

Fact Sheet

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Skill Mismatch Contributes to Lingering Unemployment

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As the US economy has evolved during the recession – with manufacturing, trade and construction in decline, and health care, and professional services on the rise – upwards of two million people have found themselves out of work, without the proper skill sets to fill the new jobs being created. Thus, despite a persistently high unemployment rate around nine percent, more than half of all U.S. employers are struggling to fill key positions.

Despite persistently high unemployment, 52 percent of employers are struggling to fill mission-critical positions.¹ This paradox has raised concerns about whether structural factors in the labor market are impeding the ability of the unemployed to find work.² The two structural factors most often discussed are: 1) the increased mismatch between the skills unemployed workers have and the job openings that are available; and 2) the increased inability of unemployed workers to move out of high-unemployment areas because housing prices have declined. Applied Economic Strategies estimates the number of unemployed people with mismatched skills increased from 525,000 in 2007 to almost 2.1 million in June 2010, or 400 percent.

Recent economic research estimates that the skill mismatch and geographic immobility likely account for about one-quarter of the increase in the U.S. unemployment rate during the last recession.³ One study by economists at the Federal Reserve Bank of New York estimates that the higher mismatch of skills across industries and occupations accounts for between 20 and 25 percent of the increase in unemployment, or 1.2 million to 2.2 million people, and occupational skill mismatches explain one-third of the increase in unemployment for highly educated workers.⁴ Another study estimates that mismatched skills account for about 41 percent of the long-term unemployed, or 2.5 million people.⁵ On the other hand, the Congressional Budget Office estimates that just 0.5 percentage points of the increase in the unemployment rate, or 800,000 people, reflects mismatches between the skills and locations of the unemployed and the needs of employers.⁶

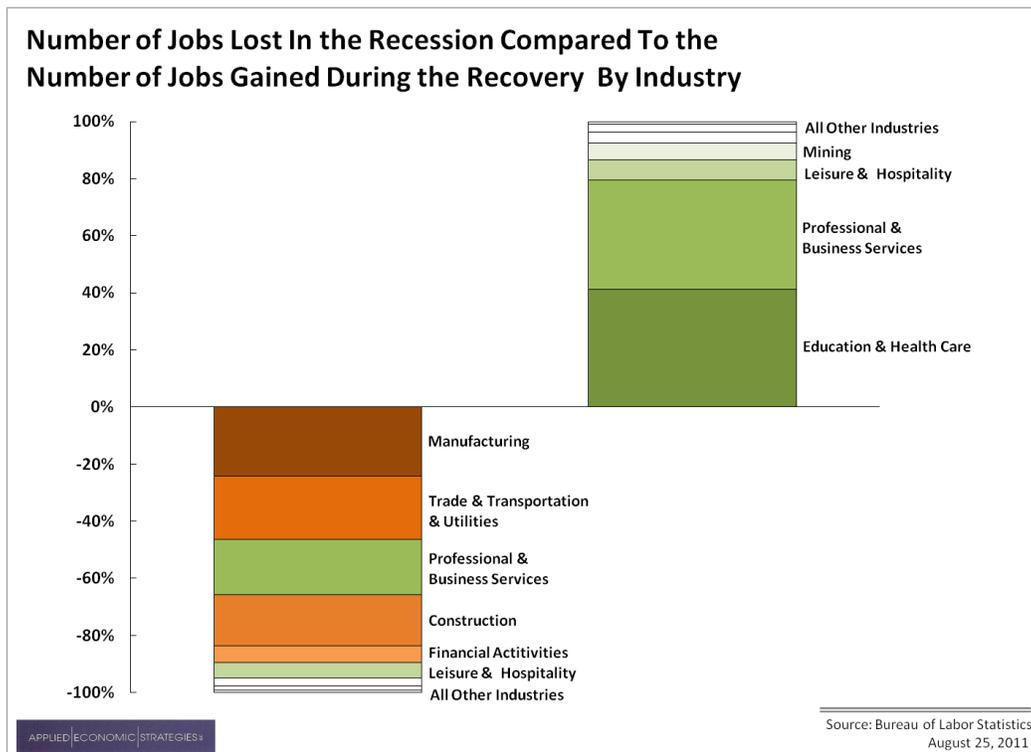
One way to look at the skill mismatch is to compare the number of jobs lost during the recession in various industries to the number of jobs gained since the recovery began. For example, over 64 percent of the 8.3 million jobs lost in the recession belonged to the:

- Manufacturing industry;
- Construction industry; and
- Trade, Transportation, and Utility industries.

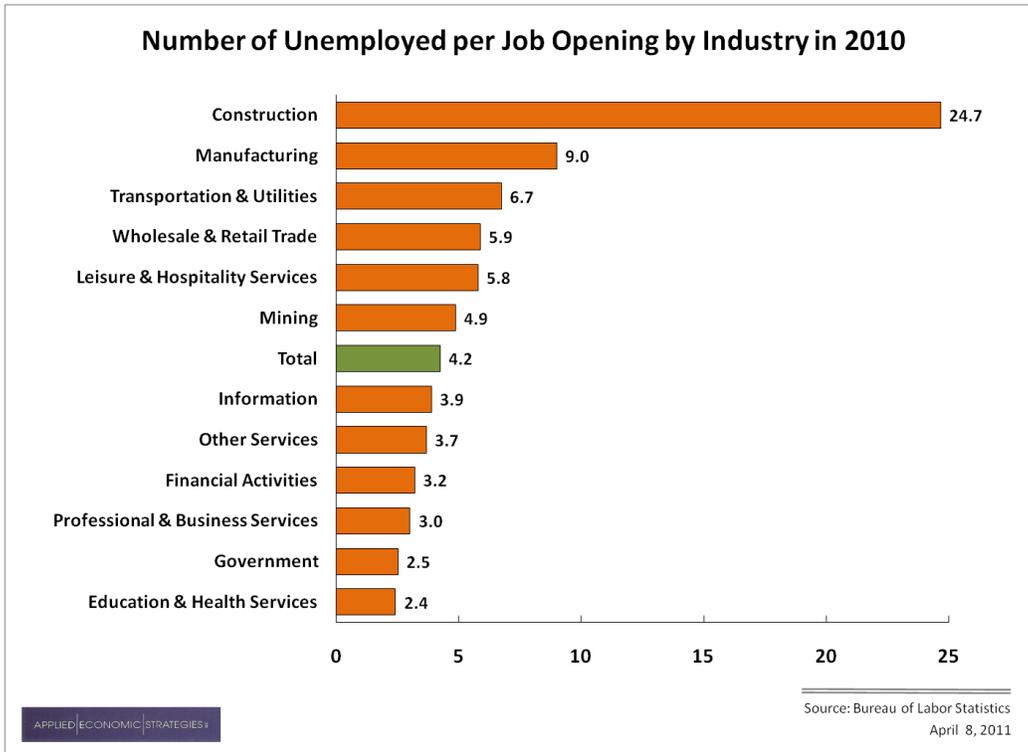
Whereas over 86 percent of the newly created jobs are in the:

- Health care and education industries;
- Professional and business services industry; and
- Leisure and hospitality industries (see chart below).

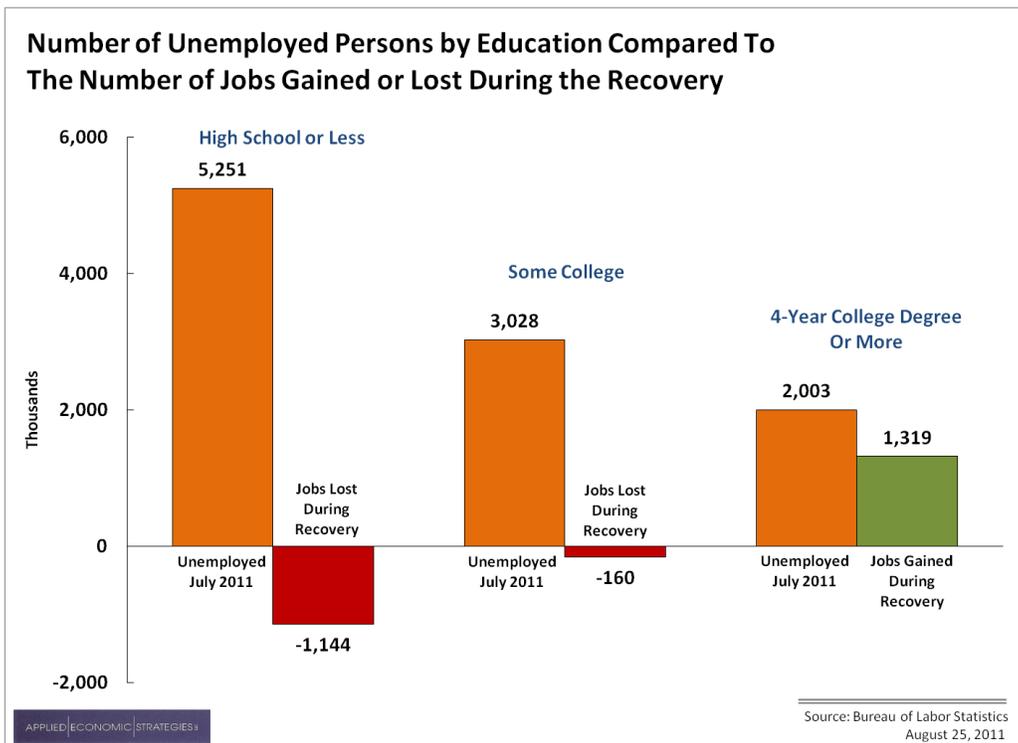
This means it is more likely that many unemployed workers with one skill-set (i.e., construction trades) do not have the skill-set for the types of jobs that are currently in demand (i.e., nurses and medical technicians).



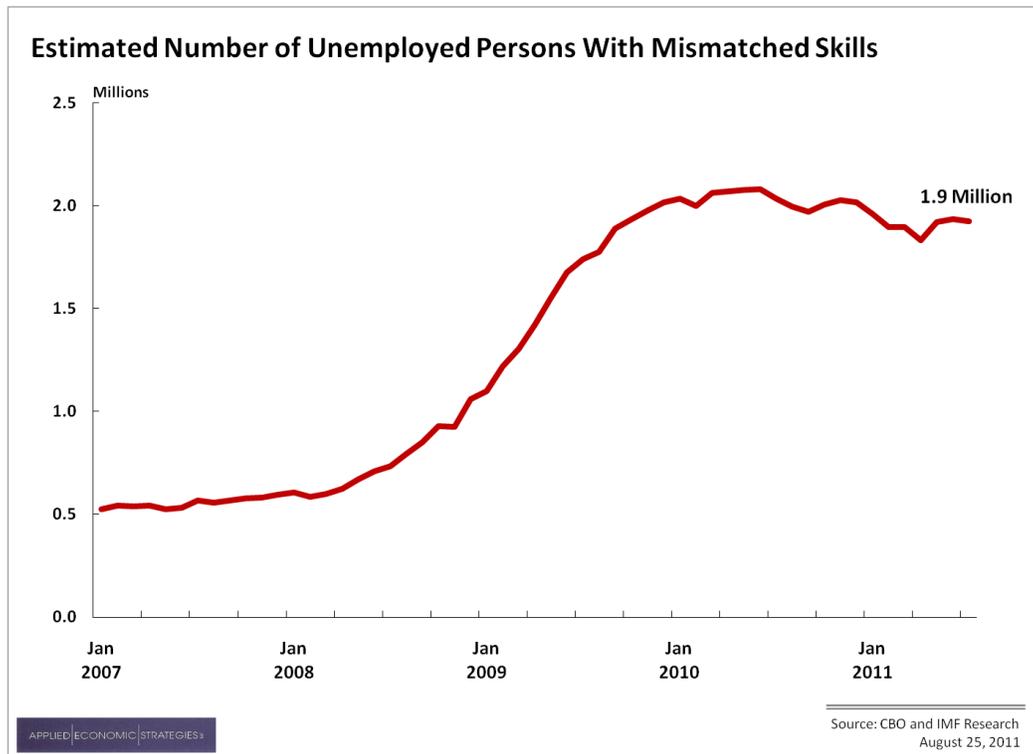
Another way to look at the skill mismatch is to compare the number of unemployed workers per job opening by industry. In 2010, there were almost 25 unemployed construction workers and 9 unemployed manufacturing workers for every job opening in those industries, compared to less than 3 unemployed workers for every job opening in the education and health services industry. This suggests that there may be 1.1 million unemployed construction workers and 560,000 manufacturing workers whose skills are mismatched for the jobs that are currently in demand in the U.S. unless economic activity picks up in those industries.



Yet another way to look at the skill mismatch is to compare the number of people currently unemployed by educational attainment to the number of jobs gained or lost since the beginning of the recovery. For example, in July 2011, there were almost 5.3 million unemployed people with a high school diploma or less, while all of the newly created jobs (1.3 million) since the beginning of the recovery have gone to workers with a four-year college degree or more.⁷ In fact, to date, the number of jobs for people without a college degree has continued to decline during the current recovery.



Finally, using skill-mismatch estimates from studies at the International Monetary Fund, the Federal Reserve Bank of New York, and the Congressional Budget Office, it is possible to construct a reasonable estimate of the number of unemployed people with mismatched skills in the United States from 2007 to July 2011. The chart on the next page shows that the number of unemployed people with mismatched skills increased from 525,000 in 2007 to over 1.9 million in July 2011, or almost 400 percent. Moreover, the skill mismatch in the labor market has only slowly declined since its peak in 2010.



Conclusion

The number of employers struggling to fill job openings in the United States is at an all-time high despite an unemployment rate that has diminished only marginally since the recession ended 2 years ago.⁸ The most common reasons employers say they are having trouble filling jobs include, a lack of experience, no qualified applicants available, a lack of technical skills, and a lack of knowledge of the business or academic disciplines, or formal qualifications required for the position.⁹ The estimate that almost 2 million unemployed workers lack the skills and/or experience for the jobs that are currently in demand, and are likely to be in demand in the future, should serve as a wake-up call for business, educators, government officials, and individuals. It is crucial that everyone work together to address the skill mismatch in the labor market in a systematic, flexible and sustainable way.

¹ ManpowerGroup, *2011 Talent Shortage Survey Results*, May 2011.

² Economists believe the persistently high unemployment, in spite of the recovery, is the result of a number of factors including: 1) weak economic demand and consumer spending; 2) repeatedly extending unemployment benefits that reduces the incentive to look for work and increases the duration of unemployment; and 3) a more severe mismatch between vacant jobs and unemployed workers (i.e., the skills and locations of the unemployed are poorly matched with the requirements and geographical characteristics of unfilled job openings).

³ Marcello Esteveao and Evridiki Tsounta, *Has the Great Recession Raised U.S. Structural Unemployment?*, International Monetary Fund, Working Paper, WP/11/105, May 2011.

⁴ Aysegul Sahin, Joseph Song, Giorgio Topa, and Giovanni L. Violante, *Measuring Mismatch in the U.S. Labor Market*, Federal Reserve Bank of New York, July 2011.

⁵ Jinzhu Chen, Prakash Kannan, Prakash Loungani, and Bharat Trehan, *New Evidence on Cyclical and Structural Sources of Unemployment*, International Monetary Fund, Working Paper, WP/11/106, May 2011.

⁶ Congressional Budget Office, *The Budget and Economic Outlook: An Update*, August 24, 2011, p. 46.

⁷ The reason it is only 4.4 million jobs lost instead of 8 million is because educational attainment is only applicable for people who are 25 years old or more. About 3.6 million of the 8 million jobs lost in the recession were teenagers and young adults, many of whom had not finished their education.

⁸ ManpowerGroup, *2011 Talent Shortage Survey Results*, May 2011.

⁹ *Ibid.*