

Testimony before the Joint Economic Committee of the U.S. Congress

Harry J. Holzer, Professor of Public Policy at Georgetown University

April 24, 2013

Good morning. I would like to make the following points about structural and long-term unemployment, as well as the future earnings prospects of various groups of U.S. workers.

1. *Structural unemployment in the U.S. has probably risen by about 1 percentage point during the labor market downturn and slow recovery since 2007, though it is unclear how much of this increase will persist over time.*

Most of the increase in unemployment since 2007 reflects insufficient employer demand for workers. But the job vacancy rate (now at 2.8%) is higher than we might expect with so much unemployment. Employers in some sectors (like health care and advanced manufacturing) seem to have genuine difficulty filling jobs requiring specific skills, while others are moving more slowly to fill jobs when demand for their products remains limited and uncertain.¹

2. *Long-term unemployment should have somewhat negative effects on future employment prospects, at least for some groups.*

The long-term unemployed are being rehired more slowly than those with short unemployment spells, though not by as much as some might expect.² How well they will fare when aggregate job creation picks up remains unclear, and some subgroups among the long-term unemployed (like older workers) should have more difficulty finding new jobs than others.

¹ Job vacancy rates are available every month from the Bureau of Labor Statistics' Jobs Opening and Labor Turnover Survey (JOLTS) news release. Vacancy rates in manufacturing and health care are routinely higher than the new hire rates observed in those sectors, where the opposite is true in most others. This indicates relatively longer vacancy durations in these two sectors, consistent with other descriptions of employers who have difficulty filling jobs there (such as Barnow et al., 2013 for health care and Fletcher, 2011 for manufacturing). Elsby et al. (2012) show that job vacancy rates have grown relative to unemployment rates in the past few years, suggesting an outward shift of the "Beveridge Curve" over time. But Peter Cappelli (2012) and Catherine Rampell (2013) describe lengthy vacancy durations among some employers who do not seem too eager to fill these jobs. Regarding "structural" unemployment, Estevao and Tsounta (2011) show evidence of growing skill mismatches generating such unemployment differences across states, while Elsby et al. (op. cit.) and Daly et al. (2012) attribute growing structural unemployment to temporary factors, such as longer periods covered by Unemployment Insurance and also employer uncertainty.

² See Elsby et al. (2012) and Valletta (2013) for evidence that those with longer unemployment spells tend to find new jobs more slowly than those with shorter spells. Both studies show that reemployment rates stop declining with longer unemployment spells at some point; in the latter (more recent) paper, this occurs after about 20 months of unemployment. Also, see Ghayad and Dickens (2012) for evidence that only long-term unemployment drives the shifting out of the Beveridge Curve noted above.

3. *The high levels of unemployment during the past 5 years will likely affect younger and older workers quite differently as the recovery continues, though both might be “scarred” to some extent. Other groups - such as African-Americans and also the children of the dislocated - may be scarred as well.*

Long-term unemployment has increased the most among older workers (ages 55 and above), even though their overall unemployment rates remain low and their work activity has risen during the past 5 years. Older workers lose and leave their jobs less frequently than other workers; but they also adapt less quickly to changing skill needs in the labor market, partly because employers are reluctant to hire them and invest in their training on the job. In contrast, younger workers (ages 24 and below) are more frequently unemployed but for much shorter spells.³ They will gain jobs more quickly than older workers but at lower wages than usual, and they will have more difficulty achieving wage growth by changing jobs. As a result, their earnings levels will be relatively lower for many years.⁴ Black workers also have fairly lengthy unemployment spells which could impede their progress during the recovery.⁵ The children of less-educated workers who suffer job loss and extended spells of unemployment bear some costs as well, since their own educational attainment suffers (presumably because of the stress experienced at home).⁶

4. *Besides their effects in the past 5 years, imbalances between the skills sought by employers and those held by workers have also led to growing earnings inequality over time and to lower levels of “good job” creation in the U.S.*

While educational attainment among Americans has been slowly increasing, too many leave high school with very few of the general or sector-specific skills that employers seek. Also, many start college (either 2-year or 4-year) but fail to complete any program or gain any credential. Thus the gaps between those who do and do not have the skills employers seek has widened over time.⁷ And employers who perceive difficulty in filling good-paying jobs

³ In the first quarter of 2013, the unemployment rate (not seasonally adjusted) was 8.1% nationwide but 24.2% for teens, 14.1% for youth aged 20-24, and only 6.1% for those 55 and older. But median durations of unemployment (in weeks) throughout 2012 were 19.3 for all, and 9.5, 14.2 and 30.5 for the three age subgroups respectively.

⁴ See Kahn (2010) and von Wachter (2010) for evidence on the relatively lower wages for many years of young workers who enter the job market during a recession.

⁵ Median durations of unemployment are 17.6 and 24.7 weeks for whites and blacks respectively.

⁶ See Von Wachter (2010).

⁷ Goldin and Katz (2008) provide an overview of how educational attainment among American workers has failed to keep pace with growing skill demands among employers in the past three decades. Symonds et al. (2011) show that American high school graduates are much less prepared for the labor market than those in many OECD countries. Holzer and Dunlop (2013) provide evidence of low completion rates at 2-year and 4-year colleges, especially among minorities and low-income students at the latter. Holzer and Lerman (2007) show that employer demand in the U.S. over the past few decades has been fairly strong in “middle-skill” jobs (i.e., those requiring some postsecondary education or training below the B.A. level) as well as in higher-skill jobs (requiring a B.A. or higher).

with highly-skilled workers will likely create fewer such jobs in the U.S., relying instead on technological advances or offshoring production activity to meet their needs.⁸

5. *A range of policy responses should be used to address the problems of skill imbalances and to improve employment and earnings potential for American workers.*

Policies to improve employment outcomes of workers hurt by these structural imbalances might include:

- Reemployment services, to help them find jobs appropriate to their skill level more quickly;
- Education and training programs, to create worker skills that better match newly available jobs;
- Wage insurance, for displaced workers whose earnings are permanently reduced by their loss of a good job; and
- Carefully targeted job creation strategies while unemployment remains high.

The appropriate package of benefits and services may differ across groups. Younger workers are more easily trainable for good jobs that require some technical skill, especially at community colleges. They might also benefit from a variety of “earn and learn” strategies, such as apprenticeships and paid internships related to their areas of study. In contrast, older displaced workers might benefit the most from “wage insurance,” where the government provides a subsidy to partly offset the permanent loss of earnings that occurs when displaced workers take low-wage jobs.

And, of course, job creation strategies in the near-term would also help. Public spending on the building of infrastructure, tax credits or subsidies for private sector employment growth, and public service jobs could all play a positive role in reducing unemployment over the next several years.

References

Barnow, Burt; John Trutko and Jaclyn Schede Piatak. 2013. *Occupational Labor Shortages*. Kalamazoo MI: W.E. Upjohn Institute for Employment Research.

Cappelli, Peter. 2012. *Why Good People Can't Get Jobs*. Wharton Digital Press.

⁸ See Holzer et al. (2011) for evidence that employers providing “good jobs” – i.e., those paying wage and salary premia above market levels in their industry- have sought workers with growing skill levels over time. Holzer (2013) also discusses employer job creation patterns and their sensitivity to the availability of skilled workers.

Daly, Mary; Bart Hobijn, Aysegul Sahin, and Robert Valletta. 2012. "A Search and Matching Approach to Labor Markets: Did the Natural Rate of Unemployment Rise?" *The Journal of Economic Perspectives*, Vol. 26, No. 3.

Elsby, Michael; Bart Hobijn, Aysegul Sahin, and Robert Valletta. 2012. "The Labor Market in the Great Recession – An Update to September 2011." *Brookings Papers on Economic Activity*. Fall, 353-71.

Estevao, Marcelo and Evridiki Tsounta. 2011. "Has the Great Recession Raised U.S. Structural Unemployment?" International Monetary Fund paper.

Fletcher, Michael. 2011. "Why Does Fresno Have Thousands of Job Openings – and High Unemployment?" *The Washington Post*, February 11.

Ghayad, Rand and William Dickens. 2012. "What Can We Learn by Disaggregating the Unemployment-Vacancy Relationship?" Public Policy Brief, Federal Reserve Bank of Boston.

Goldin, Claudia and Lawrence Katz. 2008. *The Race Between Education and Technology*. Cambridge MA: Harvard University Press.

Holzer, Harry. 2012. "Good Workers for Good Jobs: Improving Education and Workforce Systems in the U.S." IZA, *Journal of Labor Policy*, 1:5.

Holzer, Harry and Erin Dunlop. 2013. "Just the Facts, Ma'am: Postsecondary Education and Labor Market Outcomes in the U.S." CALDER Working Paper, American Institutes for Research.

Holzer, Harry and Robert Lerman. 2007. "America's Forgotten Middle-Skill Jobs: Education and Training Requirements in the Next Decade and Beyond." Washington DC, The Workforce Alliance.

Holzer, Harry; Julia Lane, David Rosenblum and Fredrik Andersson. 2011. *Where Are All the Good Jobs Going?* New York: Russell Sage Foundation.

Kahn, Lisa. 2010. "The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy." *Labour Economics*, Vol. 17, No. 2.

Rampell, Catherine. 2013. "With Positions to Fill, Employers Wait for Perfection." *The New York Times*, March 6.

Symonds, William; Robert Schwartz and Ronald Ferguson. 2011. *Pathways to Prosperity: Meeting the Challenge of Preparing Young Americans for the 21st Century*. Cambridge MA: Harvard Graduate School of Education.

Valletta, Robert. 2013. "Long Term Unemployment: What Do We Know?" *Economic Letter*, Federal Reserve Bank of San Francisco.

Von Wachter, Till; Phil Oreopoulos and Andrew Heisz. 2012. "The Short-Term and Long-Term Career Effects of Graduating in a Recession: Hysteresis and Heterogeneity in the Market for College Graduates." *American Economic Journal: Applied Economics*, Vol. 4, No.1.

Von Wachter, Till. 2010. "Long-Term Unemployment: Causes, Consequences and Solutions." Testimony before the Joint Economic Committee of Congress, April 29.