle-skill occupations is declining due in part to technological innovations and shifts in manufacturing activity toward emerging markets. Finally, demographic changes will continue to have significant effects on labor markets in the decades ahead.
The 2014 Jackson Hole Economic Policy Symposium, Re-Evaluating Labor Market Dynamics, addressed these issues, while central bankers—whether their objectives focus on inflation alone or include employment—consider labor market conditions in monetary policy decisions.

Some of the speakers at the symposium included: Janet L. Yellen, chair, Board of Governors of the Federal Reserve System; Mario Draghi, president, European Central Bank; Haruhiko Kuroda, governor, Bank of Japan; Alexandre Antonio Tombini, governor, Central Bank of Brazil; and Ben Broadbent, deputy governor of monetary policy, Bank of England.

“The Economic Symposium offers an environment for attendees to present insights and exchange ideas about important economic issues such as the labor market, which is a key consideration in the Federal Reserve’s monetary policy decisions,” Kansas City Fed President Esther George said. “Our Bank is proud to host the symposium to help generate better understanding of these issues.”

To read the proceedings, including papers and commentary for this year’s economic policy symposium and previous symposiums, visit KansasCityFed.org/research.