

# “Deconstructing Structural Unemployment”

John Schmitt  
[schmitt@cepr.net](mailto:schmitt@cepr.net)  
and  
Kris Warner  
[warner@cepr.net](mailto:warner@cepr.net)

Center for Economic and Policy Research  
Washington, DC

Cleveland Federal Reserve  
2011 Policy Summit  
June 9-10, 2011

# ILO definitions

## 1. Cyclical unemployment:

"Mass unemployment or reduction in work resulting from periodic fluctuations in the level of activity in the economy, and associated with the international trade cycle."

## 2. Structural unemployment:

"Unemployment resulting from changes in the composition of the labour force, the structure of the economy, technological change or relocation of industry."

# Diagnosis and treatment

## 1. Cyclical unemployment:

Cause: deficient demand

Cure: expansionary macroeconomic policy

## 2. Structural unemployment:

Cause: supply bottlenecks

Cure: supply-side interventions (training and education, cut unemployment benefits, reduce union power, etc.)

---► expansionary macroeconomic policy counterproductive

# **Arguments in favor of structural unemployment explanation**

1. Skills mismatch
2. Geographical mismatch
3. Deterioration in Beveridge Curve (U-V curve)

# Displaced Workers Survey

- Supplement to the January 2010 Current Population Survey (CPS)
- Asks all respondents if displaced in preceding three calendar years (2007, 2008, 2009)
- Displaced if:
  - Were with same employer at least three years
  - Lost job not for cause due to: (a) "plant closing" (b) "shift abolished" or (c) "slack demand"
- Detailed information on worker characteristics, lost job, activity since job loss, and current labor-market status (including current job, if working now)

# **Arguments in favor of structural unemployment explanation**

- 1. Skills mismatch**
- 2. Geographical mismatch**
- 3. Deterioration in Beveridge Curve (U-V curve)**

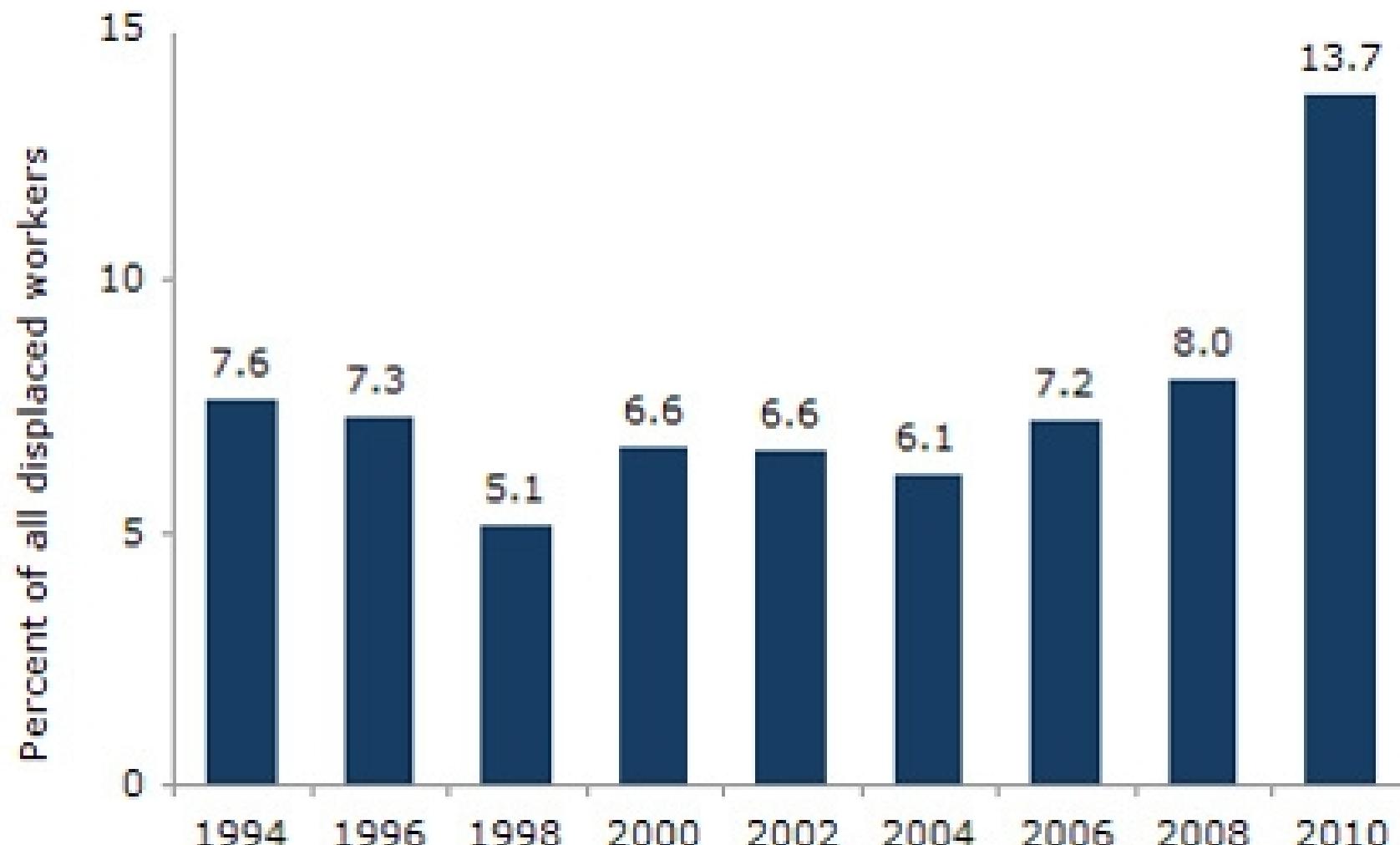
"[T]he Fed does not have a means to transform construction workers into manufacturing workers."

—Narayana Kocherlakota, President, Federal Reserve Bank of Minneapolis, August 17, 2010

"You can't change the carpenter into a nurse easily... Monetary policy can't retrain people. Monetary policy can't fix those problems."

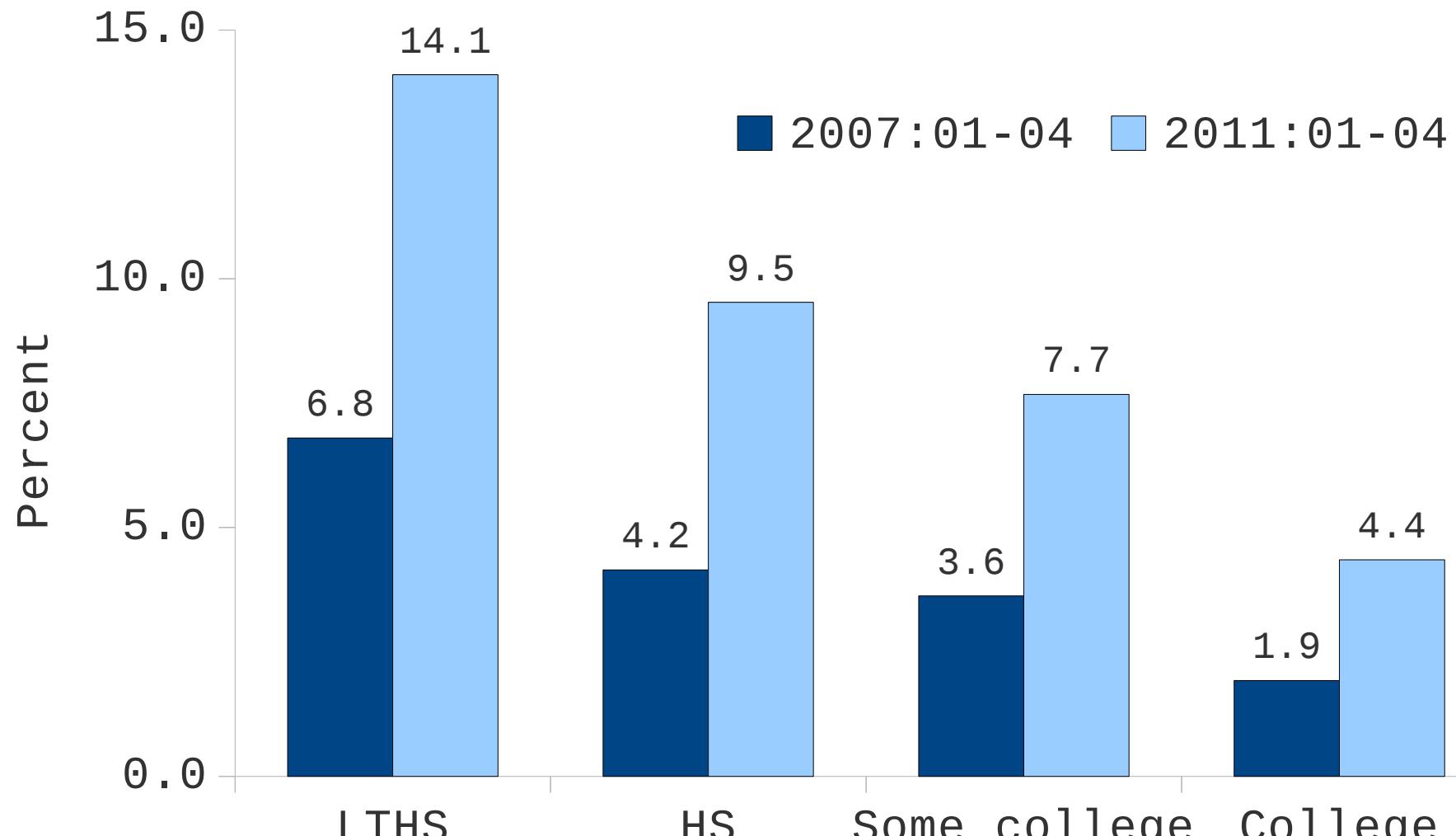
—Charles Plosser, President, Federal Reserve Bank of Philadelphia, February 14, 2011

## Construction Workers as Share of Displaced, 1994-2010



Source: CEPR Analysis of Displaced Workers Survey (BLS).

## Unemployment rate



Source: BLS.

TABLE 1

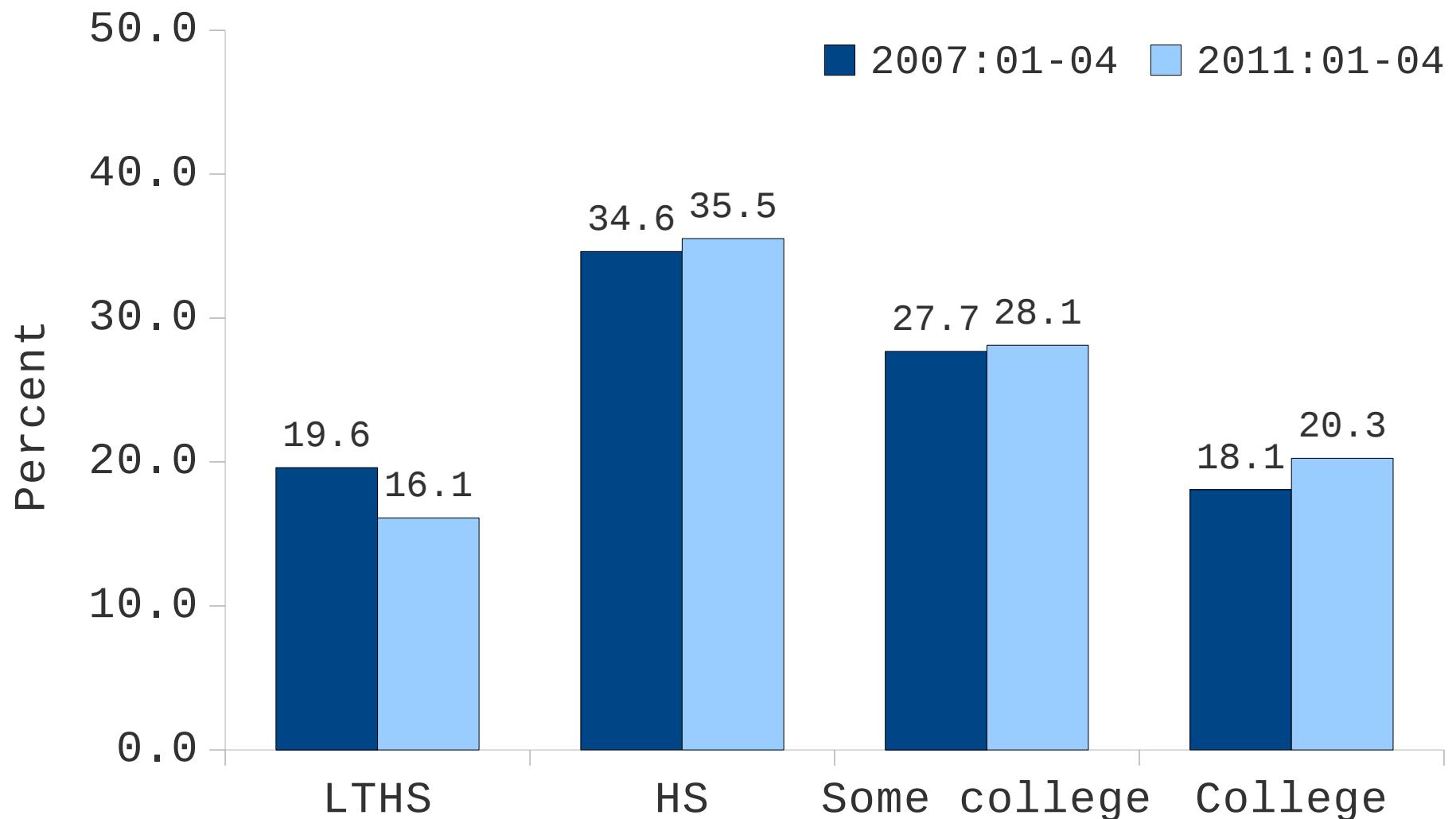
## Labor-market Outcomes of Workers Displaced in 2007-2009, as of January 2010

	Construction	Non-construction
Since being displaced...		
Have worked (%)	56.3	55.5
Average number of jobs held	0.80	0.71
Have moved (%)	10.3	8.5
Have moved for economic reasons (%)	6.1	5.1
Among those displaced from a full-time job, at time of interview...		
Employed (%)	46.7	48.2
Unemployed (%)	42.3	37.8
Left labor force (%)	11.1	14.0
Among those displaced from a full-time job, and now employed, weekly pay at new job, relative to lost job... (%)		
20% or more below	38.1	38.4
20-0% below	23.1	28.0
0-20% above	20.1	19.1
20% or more above	18.4	14.5

Source: Authors' analysis of DWS data.

Source: Schmitt and Warner (2011) analysis of 2010 DWS data.

## Share of unemployed

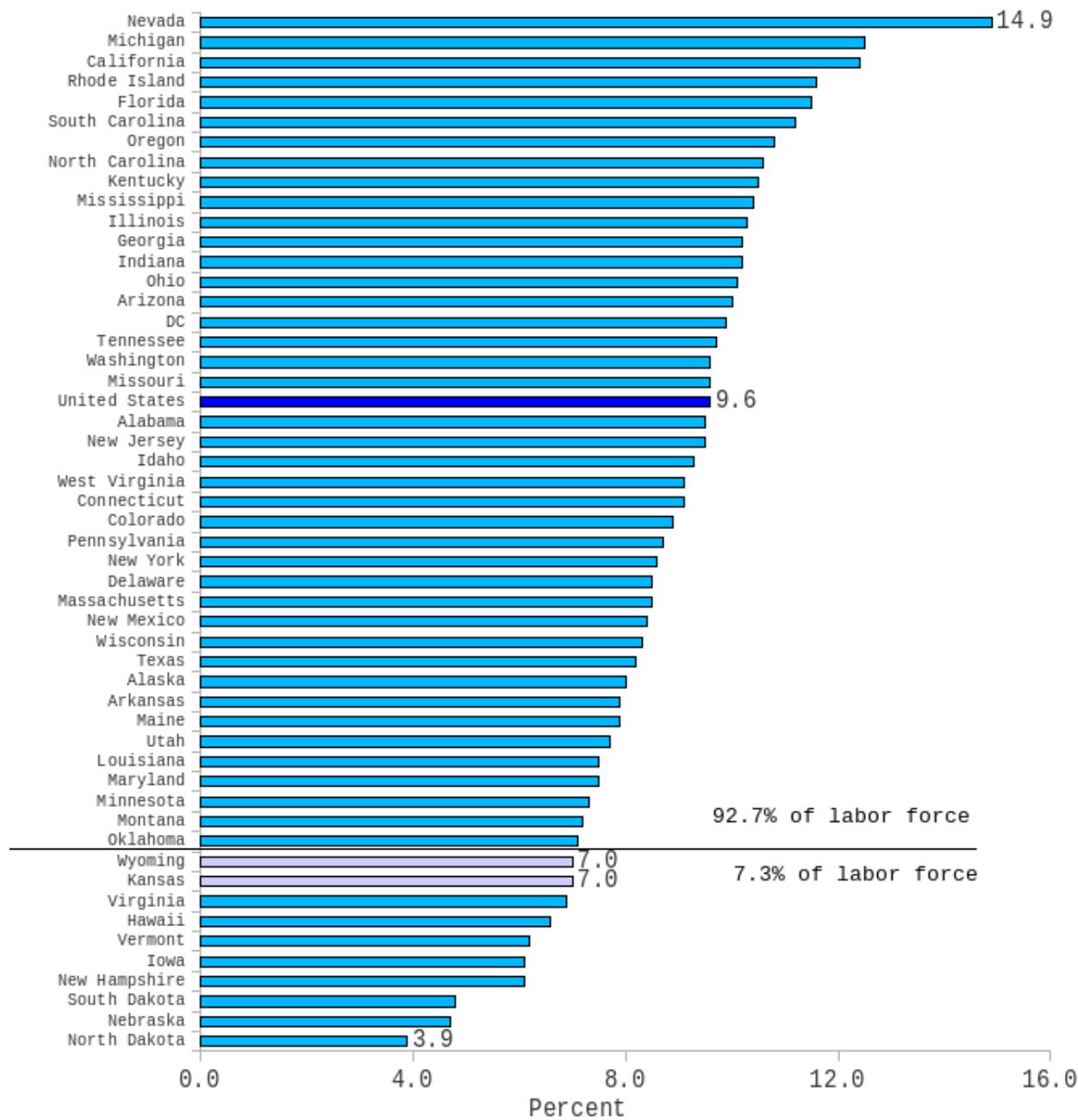


Source: BLS.

# **Arguments in favor of structural unemployment explanation**

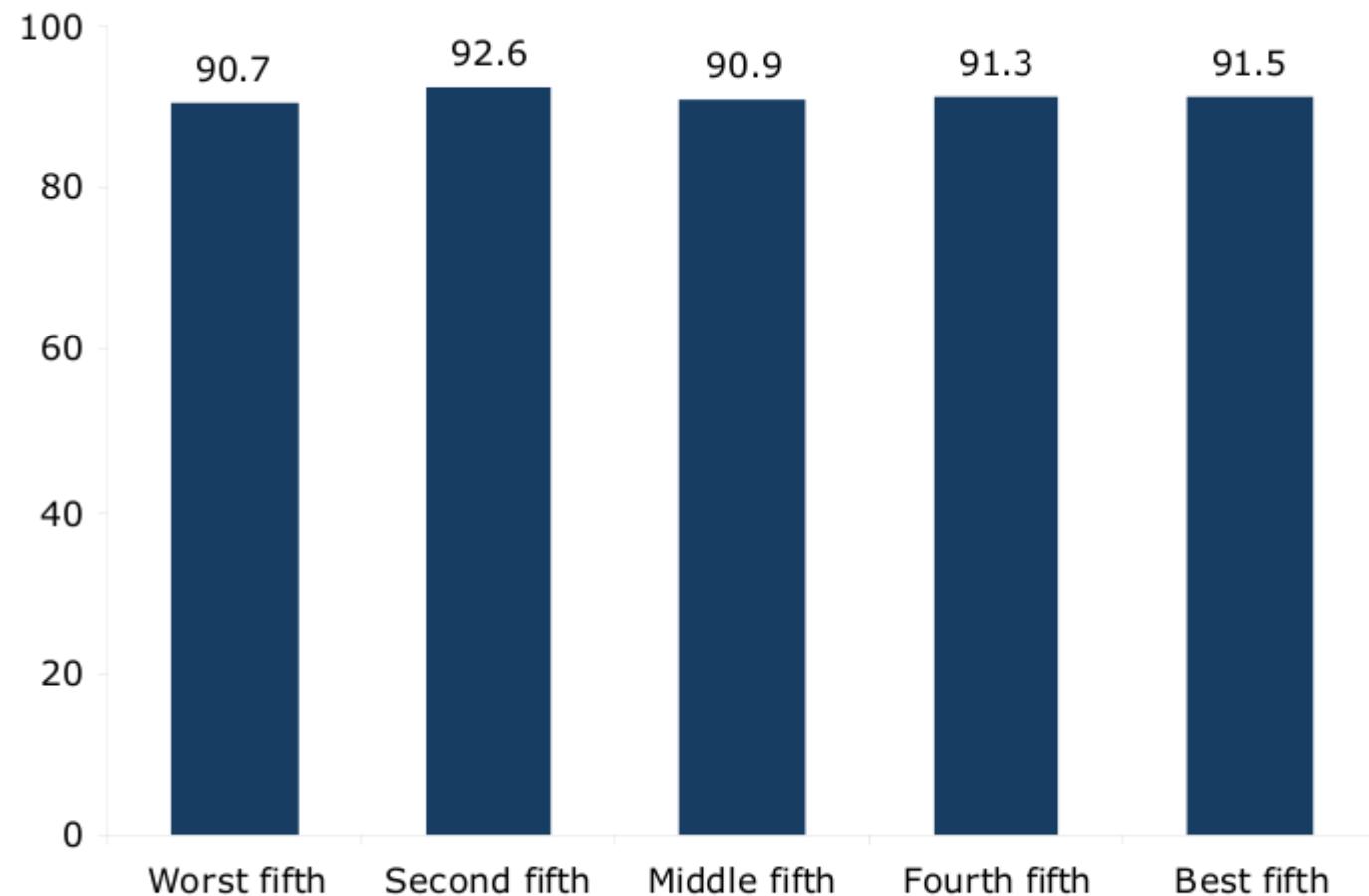
- 1. Skills mismatch**
- 2. Geographical mismatch**
- 3. Deterioration in Beveridge Curve (U-V curve)**

### Unemployment rate, 2010



Source: BLS.

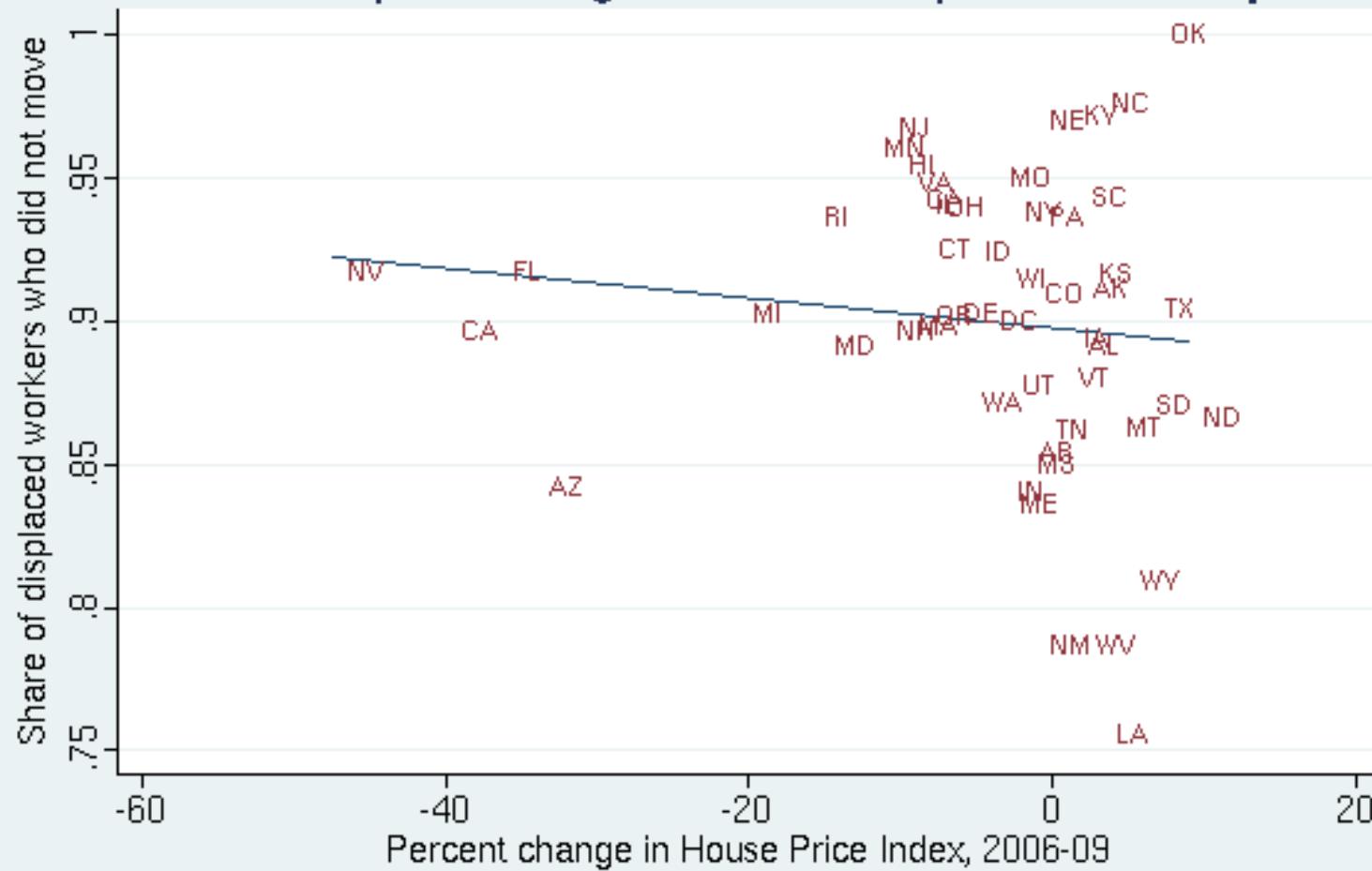
## Displaced Workers' Probability of Not Moving, by Change in State-wide Housing Price Index, Quintiles



Source: Author's analysis of CPS DWS and Federal Housing Finance Agency data.

Source: Schmitt and Warner (2011), Figure 4.

## House price changes have little impact on mobility



Source: CEPR analysis of DWS and HPI data.

# “Deconstructing Structural Unemployment”

John Schmitt  
[schmitt@cepr.net](mailto:schmitt@cepr.net)  
and  
Kris Warner  
[warner@cepr.net](mailto:warner@cepr.net)

Center for Economic and Policy Research  
Washington, DC

Cleveland Federal Reserve  
2011 Policy Summit  
June 9-10, 2011