



Worksheet 13.2

Three Million Job Openings!

This week's cover story in Business Week magazine tells an interesting story about unemployment in America. Listen to [this podcast](#) or read the article [here](#). Read the first two paragraphs now.

In IB Economics we teach that there are three types of unemployment an economy may experience, ranked roughly in order from the least undesirable to the most undesirable (from a macroeconomic perspective):

1. Frictional unemployment: This accounts for people who are 'in between jobs' or fresh out of college looking for their first jobs.
2. Structural unemployment: This is caused by the changing structure of an economy. As America's manufacturing sector shrinks and its education and health care sectors grown, those whose skills lie in manufacturing become *structurally* unemployed.
3. Cyclical unemployment: This is also called 'demand-deficient' unemployment because it is caused by a fall in aggregate demand or overall spending in the economy.

America today is clearly experiencing all three types, but due to the particular circumstances of the recession, the American worker is finding it it harder than ever to match his skills with an appropriate job. Below are some of the industries with the most and the fewest job openings today:

Most openings:

1. Education
2. Health care
3. Government
4. Energy (such as wind, oil, natural gas)
5. 'Analytics' (i.e. business data analysis by firms such as IBM)

Fewest openings:

- Construction
- Manufacturing

Unfortunately for the large numbers of unemployed construction and factory workers, the kinds of skills required to work in the fields with the most job openings are prohibitively different from those learned in their previous industries. In addition to a mismatch of skills between the industries in which jobs are being lost and those in which labor is in demand, there is also a geographic mismatch in the labor market. Below are the states with the least and the most job openings:



Most job vacancies (states with large energy sectors: oil, natural gas and windmills)

- North Dakota
- Wyoming

Least job vacancies (states with large manufacturing and construction sectors)

- North Carolina
- California
- Michigan

Historically, the geographic factor has not posed an issue to American workers, and when jobs opened up in one part of the country, Americans would pack up and move where necessary to find work. Today, however, with the collapse of house prices, more and more Americans find themselves stuck with a house they can't sell in a part of the country where they can't find a job.

To paraphrase the podcast above, 'the US is in danger of looking like Europe. The European job market has been described as "sclerotic"; people don't respond to want ads because of the generous long-term unemployment benefits offered by European governments. Europeans have historically been geographically immobile due to nationalist ties to their home countries.' Today, the US job market reflects some of the same 'sclerosis' as that of Europe.

America is facing the perfect storm of unemployment. At the same time that the economy is undergoing its most significant structural change since the Industrial Revolution brought millions of American workers from the farm fields into factories, it is facing the most significant decline in private sector spending (consumption, investment and exports) since the great depression. Put this together with the relative immobility of the American worker caused by the housing crisis, and unemployment has climbed to its highest level in three decades.

This interesting story ends with a glimmer of hope for the American worker. Read from 'To fight this sclerosis...' on the last page of the article in the 3rd paragraph, to the end.

Questions:

- In what way may structural unemployment be a sign of a healthy economy, rather than a sick one?
- Part of the Obama stimulus package includes increased benefits for unemployed Americans. How may this pose an obstacle to reducing unemployment in America?
- Historically, the natural rate of unemployment in most European economies has been higher than that of the United States. Why is this?
- Do you think America's NRU will return to its historic level (4-6%) when the economy eventually recovers from the current crisis? Why or why not?