Reimagining Full Employment: 28 Million More Jobs and a More Equal Economy

Key Facts

- Common metrics for measuring the labor market—such as the unemployment rate—often underestimate the number of people available for work and thus the growth potential of the economy and the need for public investment to achieve an economy that works for everyone.

- Based on models that correct for pervasive racial, educational, and gender discrimination, we find that with sustained strong demand, a 68 percent employment rate is possible by 2031 (compared to the CBO’s 58.2 percent projection); that’s equivalent to 28 million more jobs.

- With this new benchmark, we can achieve a level of growth capable of reducing discrimination in the job market and shrink race, education, and gender employment gaps.

- To reach true full employment, the government must continue making essential investments in long-neglected spheres like climate and childcare—which will permanently increase labor force participation and accelerate innovation and productivity.

Overview

As the US economy begins to recover from COVID-19, we are poised for a period of faster economic growth than we have seen in decades. The extraordinary stimulus measures of the American Rescue Plan were vital in staving off economic disaster, but additional federal investment now can produce long-term growth and a tighter labor market that benefits everyone. As J.W. Mason, Mike Konczal, and Lauren Melodia write in “Reimagining Full Employment: 28 Million More Jobs and a More Equal Economy,” if we manage the boom rather than fight it, the US can reach true full employment and reduce racial and gender inequalities in the labor market.
Traditional Metrics of Employment Understate True Economic Potential

Earlier this year, President Biden endorsed the goal of full employment, highlighting how such a scenario shifts the balance of power in the labor market toward workers: "Instead of workers competing with each other for jobs that are scarce, we want . . . companies to compete to attract workers." Simply put, full employment is the aspiration that our economy provides a job for everyone who wants one. But there is currently no clear, quantifiable goal for full employment, only the Congressional Budget Office’s (CBO’s) natural rate of unemployment and the Federal Reserve’s projected target rate of unemployment—the level of unemployment that is expected to coincide with an acceptable level of inflation. Both have proven inaccurate in determining how close to maximum employment we actually are.

How we measure and understand employment, unemployment, and the labor force has a direct impact on the policy choices we make and, importantly, who benefits from economic recovery and growth.

Reimagining Full Employment: A 68 Percent Employment Rate and 28 Million More Jobs

Looking at historical maximum employment rates since 1980 and correcting for age, we find, unsurprisingly, that white men have the highest employment rate of any group as they face the fewest structural barriers to employment. Modeling a world where all are afforded the same privileges, adjusting for education and children, we find that 28 million more people could be drawn into the labor force, and that the US could reach an employment-population ratio (EPOP) of 68 percent, about 10 points higher than the CBO’s estimate of maximum employment.

Reaching full employment and adding 28 million more jobs to the US economy will require 2 percent steady growth in employment over the next decade—an ambitious but not impossible goal with sustained public and private sector investment.

The Benefits of a Higher Full Employment Benchmark: Flattening Race, Gender, and Education Gaps in the Labor Market

Employment prospects for disadvantaged groups are more dependent on labor market conditions than for more privileged groups. When the US is near full employment or in periods of sustained, strong growth (observed through low unemployment rates), people traditionally marginalized in the labor market experience the biggest gains. But we haven’t yet gone far enough to realize the full benefits of this dynamic. Full employment, therefore, is an important tool for racial and gender justice.

Race Employment Gap: The Black-white employment gap tracks closely with the overall employment rate. For instance, in the 1980s, when unemployment was near 10 percent, so too was the disparity between Black and white people finding employment. And when the
unemployment rate was near 4 percent in the boom of the late 1990s, so too was the Black-white employment gap. A weak economy exacerbates the effects of systemic racism and employer discrimination. While full employment won’t eliminate either systemic racism or employer discrimination, it can significantly shrink racial disparities in employment more than we have seen historically.

- **Education Employment Gap:** Education is an important pathway to greater job opportunities and better wages. However, in weak labor markets, employers place greater importance on educational requirements even when they aren’t necessary to do the job. Periods of strong growth and tight labor markets coincide with a shrinking gap between employment rates of people with and without college degrees.

- **Gender Employment Gap:** Women bear a disproportionate share of family and care work, much of which is unpaid. Rectifying this gap will require robust investment in childcare infrastructure alongside fast employment growth through sustained demand. Making it easier for women with young children or other caregiving responsibilities to work will not increase employment alone; there must also be enough demand to create jobs for them.

More federal investments now will not only help flatten race, gender, and education gaps in employment; the employment gains they create will permanently increase labor force participation, as new groups of people enter the labor market. Booms also raise productivity, as tighter labor markets and strong demand create both the incentive and the opportunity for innovation. And realizing our expanded capacity for growth makes room for crucial investments across sectors that can foster a more just and inclusive economy and society.

**Conclusion**

There has never been a better—or more urgent—time to invest in our future. But when we rely on flawed measures of full employment, we underestimate economic growth and enact monetary and fiscal policy that is unnecessarily contractionary, harming the very workers primed to benefit the most from a tight labor market. Instead, if we adopt a more accurate understanding of employment, we can calibrate our economic policies to accommodate **28 million more jobs** and create a better, more equitable economy.