Why Employers Are Slow to Fill Jobs: Business Class

By Steven J. Davis

Bill Clinton put his finger on a distressing aspect of the U.S. jobs situation in a recent television interview. The former president remarked that openings are being filled at only half the rate of previous recessions, even though current unemployment is much higher. He stressed the bleak outlook for job-seeking construction workers and the need for retraining and skills development.

He has a point: Construction workers can't easily become nurses. And, given the weak housing market, an early return of boom times in construction is highly unlikely. So skill mismatch will persist. It slows the pace of job filling by making it harder for employers to find suitable hires.

Yet skill mismatch is by no means the whole story. Recent research points to a shift in recruiting behaviour by employers as another important factor.

Employers influence the pace of job filling by the intensity of their recruiting efforts. Under an aggressive approach, an employer places help-wanted advertisements, reaches out to attractive candidates and retains professional recruiters. Under a relaxed approach, an employer tends to rely on word of mouth or waits passively for applicants. Employers can also screen applicants quickly or slowly. They can set a high or low bar for experience, qualifications and promise. They can offer more or less attractive compensation packages.

To quantify recruiting intensity, Jason Faberman, John Haltiwanger and I dug into the innovative Job Openings and Labor Turnover Survey, published by the U.S. Bureau of Labor Statistics. We analysed the data and constructed a new index of recruiting intensity per job vacancy. As seen in the nearby chart, recruiting intensity per vacancy plummeted during the recession. Despite a modest rebound, recruiting intensity in
2011 remains 20 percent below 2006. Lower recruiting intensity leads directly to a slower pace of job filling.

Why did recruiting intensity plummet? More to the point, why hasn’t it returned to pre-recession levels? Labor market slack is part of the answer. Many employers see little downside to passing on marginally qualified applicants when new applicants arrive daily. There is no rush to hire. Anecdotal evidence suggests that some employers see the current situation as an opportunity to upgrade labor quality, hiring only the most outstanding candidates.

Another part of the explanation involves broader economic conditions. The same concerns about weak sales and an uncertain economic outlook that depress job creation also undercut the desire to fill job openings. We live in a time of extraordinary uncertainty about government policy with respect to taxes,
health care, financial regulation, monetary issues, environmental regulation, and other areas. The political impasse over the federal debt ceiling further muddles the outlook. Policy uncertainty discourages investment, job creation and hiring.

Other evidence points to a significant shift in job-seeking behaviour by the unemployed. Government data show that hours of job search per unemployed person fell 15 percent in 2009 from 2008, rebounding only slightly in 2010. Using different data, Alan Krueger and Andreas Mueller conclude that the longer a person is unemployed, the fewer hours per week they devote to the search for a job. This pattern is noteworthy because long-term unemployment is at historic highs. Less search activity by jobless workers is likely to further slow the pace of job filling.

What lies behind the decline in job search time per unemployed after 2008? Perhaps a lack of success in job-hunting leads to downward self-assessments of skills, capabilities, and market opportunities. Reassessments of this sort imply a drop in the expected financial payoff from search activity. Or perhaps job-hunting becomes increasingly painful, for psychological reasons, as a period of unemployment lengthens. Either way, the response is less time devoted to finding a job. Under a more benign interpretation, individuals become more efficient searchers with practice, that is to say, they become faster at scanning help-wanted ads and judging those that offer good prospects.

Policy plays a role here as well. The extension of unemployment benefits eligibility to 99 weeks under the American Recovery and Reinvestment Act of 2009 lessened the financial incentives for job losers to search for new work and to accept positions with low pay. It also increased the number of unemployed in name only -- those who go through the motions of job seeking to collect unemployment benefits, but who would have left the labor force absent the extension. The severity of these negative side effects and their impact on job search activity are unclear.

Summing up, employers have been slow to fill jobs for several reasons. Skill mismatch is a major concern, and one that defies
easy solution. Low recruiting intensity is another significant factor. A return to robust growth would cause employers to intensify recruiting efforts, especially under a more stable policy outlook. Job openings would fill more quickly, contributing to a pick-up in the pace of hiring. Sustained growth would also improve opportunities for workers, re-energize job-seeking efforts and diminish the unemployment rolls.

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