Mitchell's Musings 9-5-11: No Match for the Job at Hand

One outgrowth of the Los Angeles Watts Riot of the 1960s was creation of a public transit bus route to take (then) black cleaning women to such locales as Beverly Hills, Bel Air, Westwood, and Pacific Palisades. The bus left the black neighborhoods early in the morning and went to the upscale neighborhoods. In the evening, it ran in the opposite direction. That is, the bus line was not a continuous back-and-forth service that ran all day but was geared specifically to the labor market, going just one way in the morning and the other way in the late afternoon.

As the demographics of the LA region changed over the years, the passengers were more likely to be Latina than black. However, the post-Watts bus service continued until 2004, when other routes were established. Two profiles of the old route that appeared in the *LA Times* referred to bus line 576 as the "Nanny Express."[1]

Why was this unusual service created? In the aftermath of the Watts Riot, there was much attention to black unemployment as a cause of the Riot. Out of that concern came the observation that available jobs - and available workers to fill those jobs - could be geographically mismatched; workers were in one location and jobs in another. Hence, the remedy in this case was to create a transit route to make the match.

Job mismatch is sometimes viewed as locational, as in the example above, but more commonly it is discussed in terms of skills. Employer skill needs are said to be different from those that the unemployed have on offer. Typical remedies proposed for this mismatch are job training and education.

Job mismatch is often linked to so-called "structural" unemployment. Discussion of structural unemployment seems to arise whenever the labor market is at extremes. In periods when the unemployment rate is relatively low, economists start worrying about inflation. The story told is that due to job mismatch, the labor market is tighter than the unemployment rate might suggest. Those who are unemployed don't have the right skills or are not in the right place and so therefore employers will bid up wages as they compete for the few who do match their location and skill needs. Rising wages will push up prices, etc.

When the unemployment rate is relatively high, structural stories also come into vogue. Macro remedies – stimulatory monetary and fiscal policies – won't work, according to these stories – because the unemployed aren't what employers want. There is no point is using macro policy because it will just cause inflation. Such structural stories have an appeal to those

[1] You can find the story at http://articles.latimes.com/2000/jul/04/news/mn-47637 and http://articles.latimes.com/2004/dec/11/local/me-nanny11

commentators who, for ideological or other reasons, don't want to adopt macro policy to reduce unemployment. And the structural tale appeals to policy makers who, for political or other reasons, haven't and/or can't adopt such macro remedies.

Clearly, at any point in time, there *are* structural mismatches in the labor market. However, at present, there seems to be confusion about the existence of *some level* of structural unemployment (always true) and the *change in that level* (which may or may not be occurring). Has there been some sudden shift in worker location and skills vs. employer location and skill demands that just happened to correlate with the financial collapse of 2008 and its aftermath?

In principle, one indicator of a change in the level of structural unemployment could be the relationship between the vacancy rate (job openings available from employers) and the unemployment rate. If, over time - for a given unemployment rate - the vacancy rate rose, that increase would suggest that there was a rise in available jobs that the unemployed were not capable of filling.[2] "In principle," however, is the operative term because although we have kept unemployment rate data since 1940, there has been no long-term official collection of vacancy data.

The U.S. Bureau of Labor Statistics (BLS) did do some experimental vacancy work for the manufacturing sector in the late 1960s and early 1970s, but the series was discontinued. Economists have since used proxies such as the Conference Board index of help-wanted newspaper advertising as a substitute for vacancies. But the validity of that series was upended by the rise of the Internet for job advertising. Most recently, however, the BLS resumed collecting vacancy (and turnover) data with its Job Openings and Labor Turnover Survey (JOLTS).

JOLTS data begin at the end of 2000, around the peak of the dot-com boom, and continue on a monthly basis to the present. That isn't a long period in which to detect the development of underlying structural shifts in the labor market. But if you are a proponent of the "macro-won't-work-now-because-it's-structural-mismatch-problem approach," you evidently think that such shifts happen within short periods. So let's do some quick-and-dirty work with JOLTS and the unemployment rate and see what we can. Do the data suggest that the level of structural unemployment has shifted up in some dramatic fashion?

A chart of the job openings (vacancy) rate vs. the unemployment rate appears on the next page.[3] Note that even when unemployment peaked in early 2009, the jobs opening rate was

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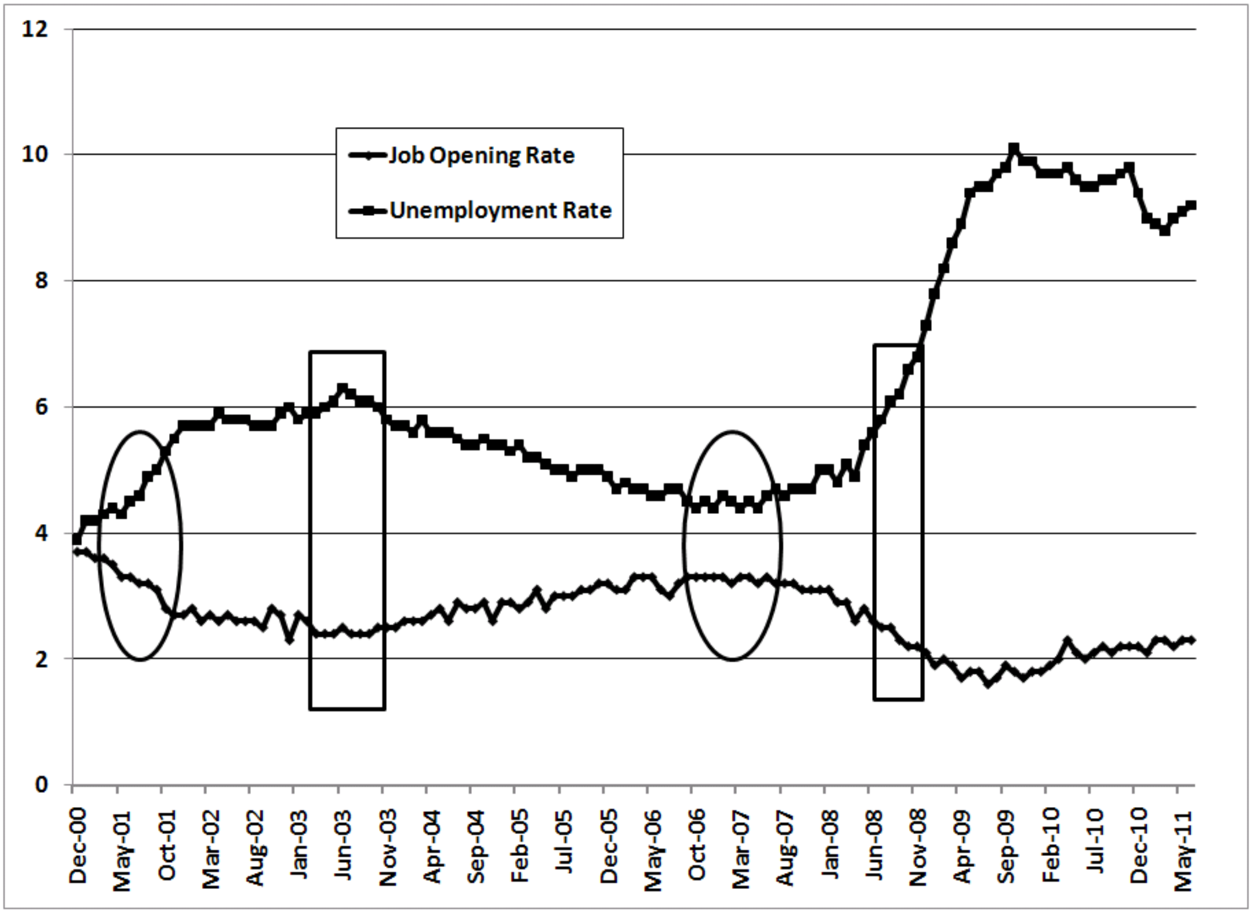
[2] Economists will recognize that I am referring to the "Beveridge curve" literature here.
[3] The data on the chart are seasonally adjusted. Definition of JOLTS data can be found at http://www.bls.gov/jlt/jltdef.htm

about 2%. What that suggests is that there are going to be some vacancies reported no matter how deep the slump. Economists have long noted the existence of "frictional" unemployment, i.e., that there will always be some minimal time needed to find jobs, even in booms, and so the unemployment rate has never been/can never be zero.[4] Vacancies seem to exhibit the mirror image of such frictions. No matter how dismal the economy, there are always some vacancies.



The housing/mortgage bubble did not produce quite the boom that the dot-coms did. But the former episode got the unemployment rate down to around 4.5% in late 2006 and early 2007. As the economy cooled off after the peak of the dot-com boom, the unemployment rate began to rise, getting to around 4.5% in late spring/early summer of 2001. These two periods are marked on the chart with ovals. Note that the jobs opening rate in *both* periods was about the same, around 3.3%. So, looking at two low unemployment rate periods over 2001-07 does not indicate a rise in structural unemployment over that six-year period. That is, the unemployment-vacancy relationship was about the same in both.

[4] During the peak of World War II, unemployment was in the 1-2% range. It was in the 2-3% range during the Korean War and 3-4% during the Vietnam War.

What about high unemployment rate periods? The dot-com bust ultimately drove unemployment a bit over 6% in mid-2003. By late summer 2008, unemployment was back at that level (and rising). In those two periods, marked by rectangles on the chart, the job openings rate was about 2.5%. So, again, no sign of a shift in the unemployment-vacancy relationship is apparent. In short, to take a structuralist view of our current situation, you would have to believe that the level of structural unemployment abruptly shifted up *after* 2008, even though for the five or six proceeding years, it showed no signs of movement.

Does that observation mean that no policies aimed at structural unemployment are worth considering at present? Not at all. But it suggests that they were equally worth considering in 2006-07, before the current slump. And there are limits to what could be accomplished by such policies, back then and now.

If you could magically overcome *all* barriers through some set of micro-level policies – structural and frictional – so that each reported vacancy now was immediately filled by someone now unemployed, the unemployment rate would currently be a bit over 7% instead of a bit over 9%. And the jobs opening rate would be – by definition – zero! However, as noted above, it is likely that a good portion of current jobs opening rate are the analog of frictional unemployment, i.e., always going to be with us.

Do you think you could devise structural policies that could cut the current vacancy rate in half by transforming those currently unemployed into something more like what employers desire? If you think so, then you could cut the unemployment rate from its current 9+ percent to 8+ percent. But in the history of the series, the jobs opening rate has never been as low as half its current level.[5]

A realistic assessment would likely be still less optimistic than cutting currency vacancies in half. Using feasible micro-level structural policies (retraining, relocation allowances, etc.) might knock a few tenths off the current unemployment rate, absent macro stimulus. Taking structural action is worth considering but it doesn't get to the heart of the problem.

[5] The latest figure available at this writing is for June 2011. The jobs opening rate as of that date was 2.3%. The lowest it has been since collection of the data began is 1.6%.