The New York Times | http://nyti.ms/1spGMzi

Edited by David Leonhardt

Follow Us:

Get the Upshot in your Inbox

The Upshot
EVERYDAY ECONOMICS

Labor Market Seems Dented, Not Broken

MAY 13, 2014
Justin Wolfers

There are two schools of thought about the longer-term prospects for the labor market. The darker view is that the Great Recession wrought permanent damage: The jobs that disappeared aren't easily replaced, and the skills of the jobless are a poor match for the jobs that remain.

You can see the problem by comparing the unemployment rate, which is the proportion of workers without jobs, with the job vacancy rate (sometimes called the job openings rate), which is the proportion of jobs without workers.

The statistical relationship between these, known as the Beveridge curve, shows that a rise in one is associated with a fall in the other. But in the wake of the Great Recession, both rose, suggesting that the labor market had become worse at matching workers with vacant jobs. If this shift in the Beveridge curve is permanent, the prospects for further reducing unemployment are grim, as an elevated vacancy rate suggests that companies are finding talent hard to find.

The sunnier view is that this is not a permanent shift, but rather the natural course of a recession, which tends to cause short-run counterclockwise loops in this unemployment-vacancies relationship. It's a sunnier view because it suggests that a continuing recovery will largely solve our unemployment problem: The recovery will cause the labor market to loop back toward its pre-recession Beveridge curve, leaving no lasting mark.

The past two years have been kind to this more optimistic interpretation. The unemployment rate has fallen almost two percentage points since March 2011, while the job vacancy rate hasn't budged. Although some may object that the decline in the unemployment rate overstates the cause for optimism — after all, some of this is because of falling labor force participation — the fact that the vacancy rate hasn't risen at all over recent years is still notable.

It is surely too early to draw strong conclusions, but continued movements in this direction would suggest that the Great Recession hasn't done lasting damage, and that it's possible for the unemployment rate to head back toward 5 percent without the emergence of hiring bottlenecks.

Justin Wolfers is a senior fellow at the Brookings Institution and professor of economics and public policy at the University of Michigan. Follow him on Twitter at @justinwolfers.