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IS THE SKILLS GAP REAL?

By Jonathan House
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U.S. unemployment remains elevated, yet companies have been complaining for years that they can't find employees with the skills they need. Whether the skills gap is about perception or reality is among the labor market's key questions for the coming year.

The complaints show up across business surveys. A poll by staffing firm Manpower Group last year found that 40% of U.S. respondents were having trouble filling jobs. A separate survey by consultancy Accenture PLC and research group The Manufacturing Institute found that more than 75% of manufacturers surveyed were having trouble finding skilled production workers.

Many economists are skeptical of these claims, given the abundant labor supply still available to employers. The nation's unemployment rate remains high by historical standards and the gauge doesn't capture the millions of discouraged workers who have given up their job searches. Weak demand for labor is a much more important reason for high unemployment, economists say.

The question about the extent to which skills problems are fueling unemployment is an important one for the Federal Reserve as it debates when to start raising interest rates. If they are a big factor, it would mean that the Fed's efforts to stimulate job growth by keeping rates at their current level near zero would be less effective.

"This has huge implications for whether the Federal Reserve should tighten or it should maintain a more accommodative policy," said Katharine Abraham, an economist at the University of Maryland.

The Evidence

At first glance, some economic data seem to offer support for business claims about difficulty finding employees with the skills they need. The so-called Beveridge Curve, which economists use to track the relationship between job openings and the unemployment rate, shows that an increased number of job listings in the last couple of years have been unusually slow to translate into lower unemployment.

The Dice-DFH Vacancy Duration Measure, an index created by University of Chicago economist Steven Davis to track Labor Department data on new hires and job openings, is near 13-year highs. It shows that U.S. employers are taking nearly 25 working days to fill open positions.

But there could be different reasons for the hiring delays. Another gauge created by Mr. Davis shows employers are cautious about filling vacancies, an indication that demand for labor hasn't completely recovered from the recession. The Dice-DFH Recruiting Intensity Index, which measures expenditure on help-wanted ads, screening times, and other recruitment actions, remains well below levels that prevailed in the mid-2000s.

Or Is It Business Caution?

Manpower chairman Jeffrey Joerres acknowledges that employer caution is a factor behind complaints about skills shortages. Though he said the advance of technology has created a need for a “higher-skilled workforce,” he added that companies scarred by the recession and uneven recovery are still waiting until a “perfect hire” comes along. “How many times did you think it was safe to go back in the water, and all of a sudden Europe took a dive, all of a sudden the financial markets took a dive, all of a sudden China’s not growing again,” he said.

This caution has extended to a reluctance to restart training programs abandoned during the recession, thus raising the bar for the qualifications new hires must bring with them. Now that the economy is picking up, employers need to get new programs in place before they can start hiring vigorously again, said Gardner Carrick, The Manufacturing Institute executive who oversees the skills studies. “Companies got caught a little flat-footed,” he added. (The Manufacturing Institute is the research arm of the National Association of Manufacturers, a trade group.)

Economists: On the Other Hand…

Part of the problem in assessing the degree to which skill shortages are holding back the jobs recovery is that, to some degree, finding the right employee match is always a challenge for an employer. Many economists believe the vague, open-ended questions of the business surveys fail to clarify whether conditions are unusually difficult. The Manpower survey simply asks respondents if “they find it difficult to find talent,” while The Manufacturing Institute’s survey asks respondents to rank their degree of difficulty in finding skilled workers on a scale from one to 10.

“The problem with the opinion questions, is, in some sense it’s cheap talk,” said Paul Osterman, an economist at the Massachusetts Institute of Technology.

In an attempt to quantify hiring difficulties in the manufacturing sector, Mr. Osterman and Andrew Weaver, an MIT graduate student, asked a large sample of manufacturing firms a detailed series of questions about their vacancies, the duration of vacancies and the skills they were looking for. They found hiring practices and the skills they sought. The study found that 65% of respondents had no vacancies in essential production positions and that 76% didn’t have vacancies of longer than three months.

“These results call into question both the incidence and severity of manufacturing skills gaps,” the study’s authors concluded.

For economists, stagnant wages provide further evidence that skills shortages are not holding back hiring. If employers were having trouble attracting the talent they need, they should be offering more attractive compensation. But after adjusting for inflation, average hourly earnings have barely budged since the economy emerged from the recession in 2009.

“The evidence driving the complaints about skills does not necessarily appear where labor market experts might expect to see it, such as in rising wages,” said Peter Cappelli, director of the Center for Human Resources at the University of Pennsylvania’s Wharton School, wrote in a research paper last year.