We hear from surprisingly many quarters these days that governments in Europe and North America, and their central banks, should give up on the expansionary policies they have pursued to try to create jobs. Critics of government stimulus maintain that the high unemployment currently afflicting the North Atlantic is not cyclical but “structural,” and thus cannot be alleviated by policies that boost aggregate demand.

Let me be the first to say that structural unemployment is a true and severe danger. When people who in other circumstances could be happy, healthy, and productive members of the workforce but lack the skills, confidence, social networks, and experience needed to find work worth paying for, we obviously have a problem. And if unemployment in Europe and North America stays elevated for two or three more years, it is highly likely that we will have to face it. For nothing converts cyclical unemployment into structural unemployment more certainly than prolonged unemployment.

But is that true today? Does it look right now as if the biggest problem facing the economies of Europe and North America is structural unemployment? It does not.

Let us remember what structural unemployment looks like. The economy is depressed and unemployment is high not because of slack aggregate demand generated by a collapse in spending, but instead because “structural” factors have produced a mismatch between the skills of the labor force and the distribution of demand. The structure of demand by consumers is different from the jobs that workers are capable of filling.

For example, suppose that you have many workers qualified and skilled to work in construction, but households have decided that their houses are more than large enough, and wish to fill them with manufactured goods. This would produce structural unemployment to the extent that the ex-construction workers could not do things in manufacturing that would make it worthwhile for manufacturing firms to hire them.

In that case, we would expect to see construction depressed: firms closed, capital goods idle, and workers unemployed. But
we would also expect to see manufacturing plants running at double shifts—the money not spent on construction has to go somewhere, and, remember, the problem is not a lack of aggregate demand. We would expect to see manufacturers holding job fairs, and when not enough workers showed up, we would expect to see manufacturers offering higher wages to attract workers into their plants, and then raising prices to cover their higher costs.

The size and duration of the excess unemployment of ex-construction workers might be substantial and long lasting. It might require significant time to retrain construction workers and plug them into social networks in which they become good manufacturing workers. We might see prolonged and high unemployment in the construction sector, and in regions that had seen the biggest previous construction booms.

But depression in the construction sector and unemployment among its ex-workers would be balanced by exuberance in the manufacturing sector, rising prices for manufactured goods, and long hours and high wages for manufacturing workers.

That is what “mismatch” structural unemployment looks like—and it is not what we have today, at least not in Europe and North America. In the past three years, employment in construction has shrunk, but so has employment in manufacturing, wholesale trade, retail trade, transportation and warehousing, information distribution and communications, professional and business services, educational services, leisure and hospitality, and in the public sector. Employment is up in health care, Internet-related businesses, and perhaps in logging and mining.

In the United States, the past three years have seen employment fall from 137.8 million people in July 2007 to slightly less than 130 million in July 2010—a decline of 7.9 million during a period in which the adult population grew by six million. What we have witnessed is not a shift in demand into sectors lacking an adequate number of qualified and productive workers, but rather a collapse in the level of aggregate demand.

This may well look like structural unemployment in three years. In three years, we may well see labor shortages, rising wages, and increasing prices in expanding sectors, accompanied by high unemployment elsewhere in the economy.

But that is not our problem now. Sufficient unto the day is the evil thereof.

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