



# Center for Economic Development

## Policy Research Report Abstract

### The Skills Gap and Unemployment in Wisconsin: Separating Fact From Fiction, February 2013, by Marc V. Levine

#### Executive Summary

There is apparent unanimity among Wisconsin business executives and policymakers that the state faces a "skills gap:" thousands of jobs going unfilled because too few Wisconsin workers possess the skills, education, and training for them. This skills mismatch, it is argued, is the central reason why unemployment remains high, even as job vacancies remain unfilled.

This widely held view, however, is incorrect. This paper examines major academic studies as well as data from the U.S., Wisconsin, and Milwaukee labor markets and finds no evidence to support the skills gap thesis. The key findings:

- **The consensus among top economists** is that the skills gap is a myth. High unemployment is mainly the result of a deficiency in aggregate demand and slow economic growth, not because workers lack the right education or skills. The skills of the labor force did not suddenly erode between 2007 and 2009, when the unemployment rate more than doubled, so it makes no sense to claim that high unemployment in 2009 and through today has been caused by a soaring number of "unqualified" workers. As Stanford University economist Edward Lazear put it: "The structure of a modern economy does not change that quickly."
- This conclusion, rejecting the skills gap/structural unemployment theory, has been confirmed in numerous recent studies, from: a) university economists at Stanford, the University of California-Berkeley, Duke, MIT, and the University of Pennsylvania; and b) researchers at the Brookings Institution, the Economic Policy Institute, the Center for Economic and Policy Research, the Federal Reserve Banks of Atlanta, Boston, and Chicago, and the Boston Consulting Group. Two recent Nobel Laureates in economics and two former heads of the President's Council of Economic Advisers thoroughly reject the skills gap as an explanation for persistently high joblessness.
- Most tellingly, more than three years after the official end of the Great Recession, there remain over three times as many unemployed workers as job openings in the US. Even if every unemployed person were perfectly matched to existing jobs, over 2/3 of all jobless would still be out of work. And this calculation understates the jobs shortage, as it does not include discouraged workers or those involuntarily working part-time.
- **National data** on wages, hours, the "job gap" (the ratio of job seekers to available openings), and the skills requirements of projected job openings reveal no evidence of a skills mismatch in national labor markets.
- Beyond the anecdotes of local employers, **the Wisconsin and Milwaukee labor markets** show no statistical evidence of a skills shortage:

- **Wages:** If Wisconsin employers were encountering a shortage of skilled labor, wages would be going up, but in Wisconsin real wages have declined since 2000. By contrast, in states such as North Dakota and Wyoming, where there really is demand for and a shortage of skilled labor, caused by a boom in the energy sector, real wages have jumped by double digits since 2000. Wisconsin wage "growth" also lags the national rate, another sign that there is no labor shortage here.
  - **Hours:** In contrast to states with tight labor markets such as North Dakota, there is no evidence that Wisconsin employers are adding hours to their existing workforce, to compensate for an alleged skilled labor shortage. Average weekly hours worked in Wisconsin are down 4.3 percent compared to 2000.
  - **Occupational Projections:** Although promoters of the skills gap idea claim that the skills requirements of future jobs will vastly outstrip the skills and education of Wisconsin workers, occupational projections for the state reveal that 70 percent of projected openings through 2020 will be in jobs requiring a high school diploma or less.
  - **Underemployment and Workforce Overqualification:** In reality, Wisconsin and Milwaukee suffer from the opposite of a skills gap: an economy that generates too few quality jobs and a labor market that is characterized by the underemployment and overqualification of skilled and educated workers. 25 percent of Milwaukee's retail salespersons hold college degrees (up from 11 percent in 2000); 60 percent of Wisconsin's parking lot attendants have had some post-secondary education. The "job gap" has created a skills mismatch of sorts in the Wisconsin and Milwaukee labor markets, but it is the inverse of the one commonly put forward: it is a mismatch of too many highly educated workers chasing too few "good jobs."
  - **Rising Human Capital:** Contrary to skills gap rhetoric, educational attainment has increased dramatically in Wisconsin and Milwaukee over the past decades. Nearly 90 percent of Milwaukee's adult population holds a high school diploma (up from 50 percent in 1970), and 31 percent hold at least a bachelor's degree (up from 11 percent in 1970). Gains in UW-Milwaukee The Skills Gap and Unemployment in Wisconsin 6 educational attainment have occurred for all racial and ethnic groups. All data point to consistently rising human capital formation in Wisconsin and Milwaukee.
- One of the central myths fueling the skills gap meme in Wisconsin has been the contention that the state suffers from a shortage of qualified **welders**. A review of wage and employment trends in all states—including those with genuinely tight labor markets for welders—finds no evidence of such a shortage in Wisconsin or Milwaukee. Real wages for welders here have declined since 2000; in states such as Wyoming, North Dakota, and Alaska, where there is strong demand for a limited supply of skilled welders, real wages have increased by over 20 percent.
  - There are more than three times as many unemployed welders as there are projected annual job openings for welders in Wisconsin; and when jobless welders from other urban centers in the Midwest are taken account, the gap is closer to 10-1. Almost all these welders were recently employed, so with such a sizeable number of recently employable welders looking for work, it seems highly unlikely that skills are a problem for whatever hiring problems are being anecdotally reported.
  - Notwithstanding allegations of a skills deficit among Wisconsin welders, the educational attainment of welders in the state (and in metro Milwaukee) is markedly higher than the national average. There is no evidence that Wisconsin suffers from a "competitive

disadvantage" in the skills of its welding labor force. We examine the case Bucyrus International, whose former CEO Tim Sullivan is the leading promoter of the skills gap idea in Wisconsin. Sullivan claimed he opened a factory in Texas in 2008 because of a supposed inability to find skilled welders in Milwaukee. Yet, the educational attainment level of welders in the Texas county where Bucyrus relocated is much lower than their Milwaukee counterparts, suggesting factors other than a putative skills gap at play.

- The study concludes with a brief analysis of: 1) why the "fake" skills gap, as *The New York Times'* Adam Davidson has called it, holds so much sway over policymakers in Wisconsin; 2) how the skills gap meme deleteriously diverts attention from other, more salient factors explaining joblessness here; and 3) why new workforce development policies, responding to an imaginary skills gap, will do little to improve the jobs situation in Wisconsin and in Milwaukee.

The complete report (1.7mb) is available in Adobe's Acrobat format. Acrobat Reader is required to view the file. Use [Adobe's web site](#) to download a free copy of Acrobat Reader.

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