GORDON REPORT, December 2014
“How Much Slack Is in the U.S. Labor Market?”

OVERVIEW

With October’s U.S. unemployment rate at 5.8 percent, some argue that the number of workers available for hire might get tighter. However, many economists offer the counterargument that plenty of labor slack still exists since employers remain unwilling to raise wages.

It has long been apparent to many analysts that the U.S. Bureau of Labor Statistics’ U-6 unemployment calculation provides a more accurate measure of unemployment. This figure combines the number of people unemployed with the part-time workers seeking full-time work with benefits, and people who have become too discouraged to keep looking. The U-6 rate was 11.5 percent in October 2014. Median hourly U.S. wages when averaged across all occupations has fallen 3.4 percent since the beginning of the 2007 recession, after adjusting for inflation. However, there has been some wage growth for critical skilled tech jobs in parts of the United States.

Another viewpoint is that much of the drop in the unemployment rate is due to a shrinking labor force driven mainly by baby-boomer retirements. However, by conservative estimates the unemployment rate would be 7.2 percent if we counted all the jobless working-age adults who should be seeking employment (New York Times, November 14, 2014). Obviously there are many Americans available to fill low-skill jobs. Since 2010 most of the gains in employment have been in low-skill sectors such as leisure and hospitality, temporary help services, and retail jobs.

MOUNTING EVIDENCE OF SKILLED WORKER SHORTAGES

But the picture is very different for many employment sectors with high-skill jobs. An Associated General Contractors of America survey of October 2014 found that 20 percent of its members had turned away business due to a lack of skilled craft people. This is in an industry that is just beginning to recover! A recent *Wall Street Journal* survey reported that 43 percent of small business owners indicated that “unfilled jobs were impeding their businesses from growth or expansion.” In a November 2014 Deloitte Business Confidence Report, 32 percent of chief executive officers stated that they viewed the shortage of skilled workers as an obstacle to future growth. These are only the most recent surveys reporting that skilled-worker shortages are a major business worry.

With 10,000 U.S. baby boomers retiring each day, this skills-job imbalance will only continue to escalate. The global nature of this huge demographic shift means that every industrial nation is chasing an inadequate supply of younger well-educated and appropriately skilled workers to fill jobs in their tech-driven economies. We tend to forget that each generation’s talent is not automatically re-engineered to the requirements of the current labor economy.

The U.S. Department of Labor reported that at the end of September 2014 there were 4.7 million open jobs, putting the jobs-openings rate at prerecession levels (2007). Yet the unemployment rate then hovered around 4.4 percent. With the 5.8 percent October 2014 unemployment rate, you might ask what has happened to change the U.S. labor market? Is this the result of too many unemployed workers lacking the skills needed for available jobs triggering the fall of U.S. productivity from 2.6 percent (1995-2010) to the miserable rate of 0.7 percent?

A strong indication that this is the case can be found in the November 2014 J.P. Morgan study, “New Skills at Work.” It found that about 2.6 million or 46 percent of working-age New York City residents lack the post-secondary credentials that most companies now require to fill middle-skill jobs. J.P. Morgan has also issued a report on Houston and intends to publish similar reports on seven other U.S. metropolitan areas to spur meaningful reforms for closing this skills-job disconnect. “We’ve got to invest in this kind of data,” stated Chauncy Lennon, the J.P. Morgan study’s director, “so that we can get better alignment between what employers are looking for and what trainers are providing.”

Until now U.S. business executives have been largely unwilling to commit financial resources to funding realistic solutions for skilled worker shortages. A 2014 Oxford Economics study, “Workforce 2020: The Looming Talent Crisis,” reported on the paradox that in the United States though 41 percent of the companies surveyed reported difficulty recruiting employees with base-level skills and 50 percent had difficulty recruiting specialized employees, only 39 percent of American employees receive ample training on workplace technology.

U.S. executives seem to hope that somehow from the large pool of unemployed or underemployed workers, those with the required skills will magically appear. They also continue to grasp at the fantasy that more H-1B visas will satisfy their labor shortfalls, ignoring the fact that a global hunt for these skilled workers has turned into a “skill wars” that no one can win. “Workforce 2020” surveyed executives and employees in 27 nations, and almost half of all executives reported difficulty in finding workers with base-level skills.

BUSINESS ENGAGEMENT THROUGH RETAINS

Progress in overcoming the current U.S. bifurcated labor market depends largely on increasing business commitment to a variety of both short-term and long-term training and education programs. A hopeful sign comes from the 2014 Training Industry Report in the magazine *Training* that found total U.S. training expenditures jumped 11.7 percent to $61.8 billion. An important short-term strategy for filling today’s growing number of vacant jobs is businesses participation in regional public-private partnerships, which I call RETAINs (Regional Talent Innovation Networks), that are increasing both effective job-training programs and incumbent worker training and education. To prepare the workforce of the future, RETAINs are also helping businesses play a much more active role by supporting internships, apprenticeships, career academy high schools, and career information and education at both the elementary and secondary levels.

Many businesses across America already are helping to foster these methods of developing future talent through their participation in RETAINs. To overcome this skills crisis, particularly small businesses need to become engaged in supporting such partnerships. Rather than facing closure for the lack of key workers, businesses need to take action today to avoid being listed in a future “obit column” of the *Wall Street Journal*.