

## The Jobs Paradox: High Unemployment in a Period of Unmet Labor Demand

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Do employers and workers face barriers that keep them from connecting? Recent weekly job reports have continued to be disappointing, displaying an odd paradox. Employer surveys show that U.S. jobseekers are finding employment at a slow but steady pace. However, monthly household surveys illustrate an average unemployment rate that has stubbornly remained above 8 percent. Some argue that when the number of discouraged jobseekers is included, the real unemployment rate in the United States is well over 11 percent. Advocates for unemployed workers, news commentators, and some scholars often say that there are not enough jobs for the number of unemployed jobseekers. However, a review of the monthly Job Openings and Labor Turnover Survey (JOLTS) from the Bureau of Labor Statistics (BLS) indicates that there are about 3 million jobs nationwide that employers have not been able to fill.

While the absolute number of jobs is surely a factor in the current employment picture, it is not the whole story. There is substantial evidence that barriers between jobseekers and available employment openings do exist. The high unemployment rates may therefore reflect several factors, but two in particular stand out:

- ▶ A mismatch between where jobseekers reside and the geographic location of available employment. For example, Northeast Indiana has the highest concentration of manufacturing in the United States. This area is creating hundreds of well-paying factory jobs. Despite these employment opportunities, employers in Northern

Indiana are finding it hard to fill available job openings.<sup>1</sup>

- ▶ A mismatch between the skill requirements of employers and the capabilities of jobseekers. A case in point is the difficulty that manufacturers in Pennsylvania are facing trying to find skilled workers to fill available high-wage skilled manufacturing jobs.

These barriers or labor mismatch problems indicate that structural changes in the location and skill requirements of available and emerging employment may be at the heart of the current U.S. jobs crisis. However, strategies are being implemented on a small scale to directly address these problems and barriers. There is strong evidence that one such strategy—sector employment initiatives (SEIs)—can successfully overcome barriers to employment.<sup>2</sup> Given the promising evidence supporting these initiatives, the challenge is how to effectively replicate SEIs.

### Are There Really Not Enough Jobs?

A review of JOLTS suggests that structural issues in matching jobseekers to available job openings may be at the heart of current U.S. employment problems.<sup>3</sup> Rather than a shortage of job openings, the United States may have a shortage of qualified jobseekers.

<sup>1</sup> Kavalanz, 2012.

<sup>2</sup> Pindus et al., 2004.

<sup>3</sup> The Job Opening and Labor Turnover Survey (JOLTS) is a monthly survey conducted by BLS to gather data on job openings, hires, and separations by industry throughout the 50 states and the District of Columbia. JOLTS offers data on demand-side labor shortages.

**Figure 1. Unemployment Adjusted for Number of Job Openings, 2002–2011 (in Thousands)**

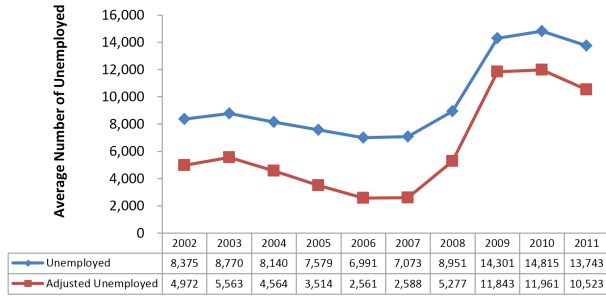
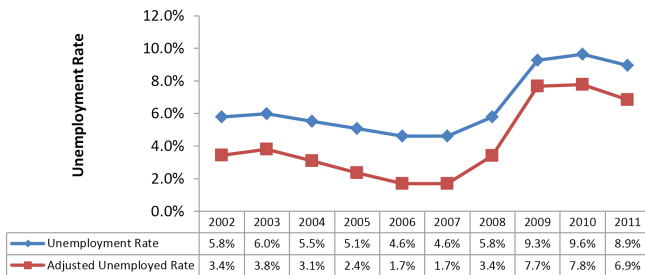


Figure 1 shows the average annual number of unemployed U.S. workers from 2002 to 2011 and unemployment adjusted for job openings, using data from JOLTS.<sup>4,5</sup> Despite the economic downturn, from 2008 through 2011, if all U.S. job openings could have been filled by unemployed jobseekers, the average number of unemployed workers would have declined by roughly 3 million in each of these years—the number of adjusted unemployed in Figure 1. While Figure 1 clearly shows a more slack labor market than before the 2008 recession, there is still a fairly strong unmet demand for labor.

**Figure 2. Unemployment Rate Adjusted for Number of Job Openings, 2002–2011**



Using the same methodology as in Figure 1, Figure 2 shows that if jobseekers filled all available jobs, the unemployment rate would have been about 2 percentage points lower in the 4 years since 2008.<sup>6</sup> Given the current dire employment situation, why aren't more of these job

openings being filled? Are there hurdles that keep employers and workers from making the connection? If so, what are they?

## Geographic Mismatches

Enrico Moretti suggests that the U.S. economy is made up of multiple labor markets with diverse characteristics, conditions, and outcomes.<sup>7</sup> As such, national employment and unemployment figures represent average conditions across these multiple labor markets. "In 2009, at the peak of the recession, unemployment in Detroit was 18%, while unemployment in Iowa City, about 500 miles west of Detroit, was only 4.5%."<sup>8</sup> Hypothetically, unemployed workers in Detroit could improve their prospects for employment by moving to Iowa City.<sup>9</sup> These variations in labor market conditions across the country result in geographic mismatches, where some locations have extraordinarily high unemployment while others have high demands for labor. Because of this mismatch, U.S. unemployment is much higher than it might be if all workers enjoyed perfect geographic mobility. These same mismatches may exist within labor markets as well. For example, inner-city residents may have far fewer employment opportunities than residents in other parts of the city or in the suburbs.<sup>10</sup> A look at unemployment by state also supports the idea of geographic mismatches. Based on BLS data,

<sup>4</sup> Based on the author's calculation using Current Population Survey and JOLTS.

<sup>5</sup> The annual number of unemployed workers is calculated by taking the 12-month average of unemployed workers. The adjusted number of unemployed workers is derived by subtracting the 12-month average number of job openings from the 12-month average number of unemployed workers.

<sup>6</sup> Based on author's calculation using Current Population Survey and JOLTS.

<sup>7</sup> Moretti, 2011, 2012.

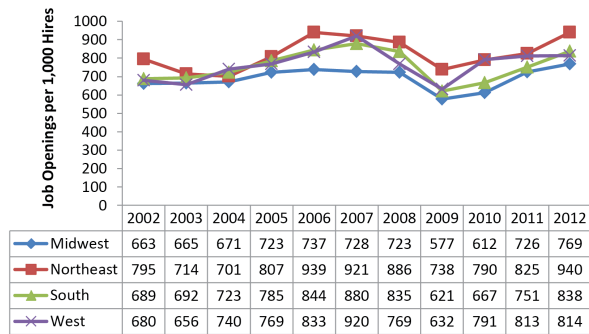
<sup>8</sup> Moretti, 2012.

<sup>9</sup> Moretti, 2012.

<sup>10</sup> This phenomenon has been called the "Spatial Mismatch Hypothesis" (Foster-Bey, 2006).

state unemployment rates in June 2012 ranged from 2.9% in North Dakota to 11.6% in Nevada, with a median unemployment rate of 7.5%.<sup>11</sup>

**Figure 3. Unfilled Job Openings per 1,000 Hires by Region, 2002–2012**



JOLTS also indicates that jobs are more available in some labor markets than in others. Figure 3 shows the number of unfilled job openings per 1,000 hires by region (Midwest, Northeast, South, and West).<sup>12</sup> Since 2008, there have been more unfilled job openings per 1,000 hires in the Northeast, followed by the West. Relative to the other regions, the Midwest has tended to have the fewest unfilled job openings.

While much variation at the state and metropolitan levels is masked in regional numbers, they still indicate that location matters. The regional and state variation in employment represents differences in location and concentration of industries, geographic specialization, and productivity of firms and their workforces.<sup>13</sup> For instance, North Dakota has a thriving energy sector, along with the lowest unemployment rate in the nation. Together, the state unemployment figures and the JOLTS data indicate more opportunities for employment in some parts of the country than in others. However, on average across all regions, over 40% of available employment goes unfilled, no matter where Americans live. This suggests that geography is only part of the answer to the paradox of high unemployment and high numbers of job openings.

## Skills Mismatches

The jobs paradox may be better understood by examining job openings by economic sector or industry. Using data from JOLTS, Figure 4 shows the number of job openings per 1,000 hires by select economic sectors. This indicator is a measure of the tightness of the labor market both within and across economic sectors. (It should be interpreted as the number of job openings that go unfilled for every 1,000 workers hired.) Within certain economic sectors—information, health, financial activities, and government—the number of unfilled job openings clearly exceeds the number of hires, indicating a very tight labor market. On the other hand, industries like manufacturing, trade, transportation, utilities, and professional and business services face moderately tight labor markets. What is interesting about Figure 4 is that it shows that certain economic sectors had tight labor markets before, during, and after the 2008 recession.

**Figure 4. Job Openings per 1,000 Hires by Economic Sector, 2002–2012**

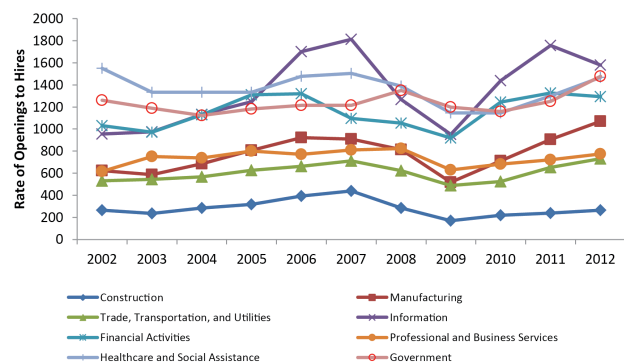


Figure 4 shows why employers in certain economic sectors are finding it extremely difficult to match available workers to the job openings they offer, despite high rates of unemployment

<sup>11</sup> Bureau of Labor Statistics, 2012.

<sup>12</sup> Publicly available data from JOLTS have only been disaggregated down to the regional level.

<sup>13</sup> Kavalanz, 2012; Moretti, 2011.

nationally. Stated differently, employers in many economic sectors just can't find workers with the right combination of skills and experience to fill available job openings. One possible explanation for the paradox of high unemployment and high numbers of unfilled jobs is that structural changes in the economy have led to the creation of jobs employers cannot easily fill by hiring jobseekers in their local labor markets. These jobseekers appear to lack either the skills or the preferences to effectively fill available job openings.

## Addressing the Mismatches

What strategies can help reconcile the jobs paradox? Unfortunately, much less attention has been paid to how to address the geographic and skills mismatches that have given rise to this paradox than to the apparent shortage of jobs. One approach that has been used to successfully bridge the skills mismatch is sector employment initiatives (SEIs). SEIs focus on training and connecting jobseekers to job openings within a target industry or economic sector. SEIs differ from most employment training programs because they target both the demand and supply sides of the labor market. That is, they don't focus just on training jobseekers, but also work to make connections with employers in a target industry. Targeting an industry allows SEIs to become knowledgeable about the labor force needs of and market challenges faced by industry employers. By working on the demand side directly with employers, SEIs become valued players in that industry.<sup>14</sup>

A random assignment evaluation study of three SEIs found that, compared with the control group, SEI training participants received substantially higher post-training wages and were more likely to be employed.<sup>15</sup> The study, which was funded by the C.S. Mott Foundation, found that SEIs may be a highly effective strategy for reconciling the jobs paradox by addressing the intersection of both geographic and skills mismatches in several industries.

Based on a study by the Insight Center for Community Economic Development, SEIs currently operate in a wide range of industries throughout the United States.<sup>16</sup> These SEIs use different strategies and approaches and are not all equal in either organizational capacity or programmatic effectiveness. However, it is unclear what elements of the SEI model are crucial to successful implementation and replication. Moreover, the issue of model fidelity is complicated. SEIs have diverse organizational structures, operate in different industries, target a variety of occupations, face diverse labor market conditions, and serve different populations of jobseekers. In many ways, SEIs are a family of related interventions rather than a single program model.<sup>17</sup>

CSR, with funding from the C.S. Mott Foundation, is currently completing a study to identify how to effectively replicate SEIs. The Sector Replication Study focuses on identifying programmatic and contextual elements crucial to successful program outcomes. CSR is using the CSR Fidelity Index® (CFI) to help identify the elements of the SEI model and to determine which elements are crucial to implementing a successful sector-employment project. The goal is to develop guidance and formal tools that program developers and policymakers can use to effectively translate and replicate successful SEIs to the needs of their local labor markets and communities.

Using the findings from the Mott-sponsored SEI experimental study, CSR's Sector Replication Study research team has initially defined three distinct models associated with successful SEIs. The research team is in the process of learning

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<sup>14</sup> Maguire et al., 2010; Pindus et al., 2004.

<sup>15</sup> Maguire et al., 2010.

<sup>16</sup> National Network of Sector Partners, 2010.

<sup>17</sup> Conway et al., 2007; Maguire et al., 2010; National Network of Sector Partners, 2010.

<sup>18</sup> Maguire et al., 2010.

more about these three models and comparing them with other SEI examples. Preliminary findings show that the replicated elements of the successful SEI models focus on several factors:

- ▶ The industry the SEI chooses to target;
- ▶ The characteristics of the jobseekers the SEI is trying to find jobs for;

- ▶ The overall economic strength of the local labor market where the SEI is implementing its sector approach; and
- ▶ The level of experience of the organization sponsoring the SEI.

CSR's Sector Replication Study research team is refining its analysis of the data and expects to complete its work by early 2013.

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