

## ***With Higher Pay, There Are Plenty Of U.S. Workers To Fill Jobs, Some Economists Say***

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This story is the first in a series examining the state of the U.S. labor market.

How tight is the U.S. labor market? At 4.6% of the workforce, the official unemployment rate is certainly low by historical standards. In industries from agriculture to construction, to health care and high tech, employers complain that there aren't enough workers to fill positions [see BusinessWeek.com, 4/9/07, "Where Are All the Workers?"].

Many fear it'll get worse in the wake of the Bush Administration's decision to crack down on undocumented workers. Construction companies say offices and highways may not get built. Farmers talk of crops rotting in the fields, as illegal immigrants flee and Americans refuse to take up the plow. "Who will be there to put meat and vegetables on American dinner tables?" says Craig Regelbrugge, co-chairman of the Agriculture Coalition for Immigration Reform and spokesman for the American Nursery & Landscape Assn. "The only unaffected group will be Americans who do not eat." [See BusinessWeek.com, 8/14/07, "Immigration Rules: An Economic Disaster?"].

### Exaggerated Worries?

David Rosenberg isn't buying it. A North American economist at Merrill Lynch (MER), he is one of a number of economists who say the concerns about too few workers are vastly overblown. Rosenberg recently studied the issue and put out a report entitled *Is There a Labor Shortage?* If employers are having trouble filling jobs, "perhaps they're not looking hard enough," he says.

The issue may not be the number of workers, but rather the level of pay. Economists like Rosenberg argue that in a market economy, there's really no such thing as a true shortage. If you want more of something, you can pay more and have it. When employers say that there's a worker shortage, what they really mean is they can't get enough workers at the price they want to pay, the argument goes. "While it makes for nice cocktail conversation,

the data aren't saying there is an acute labor shortage in this country," Rosenberg says.

Consider the numbers. Even as the unemployment rate has declined in recent years, millions of Americans have left the workforce and stopped looking for jobs. The government's Bureau of Labor Statistics has a dedicated category for "discouraged" workers who believe no positions are available to them. If the percentage of Americans participating in the workforce were the same now as it was in 2000, the number officially counted as unemployed would be 9.1 million, rather than 7.1 million. The unemployment rate would be 5.8%, instead of 4.6%.

### What the Price of Labor Says

Rosenberg argues the simplest way to gauge whether there's a worker shortage is to look at the price of labor. According to the basic laws of economics, the tighter the supply of labor, the more it should cost. So if the economy were operating with full or near-full employment, we would be seeing an "explosion in labor compensation," he says.

The price of labor, however, is hardly surging. In fact, key indicators of employee costs show they are tracking or trailing inflation. Average hourly earnings are running at 3.9% year over year, and the employment cost index is at 3.5% year over year.

Most Americans certainly aren't finding their incomes exploding. The wages of 80% of the U.S. workforce -- made up of nonsupervisory workers -- have been stagnating since the late-1990s boom ended. On Aug. 20, the government released data that showed the average household income increased 4.1% in 2005, to \$55,238. But that's still below the average household income in 2000.

To be sure, there are plenty of economists who agree with employers that there is a serious labor shortage. "We are physically out of bodies," says Edward Yardeni, president and chief strategist for investment firm Yardeni Research. "We've run out of homegrown labor, and become more and more dependent on immigration, legal and illegal."

Employee costs are not an accurate yardstick, Yardeni says. He says workers are currently paid according to how productive they are, and it would be destructive to raise wages "willy-nilly" to attract more workers. That is, employers can only afford to pay workers in keeping with their value, and not solely to fill positions. "In a competitive global

marketplace, the only way you're going to pay workers more and manage to stay in business is to tie compensation to productivity," says Yardeni.

### Just Pay More?

But some economists and worker advocates argue the concept of a labor shortage is simply being used to keep wages down. "Employers are very quick to raise the specter of a labor shortage, but often it's another way of saying they can't find the workers they want at the price they're paying," says Jared Bernstein, senior economist for the Economic Policy Institute, a left-leaning think tank in Washington. "They are unwilling to meet the price signal the market is sending, so they seek help in the form of a spigot like immigration."

Many employers look to workers from abroad when they're having trouble hiring. In agriculture, an estimated 70% of the workers are undocumented immigrants. In construction, foreign workers play a key role. And technology companies such as Microsoft (MSFT), IBM (IBM), Google (GOOG), Intel (INTC), Oracle (ORCL), and Sun Microsystems (SUNW) have been active participants in visa programs like H-1B, hiring foreign workers for computer programming and project management positions in the U.S. They've even joined together in lobby groups like Compete America to advocate for more foreign workers, both temporary and permanent.

Such moves infuriate American workers in engineering and computer science. "We don't believe that there is a labor shortage," says Kim Berry, president of the Programmers Guild. "There is perhaps a shortage of people willing to work at the salary being offered because those rates are now being set by visa programs like H-1B. But you'll attract the best and brightest [U.S. workers] if the price is right," [see BusinessWeek.com, 8/6/07, "Skilled Workers Deserve True Visa Reform"].

The truth may involve shades of gray. "There is not a general labor shortage in the U.S.," says David Wyss, chief economist for Standard & Poor's, which, like BusinessWeek, is a unit of The McGraw-Hill Cos. (MHP). "There is a shortage of people willing to do grunt work for low wages -- the kind of shortage you want -- and a shortage in high-skilled jobs like scientists and engineers."

Still, Rosenberg, Bernstein, and other skeptics remain wary of proclamations that workers simply can't be found. "I'm a trained economist," says Bernstein. "I can't sign on to the idea that there are jobs people won't do at any price."

Dear Moira: Thanks for your August 21 *Business Week* article, "Labor Shortages - Myth and Reality."

[http://www.businessweek.com/bwdaily/dnflash/content/aug2007/db20070821\\_451283.htm?campaign\\_id=rss\\_topStories](http://www.businessweek.com/bwdaily/dnflash/content/aug2007/db20070821_451283.htm?campaign_id=rss_topStories)

While I strongly agree with many of the points that you raise in your otherwise excellent article, I take strong exception to the David Wyss quote at the end of the article claiming that there is a shortage of scientists and engineers. This false employer interest claim has been raised since the days of *Sputnik* (1957) as a means to boost the supply of "fresh (inexpensive) young blood." The reality is that the U.S. faces a very harmful glut of experienced American citizen technical professionals numbering in the millions - many of those citizens are either unemployed or underemployed. Employers turn to the H-1B program (described in 2002 by the now-late Nobel economist and free market advocate Milton Friedman as a "government subsidy") to boost their profitability. Total 1975-2005 H-1B visa admissions are at least 4,443,162 (Detailed tabulation on request.) The dean of reporting on science and technology policy, Daniel S. Greenberg also recognizes the false employer interest claims. He is a guest scholar at the Brookings Institution in Washington. He is the author of the 2001 book, *Science, Money and Politics: Political Triumph and Ethical Erosion*. See item 4. at <http://www.press.uchicago.edu/Misc/Chicago/306348.html>

Please contact me for additional details for your follow-on article.

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