



Economics Group

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Is The Skills Disconnect In The Labor Force New?

The current mismatch between the skills in demand by firms today and the absence of qualified workers in the labor force is not a new phenomena but the trend has become more pronounced since the last recession.

The Origin of The Disconnect

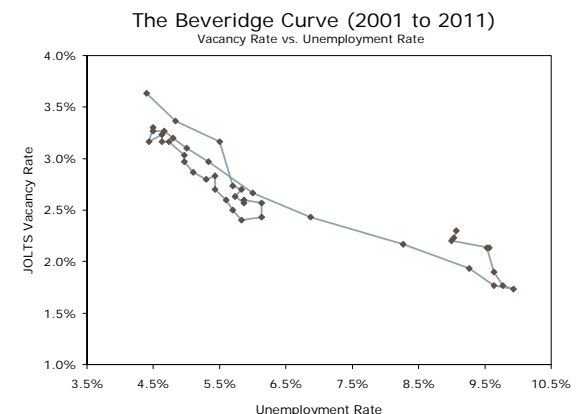
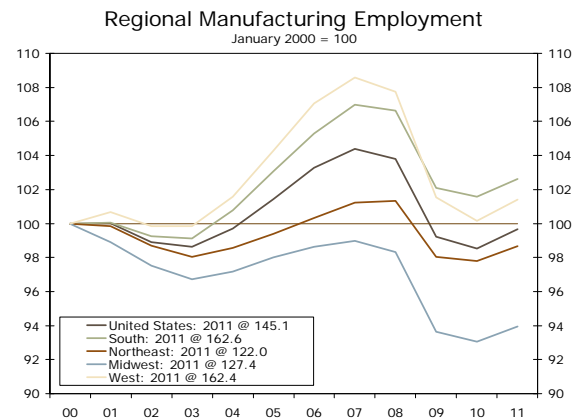
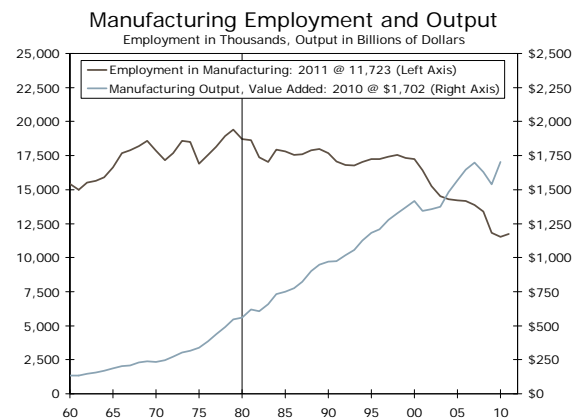
With so much talk about the current skills mismatch in the labor force, the natural question arises; Is this a new trend? The answer is no. The origins of the skills mismatch are rooted in the wide spread adoption of technology that began in the early 1980s. The best example of how technology changes the demand for skilled labor can be seen in the manufacturing sector (see Washington Post: U.S. manufacturing sees shortage of skilled factory workers, 2/19/2012). Output in the manufacturing sector has continued to expand since the 1980s while employment within the sector continues to decline. The main reason for this inverse relationship is that the technology adoption that began in the early 1980s significantly altered the required skill levels of workers in manufacturing. In other words, manufacturing become more computer aided and less labor intensive. The side effect of this new capital-labor mix is that the skills of manufacturing workers need to be higher in order to operate and maintain the new technologically advanced equipment. In today's globally competitive manufacturing sector, advanced production technologies have allowed the U.S. to remain competitive by reducing costs to meet foreign competition.

Regions That Successfully Countered The Trend

The decline in manufacturing employment however has not been even across regions of country. In fact, the West and South both have seen very strong manufacturing job growth over the past decade (middle graph). In the West, producers of technology products have added jobs while the South has benefited primarily from the relocation of facilities from higher-cost producing states in the Midwest to the lower-cost South as well as strong foreign direct investment in industries such as the auto industry. This trend however, is beginning to shift as the cost differentials between the U.S. and other nations such as China are eroding pushing non-durable manufacturing overseas while keeping many specialized, quality focused durable manufacturing in the region. However, the firms staying in the region continue to adopt more technology to stay competitive and thus today's manufacturing workers need to continue to improve skill levels.

Implications for Labor Market Stability

What is full employment? One benchmark for success in economic policy is the ability of policy makers to return full employment in the economy. However, defining full employment is hard to pin down as the labor market appears to be evolving as evidenced by the bottom graph. The Beveridge Curve illustrates the balance between job vacancies and the unemployment rate. High vacancies for any given unemployment rate suggest a greater disconnect between demand and supply in the labor market. The rising curve supports the case that over the last year the skills gap is widening.



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