

“Deconstructing Structural Unemployment”

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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)

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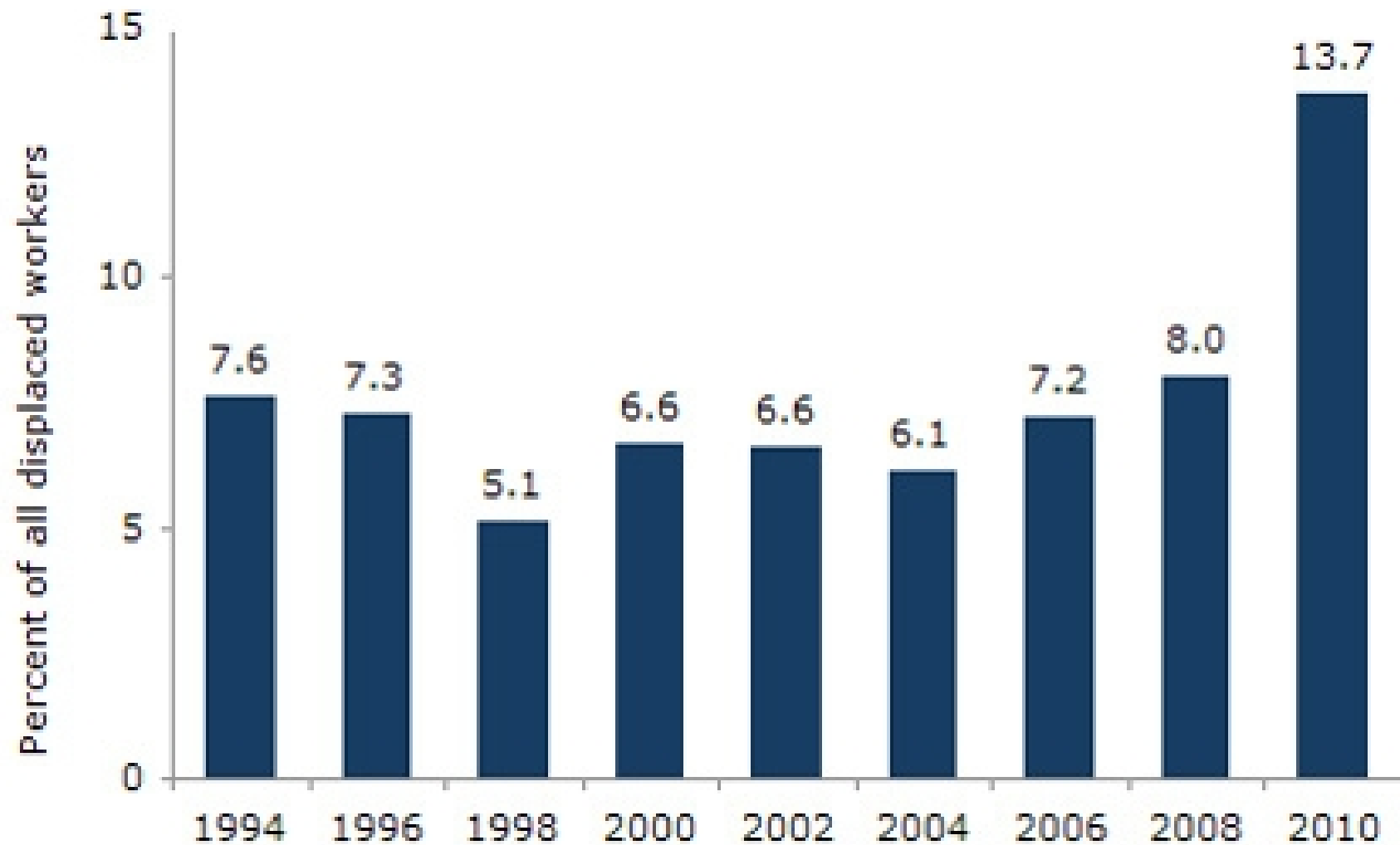
"[T]he Fed does not have a means to transform construction workers into manufacturing workers."

–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."

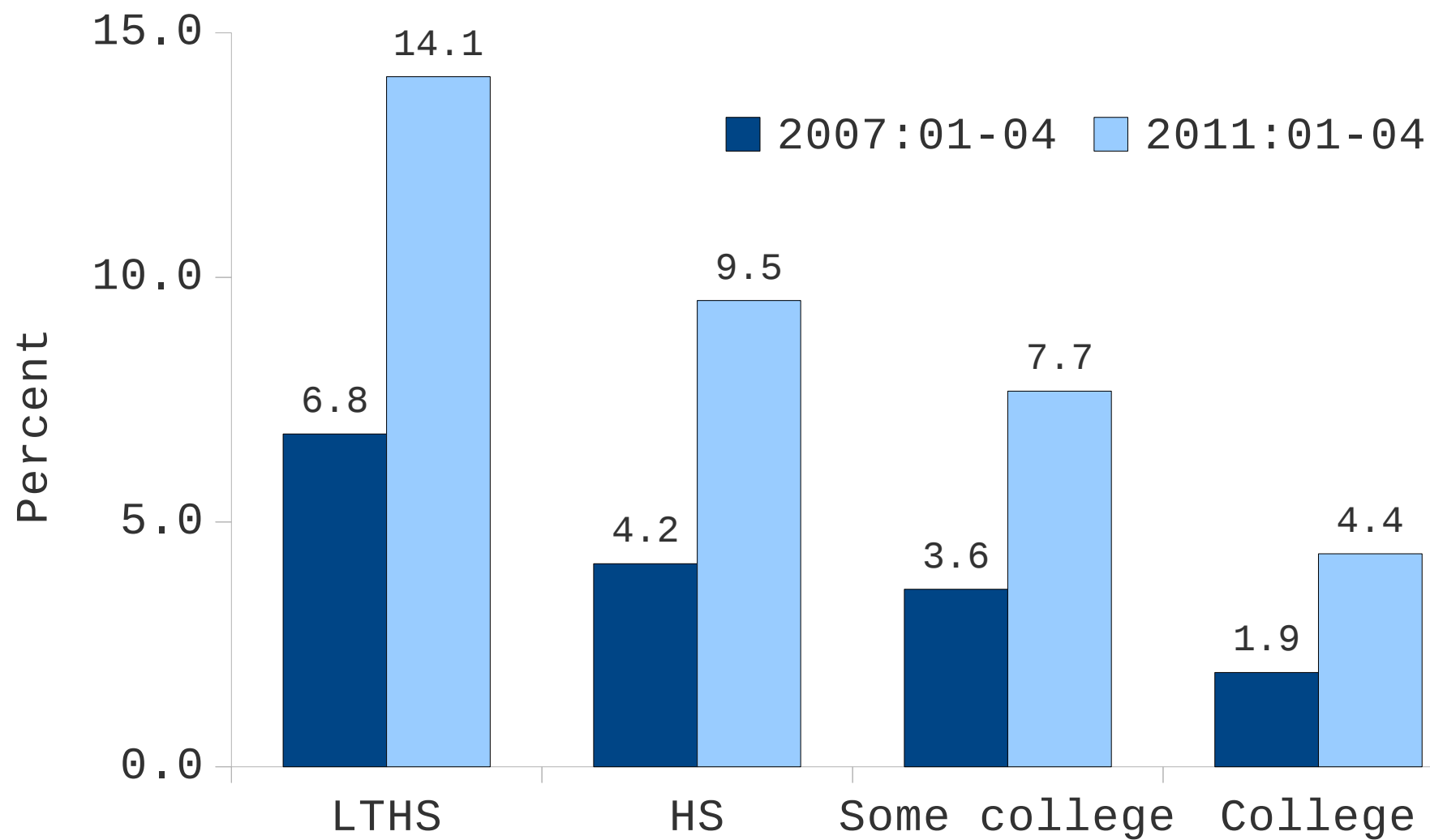
–Charles Plosser, President, Federal Reserve Bank of Philadelphia, February 14, 2011

Construction Workers as Share of Displaced, 1994-2010



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

Unemployment rate



Source: BLS.

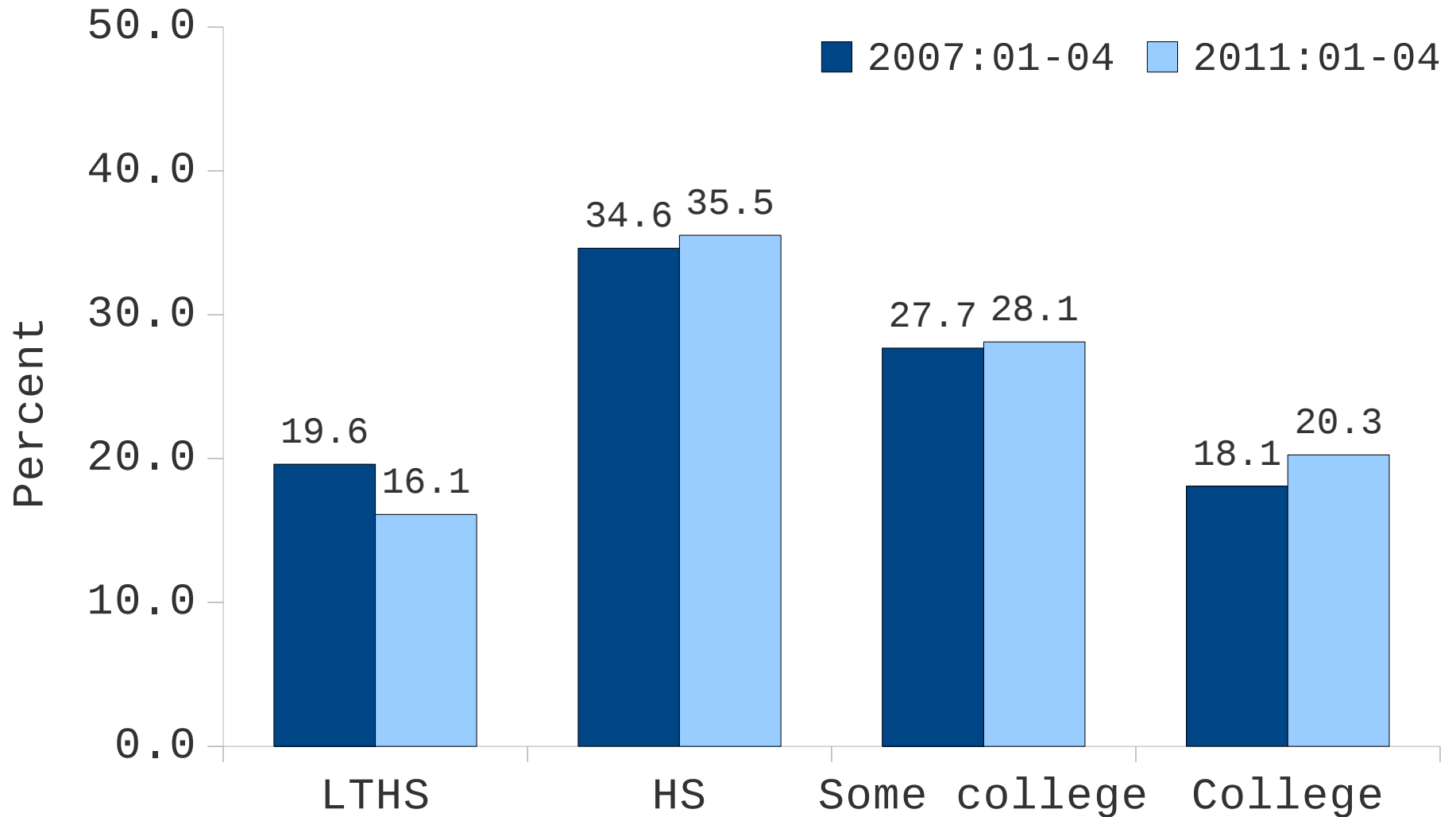
TABLE 1

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.

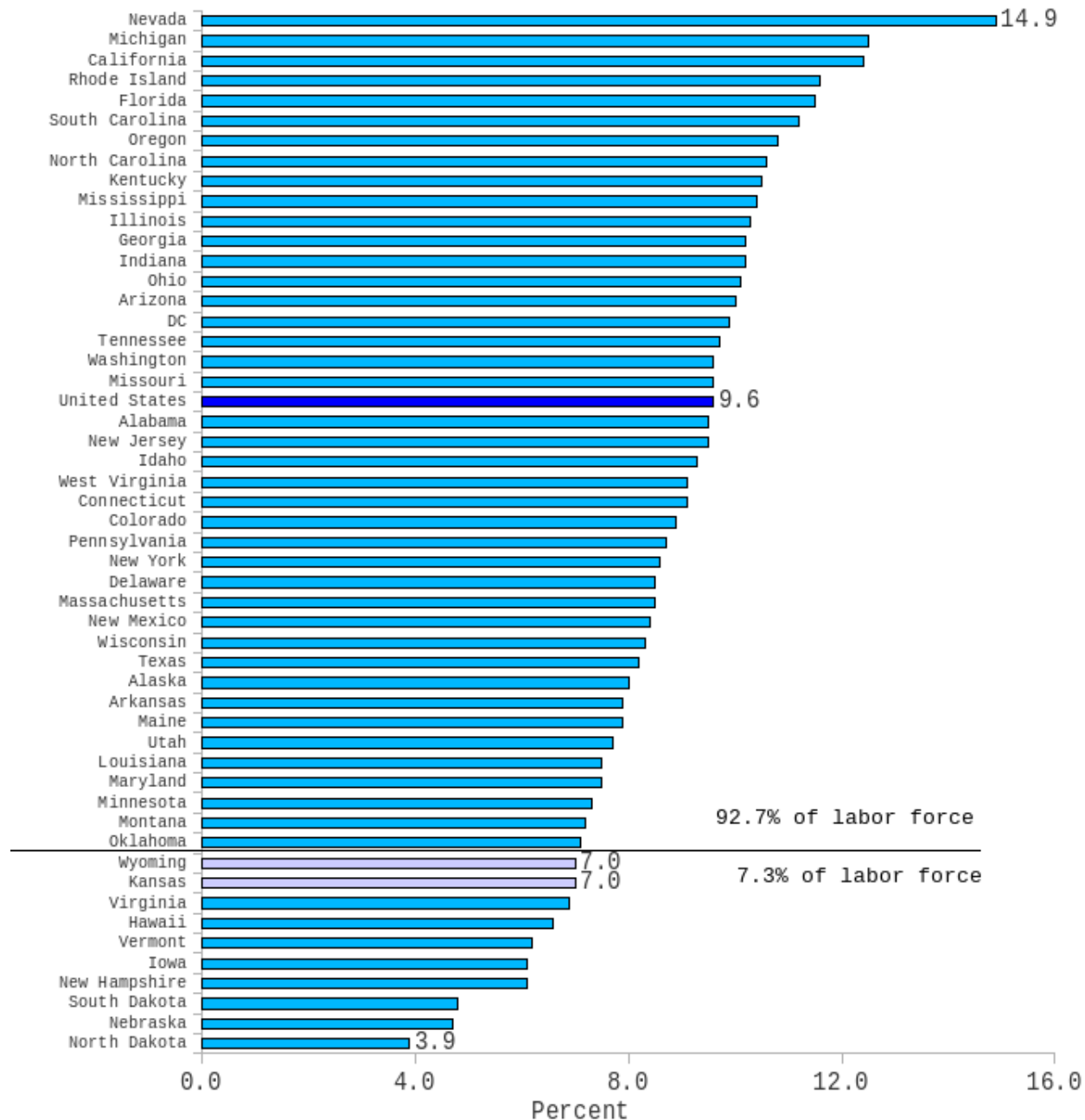
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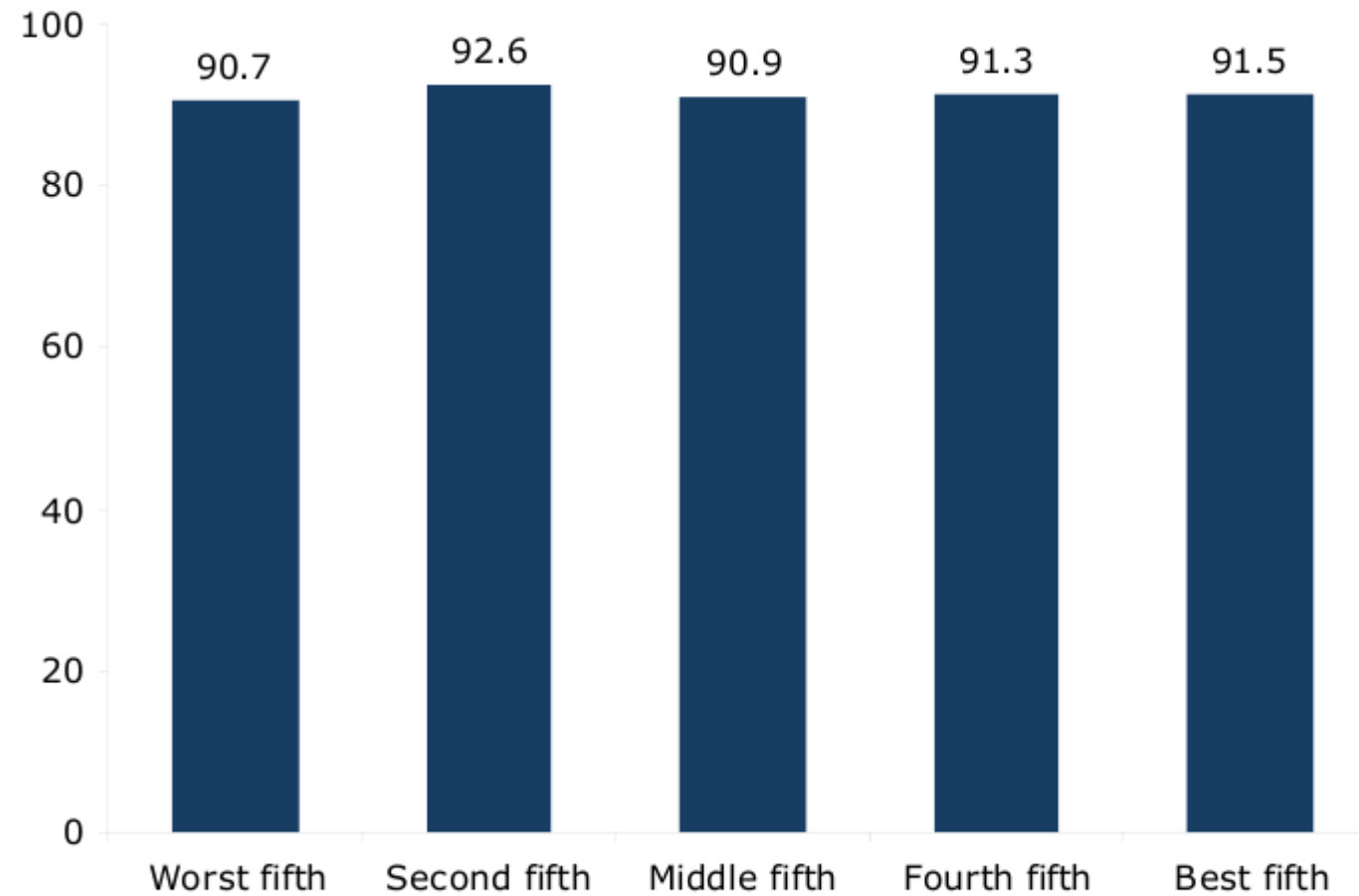
3. Deterioration in Beveridge Curve
(U-V curve)

Unemployment rate, 2010



Source: BLS.

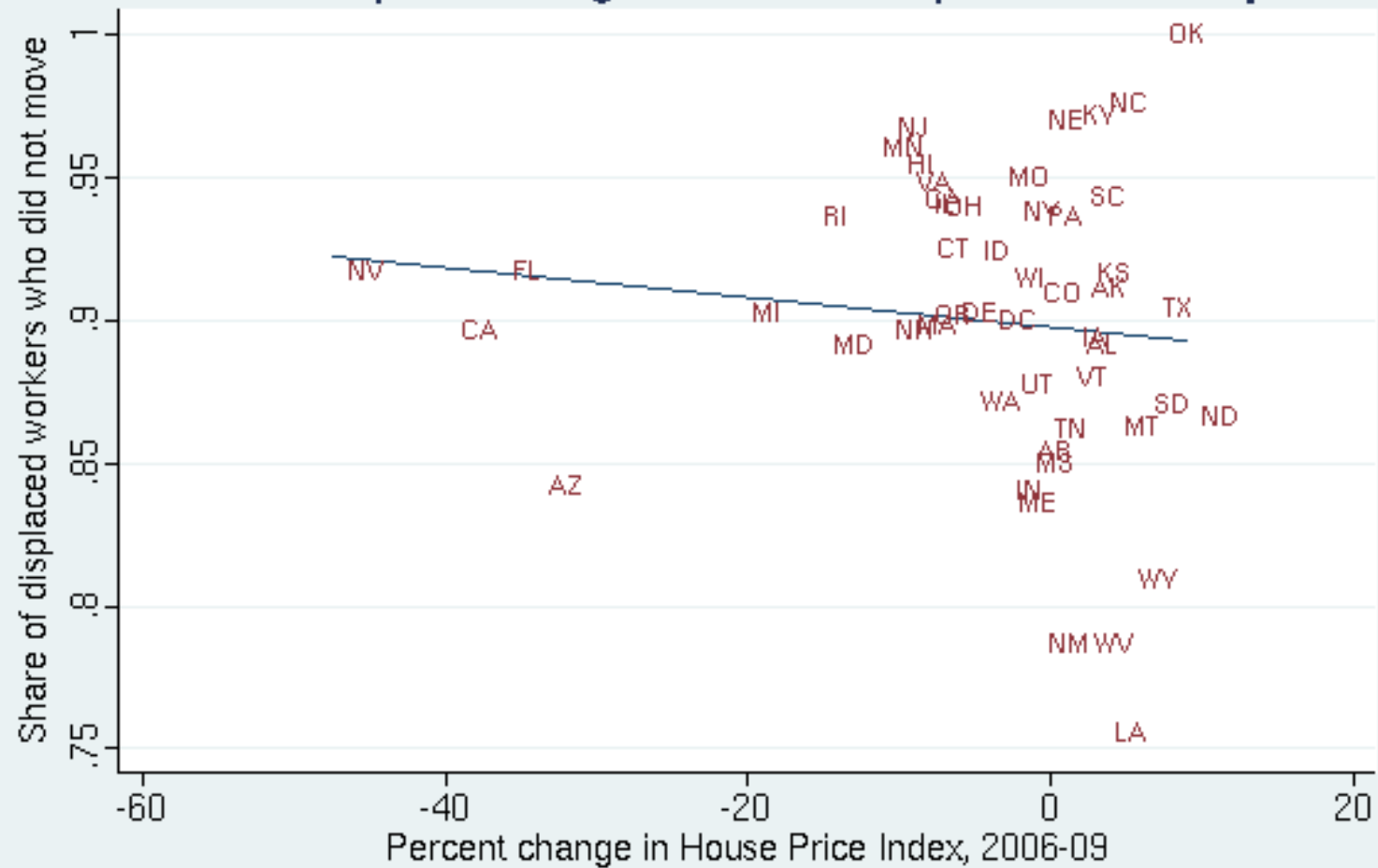
Displaced Workers' Probability of Not Moving, by Change in State-wide Housing Price Index, Quintiles



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.

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