What Labor Shortage? Debunking a Popular Myth. The coming labor shortage.

Middle East Company News Wire

December 3, 2003 Wednesday 3:46 PM GMT

Length: 2023 words

Body

It's a prediction frequently made by think tanks, consulting firms and corporate human-resources executives who expend a great deal of time and energy worrying about how companies and the U.S. economy are going to cope with a dearth of workers in the years to come. The problem, however, is that this piece of conventional wisdom, which holds a host of implications for both the private and public sectors, is false.

<center> <img border=0 src=/images/sponsors/wharton_logo.gif WIDTH=150 HEIGHT=50> </center> That is the conclusion of a study by Peter Cappelli, professor of management and director of Wharton's Center for Human Resources. The study, titled 'Will There Really Be ***a Labor Shortage***?' and published in the August issue of Organizational Dynamics, notes that employers may well face difficult challenges in recruiting and hiring people in the future. But those challenges will stem from fundamental changes in the nature of the employer-employee relationship that contribute to the difficulty of retaining employees, not from a shortfall in the number of workers caused by demographic shifts. Cappelli suggests that employers work to improve their inadequate human-resources capabilities rather than fret over a non-existent ***shortage*** of workers. In an interview, Cappelli said the idea for the paper arose from what he saw as the need to stick a pin in an assumption that had ballooned to such proportions that it was never questioned.

'Once this drumbeat about ***a labor shortage*** took hold some years ago, it became automatically factored into the background of any discussion about human-resource topics,' he says. 'I'd go to a company workshop and the [presenter] would begin a slide presentation with a statement about the coming ***labor shortage***. It's a statement that is now just built into the underpinnings of the way companies think. It's like a rumor you hear about on the Internet: People hear it so often, they believe it.' A Grain of Truth Like many false beliefs, the forecast of a widespread ***labor shortage*** - the inability to fill jobs at prevailing wages - has its basis in truth. People who argue that ***a labor shortage*** will befall corporate America blame it on a demographic change that is quite real - the small size of the so-called 'baby-bust' generation, the group of people that followed the baby-boom generation into the ***labor*** market. The number of people in the baby-bust cohort, who this year fall between the ages of 23 and 37, is about 16% smaller than the massive baby-boom generation, whose members were born between 1946 and 1962. Cappelli's study lays out in detail why it is erroneous to assume that a smaller baby-bust cohort and the aging of the boomers - who will begin to retire soon - will lead to ***a labor shortage***. For one thing, the fact that the baby-bust cohort is smaller overall than the baby-boom cohort does not mean that every sub-group within the baby-bust group has to be 16% smaller. Colleges, for example, did not cut back on the size of their graduating classes when the baby-busters came through school. The overall number of college graduates since the baby-busters left high school has actually gone up because more students who might not have gone to college are being pulled into the system of higher education. And it is college graduates who are most in demand by employers. As for the fear that the retirement of baby boomers will contribute to ***a labor shortage***, Cappelli says that this assumption is predicated on the unrealistic expectation that the boomers will quit work at age 65. Unlike their parents and grandparents, many boomers will continue to work past 65, even though they may change the kind of work they do. What's more, not only will the general population continue to grow, so will the ***labor*** force, according to the study. The Bureau of ***Labor*** Statistics estimates that the ***labor*** force will rise from 153 million in 2000 to 159 million in 2010. The assertion that the ***labor*** force will be smaller in the years ahead is, Cappelli says, simply wrong. Moreover, the baby-bust cohort will be followed by an even larger generation of people, who are now in their teens and 20s. Even though the ***labor*** force will grow, some proponents of the ***labor-shortage*** scenario sometimes raise a different issue in an attempt to bolster their case. They argue that the smaller size of the baby-bust group, in and of itself, has implications for employers because the pattern of the overall U.S. demographic distribution will be mirrored in each of the employers' own companies. This assertion, however, does not hold water either, according to Cappelli. One reason is that the demographic profile of the entire United States simply is not reflected in each and every individual company. Some companies, such as steel makers, have older workforces, while other companies, such as software manufacturers, have much younger employees. 'The differences are accounted for by the growth patterns of the companies,' according to the study. 'Most companies hire a disproportionate number of employees when their business [is] booming and they therefore tend to be roughly the same age.' A second reason why the national demographic pattern has little influence on individual employers is that few companies need to hire from any particular age group, especially when other workers are available. The days when companies hired recent graduates en masse into entry-level jobs and then promoted them up the career ladder are long gone. Today, the hiring of experienced workers at any age from outside the company is common. More Sophisticated Arguments There are other, more sophisticated, arguments put forth by proponents of the view that ***a labor shortage*** will occur. But even these are not convincing, says Cappelli. For instance, it is sometimes asserted that the rate of growth of the economy as a whole is somehow linked to the growth rate of the ***labor*** force - that is, slower growth in the ***labor*** force means slower economic growth. But Cappelli makes the point that the U.S. economy has always grown faster than its workforce; indeed, this is the only way by which the standard of living has been able to rise in America. That the economy grows faster than the workforce is due to productivity growth, a key factor in U.S. prosperity that ***labor-shortage*** proponents appear not to take into account. When worker productivity grows, the economy as a whole produces more from the same number of workers. The U.S. economy today is eight times bigger than it was at the end of World War II, but the workforce is only twice as big. Put another way, employees are roughly four times as productive today as they were in the late 1940s. If there had been no improvement in productivity, the economy would need four times as many workers as it now has in order to sustain the current level of gross domestic product. In attempting to make the ***labor-shortage*** case, observers sometimes put forth another argument. They assert that the growth rate of the economy hinges on growth in the number of workers: Output per worker multiplied by the number of workers equals total economic output. Hence, it is argued, if the growth rate of the ***labor*** force is declining, the rate of economic growth must fall as well. This line of thought fails to pass muster because it confuses the number of jobs in the economy with the number of people in the ***labor*** force, according to Cappelli. The ***labor*** force includes both the employed and unemployed. Unless the economy is operating at absolutely full employment, and it almost never is, the supply of ***labor*** exceeds the number of jobs. Moreover, surplus ***labor***, measured by the unemployment rate, often numbers in the millions. Slow growth in the ***labor*** force, therefore, can only constrain economic growth if the economy enjoys full employment, which is a rare occurrence. 'The upshot of my study is that the ***labor*** force is not shrinking,' Cappelli tells Knowledge@Wharton. 'The baby-bust cohort is being followed by an even bigger cohort now in their 20s, and baby-boom workers simply will not be retiring from work in the numbers that many people expect. People keep talking about the 'coming ***labor*** shortfall.' Well, they were talking about the 'coming shortfall' 10 years ago, and they're still talking about it today, but we haven't seen it. Demographics don't drive ***labor*** markets. Demographic changes are gradual and predictable, and the economy and the ***labor*** force have enough time to adjust to them.' Making the assumption that ***a labor shortage*** is on the horizon is a serious mistake because corporations and public-policy makers may make important decisions based on such an assumption. 'The bigger the corporation, the more they buy into the ***labor-shortage*** argument,' says Cappelli. 'The bigger companies are the ones with the ability to think long-term and worry about the future.' One implication of Cappelli's paper is that it undercuts the argument that the United States needs to boost immigration or else jobs will go unfilled. 'There was an enormous lobbying effort from the business community to expand immigration several years ago,' he recalls. 'But there's no good argument for sustaining the view that we have to expand immigration because there is no basis to the view that there aren't enough people to fill jobs.' If there is no impending ***shortage*** of ***labor***, why do employers feel that the tight ***labor*** market of 1998 to 2001, when companies faced the challenge of finding workers and wages rose sharply, somehow represented a major shift from what they had known before and presaged a bleak future? One reason, Cappelli believes, is that the pressure to hire laterally from the outside to bring in new skills, which was accelerated during the late 1990s, is a new development in the history of human-resources management. The breadth of jobs that today are filled from the outside - ranging from the mailroom all the way to the CEO's office - stands in stark contrast to years gone by when recruiting was almost entirely focused on entry-level positions. An increase in outside hiring contributes to higher turnover, which forces employers to be in a state of continuous hiring and gives rise to the feeling that there is a ***shortage*** of workers. 'Even though there may have been no overall ***shortage*** of workers [from 1998 to 2001], the fact that many of those workers were moving from one employer to another generated widespread vacancies that could not be met by the level of hiring most firms were capable of sustaining,' the study says. 'Employers could be forgiven for thinking that this situation looked like ***a labor shortage***: Despite flat-out hiring, they could not bring in enough workers to meet their needs. Retention management should have been part of the solution along with performance management to identify who were the truly important people to retain.' Making Improvements As the economy strengthens, employers may once again face the prospect of tight ***labor*** markets. But instead of fearing a non-existent workers' ***shortage***, companies should invest in a range of responses to meet their ***labor*** needs, Cappelli argues. Most firms have to improve their recruiting, but doing so requires more than just coming up with more applicants or filling vacancies more quickly. The overarching goal should be to make better matches between applicants and jobs. That means uncovering the right applicants who truly fit the jobs they apply for. Matching the right person to the right job not only leads to better performance but also to reduced turnover, according to the study. Says Cappelli: 'The wrong implication to take away from the study would be to say there's no reason to worry about anything concerning employment because there's not going to be ***a labor shortage***. A tight ***labor*** market can come back in matter of months if the economy picks up steam. The real issue then will be to have a system of practices in place of finding good people, hiring them when you need them and keeping the good ones.'

Source: For more articles like this one, visit Knowledge@Wharton *http://knowledge.wharton.upenn.edu*

Graphic

Picture

Classification

Language: ENGLISH

Publication-Type: Newswire

Subject: ***LABOR SHORTAGES*** (90%); HUMAN RESOURCES (90%); BABY BOOMERS (89%); EMPLOYEE TURNOVER & RETENTION (78%); RECRUITMENT & HIRING (77%); INTERVIEWS (75%); ***LABOR*** SECTOR PERFORMANCE (74%); DEMOGRAPHIC GROUPS (72%); PREVAILING WAGES (72%)

Company: Executive Education

Industry: CONSULTING SERVICES (73%)

Load-Date: October 7, 2005