THE FINANCIAL PAGE

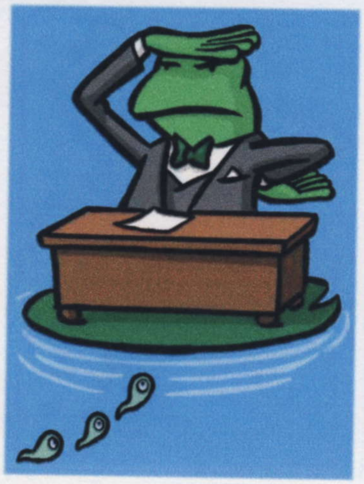
MIND THE GAP

The basic truth of the American economy today is that if you don't have a job it's hard to get one. Unemployment isn't high because businesses are shedding jobs—the rate of job loss is back to pre-recession levels—but because no one's hiring. And if you listen to employers you'll hear, in survey after survey, that a big reason they're not hiring is a dearth of qualified workers. Newspapers across the country regularly run stories about local businesses that can't find anyone good to hire. This has led to talk of a so-called skills gap—the gap between the skills that American workers have and the ones that businesses need. Some pundits argue that the skills gap means that the government can't do much to bring the unemployment rate down: if the job market is weak, it's because there's something wrong with American workers.

The idea of the skills gap makes a kind of intuitive sense—think of all those unemployed construction workers presumably ill equipped to do anything else. It's also true that there are a lot more job openings these days than you'd expect with an unemployment rate of 8.2 per cent. And there are undoubtedly some industries, like engineering, in which skilled workers are hard to find. But beyond that the evidence is shaky. A series of recent studies have found that the skills mismatch is very limited in scope. Furthermore, when you look at the list of slots that businesses say are among the toughest to fill, you find jobs like sales rep and office support—hardly specialized occupations. The workers are out there, but companies just aren't hiring them. As Peter Cappelli, a professor of management at Wharton, argues in his new book "Why Good People Can't Get Jobs," if businesses are having a hard time hiring, it's a problem largely of their own making.

The underlying issue, Cappelli shows, is that employers tend to let the perfect become the enemy of the good: seeing an overwhelming number of reasonable applicants makes them less likely to pick one. They know that it will be easy to hire later, after all, and maybe the next person through the door will be a perfect fit for the job. In addition, the bargaining power that companies have, thanks to the weakness of the job market, has enabled them to adopt very narrow definitions of what count as relevant skills. This leads to self-evidently absurd outcomes: Cappelli mentions a company that had twenty-five thousand applicants for a standard engineer's job and rejected them all. Businesses are holding out for a combination of John Nash and John Henry, and then complaining when no one fits the bill.

In truth, companies increasingly want to hire only people who already have jobs—ideally, as Cappelli observes, people who have already done the exact job they're applying for. When companies



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complain that they can't find people with the right "skills," they often just mean that they can't find people with the right experience. In a major survey done this year by the employment agency Manpower, nearly half of employers said that the problem with applicants was that they didn't have enough experience. This creates the classic job-market Catch-22: you can't get a job without experience, and you can't get experience without a job. The problem is exacerbated by the fact that the corporate hiring process is less flexible than it once was. Thanks in part to the sheer number of applications, screening of applicants is automated, with computers evaluating résumés according to pre-set criteria. Fail to meet one of these standards, and your application gets tossed, even if a good H.R. director might have spotted your potential.

Businesses emphasize experience because they need people who can perform well from day one. But this is itself a consequence of the fact that companies invest much less in training than they used to. In 1979, young workers received an annual average of two and a half weeks of training. By contrast, a study last year by the consulting firm Accenture found that only twenty-one per cent of the employees surveyed had received any training at all over the previous five years. Peter Drucker once wrote of the modern company, "Training and development must be built into it on all levels." Today, businesses have largely rejected that idea, expecting employees to fend for themselves. There's some logic to this: job tenure has shrunk, so why spend time and money training someone who may soon go to work for your competitor? Still, it creates a long-term dilemma: every company wants skilled workers, but few companies are willing to invest in developing skills.

When employers really want to fill job openings, they place ads, hire headhunters, and screen candidates quickly. When they don't care too much, they're much more passive, relying more on word of mouth than active recruitment. They raise job standards, and they screen applicants slowly. That's the world we live in. According to an index developed by three economists in 2010, "recruiting intensity" is still nearly twenty per cent lower than it was before the recession hit. This isn't just bad for workers. It's also bad for businesses, since they're forgoing the extra revenue new workers could generate. But in a weak economy most companies worry less about getting every possible dollar of new business than they do about keeping costs down. That makes them slow to hire, which keeps unemployment high, which keeps demand weak, which in turn makes employers more reluctant to hire. This is perfectly understandable—and an excellent explanation for why we need the Federal Reserve or the government to give the economy another jolt. Still, if you want to know why businesses aren't hiring, the answer isn't the skills gap. They just aren't trying that hard.

—*James Surowiecki*