

Is Joblessness Now a Skills Problem?

Today, long-term unemployment — that is, unemployment lasting six months or longer — is at a record high. The share of unemployed Americans whose job searches have lasted this agonizingly long is 43.1 percent, a figure that is unprecedented since the Bureau of Labor Statistics began keeping these records in 1948.

A growing number of observers have argued that this state of affairs is caused in significant part by a mismatch between available jobs and available workers, especially a mismatch in skills.

I agree that the long-term component of unemployment has structural origins, including a substantial degree of skills mismatch. I hear a fair number of stories from around our District of hard-to-fill job vacancies in certain specialties. Looking at the world around us, it is reasonable to assume that employers need higher skill levels from their workers today, on average, than they did a generation ago. Indeed, the unemployment rate of college-educated workers lately has been only around half that of workers without a high school diploma. Economic research indicates that the relationship between unemployment and the job vacancy rate changed during the recession; we're seeing more unemployment for a given rate of job vacancies — which suggests matching problems.

But critics of the skills-mismatch story argue that the empirical evidence does not fully support it. They point to studies that have looked at vacancy and unemployment rates according to industry and occupation, which have estimated that the portion of unemployment attributable to matching problems is between 0.6 percentage point and 1.7 percentage points.

In my view, such statistics do not disprove the mismatch theory. The occupation-level and industry-level data on which these studies rely can hide significant differences within broad categories. There is a wide range of positions within any given occupational or industry category, some of them in high demand and some not; for example, “professional, scientific, and technical services” includes such disparate businesses as law firms, advertising agencies, and interior design firms. Not only do these data combine very different categories of businesses, but they also combine highly different jobs within a given business — both experienced patent attorneys, who may be in high demand, and typists, whose demand has declined as lawyers have adapted to the computer age. Aggregating such jobs together may obscure the existence of scarcity, and skills mismatch, in some of them. Moreover, even the estimates that are cited by critics suggest a major role for mismatch: A percentage point, or 1.5 percentage points, is significant even within the

context of today's unemployment rate of roughly 9 percent.

In short, I think it is quite plausible that skills mismatch is an important factor holding back improvements in the labor market. The question is how important — and that's an issue that economists are working to answer as precisely as possible.

What are the policy implications of the mismatch issue?

One is that public programs to support job training can be a good investment. A more-skilled worker typically has a higher marginal product — he or she can contribute more to the economy — which means training programs are potentially beneficial to both the worker and the economy. But such programs can be costly and time-consuming, so it is unrealistic to expect such policies to transform the current job landscape overnight. Moreover, there are questions about the ability of government-directed programs to identify and target the appropriate skills. Community colleges and other providers do so in a decentralized way by responding to demand from individuals, as well as demand from firms for in-house training. Such efforts equip unemployed workers with the tools needed to land jobs that actually exist, and arguably are more effective than larger-scale, more centralized programs.

Another, more immediate implication is the extent to which monetary policy can make a difference in getting more Americans into jobs. To the extent that skills mismatch is identified as a significant portion of the long-term unemployment problem, monetary policy will have difficulty making meaningful inroads into the jobs problem without increasing inflation. Monetary policy, after all, doesn't train people.

Labor-market mismatch is an example of the kind of problems that have made policymaking so challenging since the Great Recession — and that will likely be the subject of vigorous yet collegial discussion at Federal Open Market Committee meetings in the months ahead.



A handwritten signature in black ink, appearing to read "Jeff M Lacker". The signature is fluid and cursive.

JEFFREY M. LACKER
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