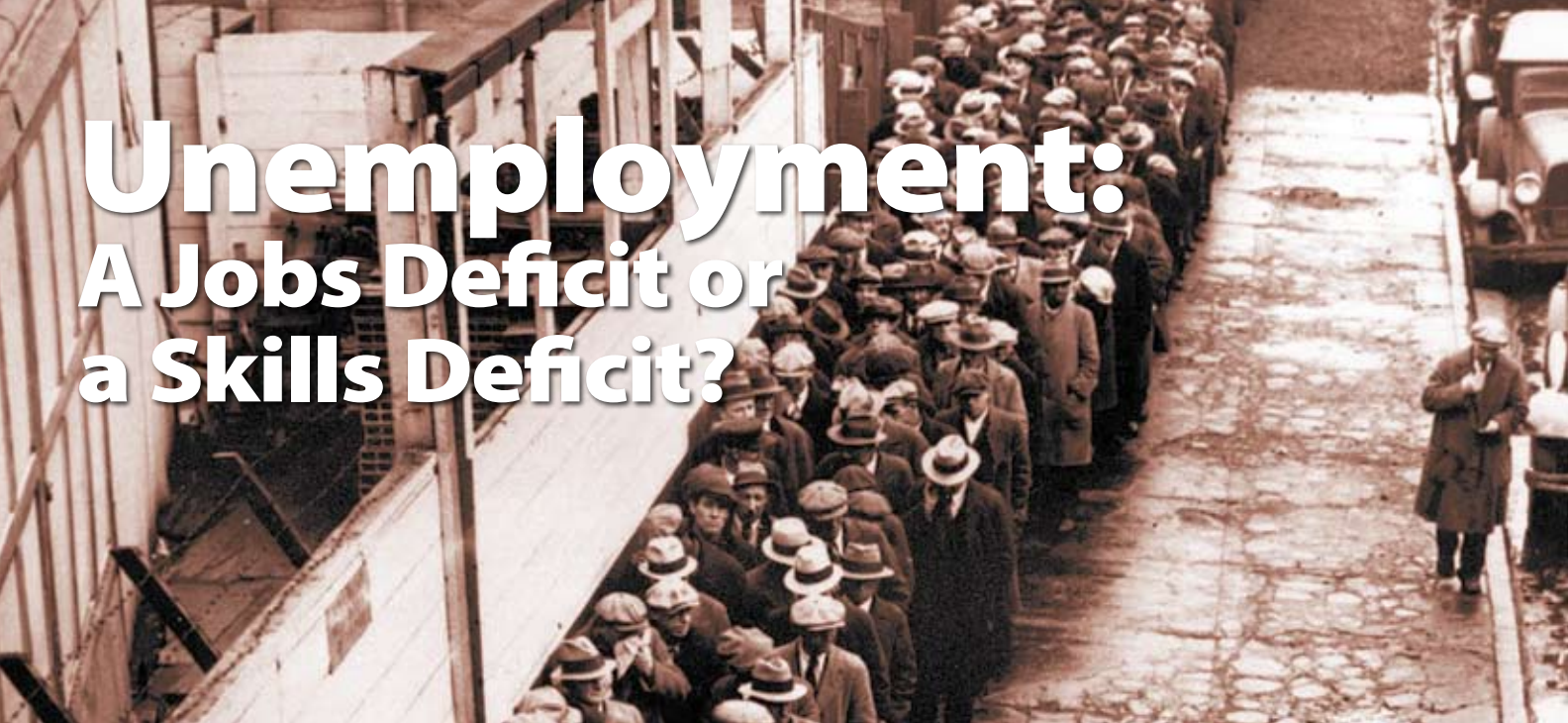


Unemployment: A Jobs Deficit or a Skills Deficit?



BY JOHN MILLER AND JEANNETTE WICKS-LIM

MILLIONS OF AMERICANS REMAIN UNEMPLOYED NEARLY A YEAR and a half after the official end-date of the Great Recession, and the nation's official unemployment rate continues at nearly 10%.

Why? We are being told that it is because—wait for it—workers are not qualified for the jobs that employers are offering.

Yes, it's true. In the aftermath of the deepest downturn since the Great Depression, some pundits and policymakers—and economists—have begun to pin persistently high unemployment on workers' inadequate skills.

The problem, in this view, is a mismatch between job openings and the skills of those looking for work. In economics jargon, this is termed a problem of "structural unemployment," in contrast to the "cyclical unemployment" caused by a downturn in the business cycle.

The skills-gap message is coming from many quarters. Policymaker-in-chief Obama told Congress in February 2009: "Right now, three-quarters of the fastest-growing occupations require more than a high school diploma. And yet, just over half of our citizens have that level of education." His message: workers need to go back to school if they want a place in tomorrow's job market.

The last Democrat in the White House has caught the bug too. Bill Clinton explained in a September 2010 interview, "The last unemployment report said that for the first time in my lifetime, and I'm not young ... we are coming out of a recession but job openings are going up twice as fast as new hires. And yet we can all cite cases that we know about where somebody opened a job and 400 people showed up. How could this be? Because people don't have the job skills for the jobs that are open."

Economists and other "experts" are most likely the source of the skills-gap story. Last August, for instance, Narayana Kocherlakota, president of the Federal Reserve Bank of Minneapolis, wrote in a Fed newsletter: "How much of the current unemployment rate is really due to mismatch, as opposed to conditions that the Fed can readily ameliorate? The answer seems to be a lot." Kocherlakota's point was that the Fed's monetary policy tools may be able to spur economic growth, but that won't help if workers have few or the wrong skills. "The Fed does not have a means to transform construction workers into manufacturing workers," he explained.

The skills-mismatch explanation has a lot to recommend it if you're a federal or Fed policymaker: it puts the blame for the economic suffering experienced by the 17% of the U.S. workforce that is unemployed or underemployed on the workers themselves. Even if the Fed or the government did its darndest to boost overall spending, unemployment would be unlikely to subside unless workers upgraded their own skills.

The only problem is that this explanation is basically wrong. The weight of the evidence shows that it is not a mismatch of skills but a lack of demand that lies at the heart of today's severe unemployment problem.



A breadline for unemployed men in New York City, 1932.

Credit:
Associated Press



High-Skill Jobs?

President Obama's claim that new jobs are requiring higher and higher skill levels would tend to support the skills-gap thesis. His interpretation of job-market trends, however, misses the mark. The figure that Obama cited comes from the U.S. Department of Labor's employment projections for 2006 to 2016. Specifically, the DOL reports that among the 30 fastest growing occupations, 22 of them (75%) will typically require more than a high school degree. These occupations include network systems and data communications analysts, computer soft-

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ware engineers, and financial advisors. What he fails to say, however, is that these 22 occupations are projected to represent less than 3% of all U.S. jobs.

What would seem more relevant to the 27 million unemployed and underemployed workers are the occupations with the *largest* growth. These are the occupations that will offer workers the greatest number of new job opportunities. Among the 30 occupations with the largest growth, 70%—21 out of 30—typically do not require more than a high school degree. To become fully qualified for these jobs, workers will only need on-the-job training. The DOL projects that one-quarter of all jobs in 2016 will

be in these 21 occupations, which include retail salespeople, food-preparation and food-service workers, and personal and home care aides.

In fact, the DOL employment projections estimate that more than two-thirds (68%) of the jobs in 2016 will be accessible to workers with a high school degree or less. Couple this with the fact that today, nearly two-thirds (62%) of the adult labor force has at least some college experience, and an alleged skills gap fails to be convincing as a driving force behind persistent high unemployment.

Low-Skill Workers?

If employers were having a hard time finding qualified workers to fill job openings, you'd think that any workers who are qualified would be snapped right up. But what the unemployment data show is that there remains a substantial backlog of experienced workers looking for jobs or for more hours in their existing part-time jobs in those major industries that have begun hiring—including education, healthcare, durable goods manufacturing, and mining.

Most telling are the *underemployed*—those with part-time jobs who want to work full-time. Today there are more underemployed workers in each of the major industries of the private economy than during the period from 2000 to 2007, as Arjun Jayadev and Mike Konczal document in a recent paper published by the Roosevelt Institute. Even in the major industries with the highest number of job openings—education and health services, professional and business services, transportation and utilities, leisure and hospitality, and manufacturing—underemployment in 2010 remains at levels twice as high or nearly twice as high as during the earlier period (measured as a percentage of employed workers).

Purveyors of the mismatch theory would have a hard time explaining how it is that underemployed workers who want full-time work do not possess the skills to do the jobs full time that they are already doing, say, 20 hours a week.

More broadly, workers with a diverse set of skills—not just construction workers—lost jobs during the Great Recession. Workers in manufacturing, professional and business services, leisure and hospitality, transportation and utilities, and a host of other industries were turned out of their jobs. And many of these experienced

workers are still looking for work. In each of the 16 major industries of the economy unemployment rates in September 2010 were still far higher than they had been at the onset of the Great Recession in December 2007. In the industries with a large number of (cumulative) job openings during the recovery—education and health services, professional and business services, and manufacturing—experienced workers face unemployment rates twice what they were back in December 2007.

There are plenty of experienced workers still looking for work in the industries with job openings. To be faithful to the data, Kocherlakota and the other mismatch proponents would need to show that experienced workers no longer possess the skills to work in their industry, even though that industry employed them no more than three years ago. That seems implausible.

Statistical Errors

Still, the statistical oddity that Bill Clinton and many economists have pointed to does seem to complicate the picture. If the number of job openings is rising at a good clip yet the number of new hires is growing more slowly and the unemployment rate is stagnant, then maybe employers *are* having trouble finding qualified folks to hire.

Once you take a closer look at the numbers, though, there is less here than meets the eye.

First, the *rate* at which job openings and new hires numbers change over time is not the right place to look. What we really need to know is how the number of unfilled job posts compares to the number of qualified workers employers hire over the same month. If employers in today's recovery are having a hard time finding workers, then the job openings left unfilled at the end of the month should be relatively high compared to the number of newly hired workers that month. In other words, if the number of positions left unfilled at the end of the month relative to the number of new hires rises *above* what we've seen during past recoveries, this would mean that employers are finding it harder to fill their positions with the right workers this time around.

But it turns out that the ratio of unfilled job openings to new hires is approximately the same during this recovery as in the recovery from the 2001 recession. In September 2010, fifteen months into the current economic recovery, the ratio of job posts left unoccupied at the end of the month to the number of monthly new hires stood at 69%—very close to its 67% level in February 2003, fifteen months into the last recovery. In other words, today's employers are filling their job openings with the same rate of success as yesterday's employers.

Comparisons that focus on the unemployment rate rather than on the number of new hires are even less meaningful. As hiring picks up at the beginning of an economic recovery, workers who had given up



Labor Market Musical Chairs

To understand the data discussed here, try picturing the U.S. labor market as a game of musical chairs, with a few twists. At any time, chairs (job openings) can be added to the circle and players can sit down (get hired). When the music stops at the end of the month, not all the chairs are filled. Still, many people—far more people than the number of empty chairs—are left standing.

Each month, the Bureau of Labor Statistics reports on what happened in that month's game of labor market musical chairs in its various measures of unemployment and in the Job Openings and Labor Turnover Survey (JOLTS). Here's how the BLS scorecard for labor market musical chairs works.

Job openings is a snapshot of the number of jobs available on the last day of the month—the number of empty chairs when the music stops.

Hires are all the new additions to payroll during the month—the number of people who found a chair to sit in while the music was playing. Because many chairs are added to the circle and filled within the same month, the number of hires over a month is typically greater than the number of openings available on the last day of that month.

Unemployed persons are those who looked for a job that month but couldn't find one—the number of people who played the game but were left standing when the music stopped at the end of the month.

the job search start looking again. This brings them back into the official count of the unemployed, keeping the unemployment rate from dropping even as both job openings and new hires rise.

Not Enough Jobs

The reality of the situation—the widespread job losses and the long, fruitless job searches of experienced workers—make it clear that today's employment problem is a jobs deficit across the economy, not a skills deficit among those looking for work.

While it's true that any given month ends with some number of unfilled job openings, the total number of jobs added to the economy during this recovery has simply been inadequate to put the unemployed back to work. In fact, if every job that stood open at the end of September 2010 had been filled, 11.7 million officially unemployed workers would still have been jobless.

This recovery has seen far fewer job openings than even the so-called “jobless” recovery following the 2001 recession. Economists Lawrence Mishel, Heidi Shierholz, and Kathryn Edwards of the Economic Policy Institute report that cumulative job openings

during the first year of this recovery were roughly 25% lower than during the first year of the recovery following the 2001 recession—that's 10 million fewer jobs. Even in the industries generating the most job openings in the current recovery—education and health services, professional and business services, leisure and hospitality, and manufacturing—the cumulative number of job openings has lagged well behind the figure for those industries during the first year of the recovery from the 2001 recession. (Only the mining and logging category, which accounted for just 0.5% of employment in 2007, has had more job openings during the first year of this recovery than during the first year of the 2001 recovery.)

Why has the pick-up in jobs following the Great Recession been worse than usual? The simple answer is that the recession was worse than usual. The sharp and extreme decline of output and employment in the Great Recession has severely dampened demand—that is, people have not had money to buy things. With the resulting lack of sales, businesses were not willing to either invest or hire; and this in turn has meant a continuing lack of demand.

If businesses have barely resumed hiring, it has not been for lack of profits. By the middle of 2010, corporate profits (adjusted for inflation) were about 60%

Where Mismatches May Matter

The skills-mismatch theory does not go very far toward explaining stubbornly high U.S. unemployment. Still, there are unquestionably some unemployed and underemployed workers whose job prospects are limited by “structural” factors.

One kind of structural unemployment that does seem to fit the contours of the Great Recession to at least some degree is that caused by a mismatch of geography: the workers are in one part of the country while the jobs they could get are in another. The housing crisis surely has compromised the ability of unemployed workers to unload their single largest asset, a house, and move to another part of the country. Plus, job losses have been particularly heavy in regions where the housing crisis hit hardest.

But at the same time, lost jobs have been widespread across industries and there is little real evidence of geographic mismatch between job openings and unemployed workers. As labor economist Michael Reich reports, “economic decline and the growth of unemployment have been more widespread than ever before, making it unclear where the unemployed should migrate for greater job opportunities.”

Even where there is a skills mismatch, that doesn't mean the government shouldn't get involved. On the contrary, government policies to boost economic demand can help significantly. When demand is high, labor markets become very tight and there are few available workers to hire. Workers previously viewed as “unemployable” get hired, get experience and on-the-job training, and see their overall career prospects brighten.

And, of course, government can fund expanded job-training programs. If the economy continues to slog along with low growth rates and persistent unemployment, the ranks of the long-term unemployed will rise. As they go longer and longer without work, their skills will atrophy or become obsolete and they will face a genuine skills-mismatch problem that will make job-training programs more and more necessary.

above their low point at the end of 2008, well on their way back to the peak level of mid-2006. Also, in early 2010 non-financial firms were sitting on almost \$2 trillion in cash. There was no lack of ability to invest and hire, but there was a lack of incentive to invest and hire, that is, a lack of an expectation that demand (sales) would rise. As is well known, small businesses have generally accounted for a disproportionately large share of job growth. Yet, since the onset of the Great Recession, small business owners have consistently identified poor sales as their single most important problem—and thus, presumably, what has prevented them from expanding employment.

The Role of Demand

Regardless of the lack of evidence to support it, the skills-mismatch story has seeped into media coverage of the economy. Take, for example, National Public Radio's recent Morning Edition series titled "Skills gap: holding back the labor market." In one segment, reporter Wendy Kaufman presents anecdotes about employers turning down record numbers of applicants and leaving job openings unfilled. Economist Peter Capelli then comes on and remarks, "You know, a generation ago you'd never expect that somebody could come into a reasonably skilled, sophisticated position in your organization and immediately make a contribution. That's a brand new demand." Now, that comment does not point to today's workers possessing fewer skills or qualifications. Rather, it suggests that employers have raised the bar: they are pickier than in the past.

That makes sense. We've seen that employers are successfully filling positions at about the same rate as in the recent past. What's different this time around is that employers have had up to six unemployed workers competing for every job opening left vacant at the close of the month. This is by far the highest ratio on record with data back to 2000. During the 2001 recession, that ratio rose to just over two unemployed workers for each opening. (In the first years of the "jobless recovery" following the 2001 recession, the ratio continued to rise, but it remained below three to one.) Clearly, these numbers favor the alternative explanation. Unfortunately, Kaufman doesn't even consider it.

That's too bad. Recognizing that a lack of demand for goods and services is to blame for the severe crisis of unemployment puts the focus squarely back on the federal government and on the Fed, which could help to remedy the problem

—*if* they had the political will to do so. Millions of unemployed workers, organized and armed with an accurate diagnosis of the problem, could create that political will—unless they are distracted by a wrong-headed diagnosis that tries to blame them for the problem. **D&S**

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JOHN MILLER is a professor of economics at Wheaton College and a member of the *Dollars & Sense* collective. **JEANNETTE WICKS-LIM** is an assistant research professor at the Political Economy Research Institute, UMass-Amherst. The authors thank Alejandro Reuss and Amy Gluckman for their contributions to this article.

SOURCES : Bureau of Labor Statistics Table A-14, Unemployed persons by industry and class of workers, not seasonally adjusted, historical data (bls.gov); Lawrence Mishel, Heidi Shierholz, and Kathryn Anne Edwards, "Reasons for Skepticism About Structural Unemployment," Economic Policy Institute, Briefing Paper #279, September 22, 2010 (epi.org); Arjun Jayadev and Mike Konczal, "The Stagnating Labor Market," The Roosevelt Institute, September 19, 2010 (rooseveltinstitute.org); Bureau of Labor Statistics, Job Openings and Labor Turnover (JOLTS) Highlights, September 2010 (bls.gov); Michael Reich, "High Unemployment after the Great Recession: Why? What Can We Do?," Policy Brief from the Center on Wage and Employment Dynamics, Institute for Research on Labor and Employment, University of California, Berkeley, June 2010 (irle.berkeley.edu/cwed); Narayana Kocherlakota, President Federal Reserve Bank of Minneapolis, "Inside the FOMC," Marquette, Michigan, August 17, 2010 (minneapolisfed.org); Lawrence Mishel and Katherine Anne Edwards, "Bill Clinton Gets It Wrong," Economic Policy Institute, Economic Snapshot, September 27, 2010 (epi.org); "Remarks of President Barack Obama—Address to Joint Session of Congress," February 24, 2009 (whitehouse.gov); "The Skills Gap: Holding Back the Labor Market," Morning Edition, National Public Radio, November 15, 2010 (npr.org).