

Will There Really Be a Labor Shortage?*

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A number of studies have been released in recent years from prestigious think-tanks, such as the Hudson Institute, and leading consulting firms, such as Wyatt and McKinsey, predicting severe labor market shortages for the U.S. economy in the decades ahead. Some go as far as to suggest that the U.S. economy will experience widespread job vacancies that cannot be filled because of a shortfall of workers. In these arguments, the shortfall is typically blamed on the small size of the "baby bust" cohort, the generation that has followed the baby boomers into the labor market.

Predictions of widespread labor shortages--the inability to fill jobs at prevailing wages--would be without precedent in modern U.S. history. Yet they have been accepted as articles of faith in many parts of the human resources world in large measure, I believe, because they have not been examined carefully. When they are, the dramatic predictions fall apart. Employers may well face new and more difficult challenges in recruiting and hiring than previous generations faced. But the challenges have to do with changes in the employment relationship that increase retention problems, not a shortfall of workers caused by demographic changes. And the solutions are not public policy interventions designed to raise the overall supply of labor in the economy. Instead, they focus back on employers and their own human resource strategies.

A BRIEF REVIEW OF U.S. DEMOGRAPHY

One can easily see that the dominant demographic event of the last century, the baby boom generation, is now roughly in their late 40s and noticeably bigger than the cohorts both before and after it. As other researchers have shown, this huge cohort had important effects on the overall economy and on the labor market as it moved through time, such as initially lowering wages for entry-level jobs and raising housing prices later on.

Another demographic story coinciding with the baby boom has been the dramatic rise of women in the workforce--more women working for more years. The labor force participation rates of women rose slowly from just over 30 percent at the end of WWII to about 40 percent by the end of the 1960s and then more sharply to just under 60 percent by the 1990s.

Some of the labor shortage studies refer to the 1970 to mid-1990s period as if it was a normal period in the labor market, but it was far from that. It was a very difficult time to be an employee. Chronic and long-term unemployment of young workers in particular was common as was widespread over-qualification of workers for jobs. The ups-and-downs of business cycles dominate unemployment rates, but it is telling that unemployment in the best periods from 1970 to 1995 is not far off from what it was in the worst periods from WWII through the 1960s.

Perhaps the best evidence of the relative surplus of labor during this period is that real wages, which are the price of labor adjusted for inflation, fell quite sharply, especially for less-skilled workers, all the way through the mid-1990s. The conventional wisdom is that the 1990s were a boom time for employees, and it is true that after 1993, unemployment fell steadily as jobs became more plentiful. But it is hard to argue that labor markets were unusually tight if real wages not only stagnated but

actually continued to fall until the mid-1990s.

THE "BABY BUST"

The years from 1998 to the recession year of 2001 represent something quite different, a period of very tight labor markets when finding workers was a challenge and wages began to rise sharply. The studies that envision a future of labor shortage assert that this period represents the beginning of a fundamental shift in labor markets toward tighter labor markets and eventual labor shortages. What concerns these studies is a demographic event associated with the age cohort just behind the baby boom what some call the "baby bust" generation, those who are of ages 23 to 37 in 2003. This cohort, depending on how one defines it, is roughly 16 percent smaller in number than the baby boom. The labor shortage arguments assert first, that this smaller cohort of workers will not be capable of staffing all the jobs that are currently filled by the much larger baby boom cohort, hence the argument about outright shortages. And second, that without a growth in the number of jobs, and therefore in the number of workers who are needed to fill them, the economy will not be able to grow.

Taking arguments about a labor shortage seriously has to begin with an assessment of the role of this "baby bust" cohort in the potential supply of labor to the economy. Many people are surprised to find that the "baby bust" cohort has already been in the labor force for about a decade: the trough or smallest part of the cohort was 30 years old in 2003. What is coming along in demographic terms is another, larger cohort that some refer to as the "echo" of the baby boom, the children of boomers. This new cohort is one reason why the population of the U.S. has continued to grow at a rate of roughly 1 percent per year throughout the 1990s, somewhat faster than projections suggested. Government projections indicate that the growth will slow but that the slowdown will be remarkably gradual, from 1 percent to about 0.7 percent per year by 2050. The fact that the U.S. population is projected to grow at all represents an important contrast to virtually every other industrialized country where studies indicate that populations will soon actually shrink.

The Aging of the Population

The most important demographic development in the near future will continue to be the baby boom, specifically, the growth of older individuals as the baby boom ages. The aging of the population and of the workforce has been underway since 1975 when the baby boom hit the workplace in full and lowered the average age to 28. Those over age 65 account for roughly 13 percent of the population at present, a figure that will grow to 20 percent by 2050. Baby boomers are expected to live longer and be more active than any previous cohort, raising all kinds of interesting and important questions for society, such as how to pay for their retirements. It also raises important questions about the future supply of labor. Life expectancy is roughly 15 years higher now than when the retirement age of 65 was established in the U.S. by the Social Security system (patterned after a similar system created in the 1880s in Germany which established 65 as the retirement age), and all indications are that it will continue to rise.

Most of the studies that foresee labor shortages in the future assume that retirement patterns will be unchanged going forward, that is, that people will retire at the same age even as life expectancy and the ability to work longer go up. What this assumption means in practice is that all of their additional years of life expectancy will be spent in retirement. Surely this is unrealistic if for no other reason than financial resources for retirement may not allow it. Most studies indicate that baby

boomers will continue to work--some report that as many as 80 percent plan to keep working after the typical "retirement" age even though they might want to change the work they do. Indeed, the Social Security system anticipates this, as the eligibility age for retirement will rise to 67 by 2027. Even a small increase in the retirement age of baby boomers will have a large effect on labor supply because this cohort is so large.

The first conclusion to note, therefore, is that not only will the population continue to grow, but so will the labor force. The Bureau of Labor Statistics estimates, for example, that the labor force will grow from 153 million in 2000 to 159 million in 2010. The assertion that the labor force will be smaller in the years ahead is simply wrong. And if older workers decide or can be persuaded to work longer, the labor force may grow even faster. The workforce will be slightly older on average, and that may raise new challenges. But that is by no means a bad development overall. Because older workers are already experienced and trained, the average quality of the labor force should actually improve over time, especially so if senior workers delay retirement. Some estimates suggest, for example, that having an older and more experienced labor force will make it possible for the economy to operate at lower levels of unemployment (i.e., because younger, less experienced workers tend to quit/are dismissed more frequently, which raises "frictional" unemployment).

A DEMOGRAPHIC IMBALANCE?

Even though the labor force will not decline, some raise a different concern and argue that the smaller size of the baby bust cohort per se has implications for employers because of the belief that the demographic distribution in their own organization will follow the national pattern. And a number of individual employers are reporting dramatic demographic challenges: The Federal Government, for example, expects that nearly half of its civil service workforce will be eligible for retirement in the next 5 years; Lockheed-Martin, the defense contractor, estimates that it will need to hire more than a quarter of a million engineers in the next decade to offset retirements and turnover and meet its business projections.

But the demographic profile of the country as a whole obviously does not have to be reflected in each and every individual company. Some employers, such as old-line manufacturing companies like steel, have older workforces while others have young workforces, such as hi-tech or software companies. The differences are accounted for by the growth patterns of the companies. Most companies hire a disproportionate number of employees when their business was booming, and employees 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 employers have a need to hire from any particular age cohort, especially when other workers are available at a reasonably similar age. The days when employers drew their entire workforce from the population of school-leavers--into entry-level jobs and then up predictable job ladders--are long gone now that hiring of experienced workers has become more prominent. For most employers, 35-year-old workers are virtually a perfect substitute for 30-year-olds, the median age of the baby bust cohort in 2003. Some companies that are interested in a very regular age distribution across their workforce do want a reasonable number of 30-year-olds, say in middle management positions. But the number of companies with such an interest (which seems to be falling) and the number of employees they need (also falling as management hierarchies flatten) is a drop in the bucket compared to the supply of employees in these age groups.

Increasing Levels of Education

It is also worth noting that even though the baby bust cohort is about 16 percent smaller overall, that does not mean that every subgroup within that cohort has to be 16 percent smaller. The Wharton School, for example, did not cut back the size of its graduating class when the baby bust cohort came through. Neither did most institutions of higher education. The overall number of college graduates in the period since the baby bust cohort left high school has actually risen because more students who might not otherwise have gone to college are being pulled up into the system, including others from older cohorts who have come back in. To illustrate, there were roughly 930,000 bachelor degree graduates per year in the 1970s when the peak of the baby boom was of college age. There were 1,160,000 bachelor degrees when the trough of the baby bust cohort was college age (1995), and U.S. Department of Education projections suggest slow but steady growth in all degrees through the foreseeable future. If any group within the baby bust cohort is noticeably smaller, therefore, it is likely to be those with high school or less education, a group that is not especially in demand by employers. Some employers do target less educated, young workers for employment, such as for home health care work, and these employers have reported greater difficulty in finding workers. But there are relatively few of these employers.

Effects on the "Leadership Pipeline"

Even though there certainly appear to be more than enough workers available overall in the future, many companies worry about the potentially disruptive effects of a pending retirement wave when the baby boom generation retires, especially in senior management. It is not clear that the ranks of executives across the economy will be more concentrated in one demographic cohort now than they have been in the past, but no doubt some companies will face bigger turnover from retirees than in the past. Jim Kochanski at Sibson Consulting reports working with a large manufacturing company that found its estimate of the number of retirement eligible executives rising from 22 percent per year to 27 percent in part because of a demographic "bulge." What were the implications of that turnover for its executive pipeline, would it strain the ability to find replacements internally? The answer was, not at all. Assuming that the executive vacancies were filled entirely by promotions from the management level below, Kochanski and his colleagues calculated that this increase in retirements would cut back the typical tenure in the management level below and force a speed up of promotions by an average of ... 3 months. This is true for most organizations, and the reason is because in a typical pyramid-shaped organizational chart, the levels below have many more incumbents than those above. In the case above, the company had 300 executives and a pool of 1,500 senior managers below. If the replacements for those retirees come entirely from the management level below, no outside hiring, then the number of promotions from that level would have to rise by 15 per year. Given average tenure of 5 years for the senior managers, these additional promotions would reduce tenure in those jobs almost imperceptibly. Most organizations would find an increase in mobility of that magnitude into the executive ranks to be a good thing. The increases in retirements and turnover would have to be huge at the top of the pyramid to cause any real shortfall in the pipeline below. Further, any outside hiring into the senior ranks has an equally dramatic effect on slowing down advancement in the ranks below.

DEMOGRAPHICS AND ECONOMIC GROWTH

The story so far suggests that neither the population nor the labor force will shrink, and the smaller "baby bust" cohort is unlikely to be a concern even for individual employers. More sophisticated

arguments about pending labor shortages, however, assert that the rate of growth in the economy as a whole is somehow tied to the rate of growth in the labor force--slower growth in the labor force means slower growth in the economy. Is there anything to this argument?

In fact, not only do economies grow faster than the workforce, we rely on them to do so as that is the only means through which standards of living rise. The mechanism that makes this possible is productivity growth. When productivity is growing, the economy as a whole can produce more from the same group of workers. The "pie" that is available to distribute to those in the economy grows, and income per worker and standards of living expand.

To see this more clearly, it helps to take a step back and remember that most employers have an incentive to increase the efficiency or productivity of their workers so that they can increase profits. Even nonprofit and public sector employers have some incentives to increase productivity to the extent that they face resource constraints and benefit from delivering more goods and services. Productivity rises when employers invest in equipment and systems that help workers do their job or when workers receive more training and skills that improve their performance. If one compares the U.S. economy now to where it was, say, at the end of WWII, we see that it is roughly eight times bigger, but the workforce is only twice as big. Each employee is roughly four times as productive now as compared to the late 1940s (see Fig. 5). If there had been no productivity growth, the U.S. economy would need four times as many workers as we now have to sustain its current level.

The empirical evidence on productivity growth finds that the growth in productivity is greatest where wages and labor costs are highest and employers have the most incentive to cut costs. Other things equal, this is when labor markets are tightest. Conversely, the periods where surplus labor is the most abundant are periods with lower productivity growth. If labor markets tighten and wages rise, productivity growth increases to offset some of the rising demand for labor.

Does Economic Growth Require Labor Force Growth?

The more complicated of the labor shortage arguments agree that the growth rate of the economy as a whole depends on productivity growth--output per worker--but they argue that it also depends on growth in the number of workers: Output per worker multiplied by the number of workers equals total output in the economy. And so, the argument goes, if the growth rate of the labor force is falling, other things equal, then the growth rate of the economy has to fall as well. The reason this argument is wrong is that it confuses the number of jobs in the economy with the number of people in the labor force. The labor force includes not only people with jobs but also the unemployed who are unable to find jobs. Unless the economy is operating at absolutely full employment, and it almost never is, the supply of labor exceeds the number of jobs in the economy. And the surplus labor, measured by the unemployment rate, is typically a large number, often in the millions.

Slow growth in the labor force, therefore, can only constrain economic growth if the economy is operating at or near full employment. How likely is that? Long-range economic forecasts are not very accurate, but no respectable forecasters believe that full employment will be easy to achieve. What we do know is that we have not had much success running the economy at or near full employment in recent decades. If we take the usual definition of full employment as the point beyond which faster growth would cause inflation, it is worth noting that even in what we now

think of as the super-heated labor market of 1999-2000, there was no real evidence of inflation.

The more important point about full employment and business cycles is to remind us that changes in economic growth are far and away the most important factor shaping the situation in the labor market. To see this clearly, recall that significant changes in the size of the population and labor force occur incredibly gradually, and year-to-year changes in the size of the labor force that result are almost imperceptible, at most a few hundred thousand in a labor force of roughly 150 million. Changes in demand and the resulting unemployment, in contrast, can shift the number of jobs available in a single year by several million. In short, if you want to predict how tight the labor markets will be, forget about demographics and focus your bets on predicting the business cycle.

Some proponents of a coming labor shortage also base that position in part on evidence from the 2001 recession that the number of unemployed and available workers following 2001 was at the lowest level among modern recessions. Is the fact that there are comparatively so few workers available even at the bottom of a recession an indication that a labor shortage is imminent once the economy rebounds? The problem with this argument is that not all recessions are the same. Recessions are determined by the National Bureau of Economic Research as periods of "significant decline" in various measures of economic output over a given period. As such, recessions identify the direction the economy is going, not its level. They are relative rather than absolute measures of economic activity. And the March 2001 recession, which followed the longest economic expansion in modern times, was among the shortest and weakest. So the fact that there are so few available workers compared to other recessions, a lower unemployment rate, simply reflects the fact that this recession was, in relative terms, so mild.

Would Immigration Help?

Some observers go on to suggest that we should try to add workers to the labor force through immigration to prevent labor markets from getting tight. There are two problems with this argument. The first is that, as a practical matter, it is next to impossible to add immigrants just when the economy is approaching full employment. Immigration suffers from inevitable time lags, and because of the unpredictable ups-and-downs of business cycles, it is hard to time exactly when to initiate the process. (Note that employer lobbying to expand immigration peaked in late 2000/early 2001 as the economy was already into recession.) Even if it was possible to expand immigration just at the point when the economy began to overheat, it may not be desirable to do so because immigrant workers stay around when the economy slides out of growth, contributing to higher unemployment on the downside. U.S. immigration rates are now at the highest level since the 1940s with one in 10 people in the U.S. foreign born. And immigration policy already shifted in the 1990s to make labor market demands a more important criterion for deciding who gets into the U.S. Employers already have a much simpler option than immigration in any case, and that is to send work abroad if labor markets get tight and wages begin to rise. The ability to outsource and shift work to foreign subsidiaries is expanding not only for service jobs like call centers but for professional work like engineering and software. Indeed, some observers have been questioning whether the ability to contract professional and technical work to suppliers outside the U.S. represents a substantial threat to the security of middle class jobs. Should companies face tight labor markets in this country, the option of outsourcing jobs to other countries represent an increasingly viable alternative.

The second problem with the argument about expanding the labor force through immigration is whether this is even good for the overall economy. Increasing the labor supply does help hold down any wage growth, which would help employers contain costs, but stagnant real wages also hold back consumer demand, one of the main factors creating the need for employers to expand and hire more workers in the first place. It is an empirical question as to how important this effect is, but there is no clear evidence that the best way to stimulate an economy is to add workers to it. Lowering wages also lowers living standards, which is certainly not desirable for employees.

SUMMARIZING THE LABOR SHORTAGE CLAIMS

The belief that there will be actual shortages of workers, standing vacancies that cannot be filled at prevailing wages because there will not be enough workers to fill them, is next to impossible to sustain. Short of periods of wartime regulations and then only in some jobs, nothing like this has happened in modern times. Both the population and the labor force will continue to grow, and while the labor force will age, that may not be a bad thing for employers. Labor markets may tighten because of economic growth, but if that is the case and wages rise, then productivity growth should also rise. Higher wages may also pull retirees back to work, increasing the labor force faster. Scenarios where demand will rise so fast as to outstrip both productivity growth and labor supply growth over the long run are somewhat fantastic, requiring heroic assumptions that the U.S. economy will operate beyond the point of full employment for long periods of time. As long as there is unemployment, it is difficult to argue that the labor force is holding back economic growth or that expanding the labor force would help to create new jobs.

Shortages in Specific Occupations

For specific occupations or parts of the labor market, long-term standing labor shortages are even less likely. Labor markets are like any other market in that prices rise to bring supply and demand into balance, in the case of occupations, bringing in new workers from other fields and pushing employers to find substitutes for the more expensive occupations. Asserting that there will be job vacancies without people to fill them essentially says that this process will not happen, that the market will not adjust to attract people to those jobs.

Have there been sustained periods of labor shortages in occupations before? The Information Technology (IT) worker "shortage" around 1998-1999, certainly the most memorable labor supply problem for most employers, did not persist past 2000. (It was certainly a very tight labor market, but whether it was a true "shortage" in the sense that most employers truly could not find workers even at prevailing wages is a matter of debate.) In large measure, that situation is explained by a peculiarity of the college-level IT supply: Sharp downturns in IT majors in the early 1990s, in response to what was at that time a poor job market for graduates, produced sharply smaller graduating classes 4-5 years later, just when the demand for IT workers was exploding with the Internet boom. IT enrollments since then also exploded, and those much larger graduating classes are entering the labor force just at the point when the demand for IT workers collapsed, creating a surplus of labor.

Perhaps a better example is the field of nursing where projections indicate that the demand for nurses will far outstrip the available supply, and this situation has persisted at least since the 1960s. There is also a *sui generis* explanation here: Employers of nurses historically benefited from the fact that nursing was one of the few fields seen as open to women, keeping the supply of labor

artificially high. The greater availability of other careers in recent decades meant that nursing no longer had a captive audience and would have to compete with other fields for employees. Evidence from the 1960s indicates that nursing employers did not feel that raising wages would be an appropriate way to compete for employees (!) apparently on the mistaken belief that the potential supply of nurses was fixed and could not go up. More recently, resource constraints have prevented wages from rising enough to attract more employees while regulations and old fashioned thinking on the part of management have limited the ability to make nursing positions more attractive in other ways. The fact that perhaps most of the employers of nurses are not in the traditional for-profit part of the economy does raise interesting questions as to whether traditional market mechanisms are working here.

Misleading Evidence of Occupational Shortages

In addition to idiosyncratic examples like those above, there are two general ways in which evidence of labor shortages for particular jobs have been generated, both of which are misleading. One is based on simple extrapolations of labor demand: Take projections about the rate of growth of an industry or field and extend it a few decades into the future. Even a modest annual growth rate of 3 percent per year will require one-third more workers each decade. That looks impossible to sustain, but once productivity growth is factored in, the shortfalls typically disappear. The second comes from surveys of employers about their hiring preferences--how many people they would like to employ, assuming they could find workers with the skills and qualifications that they want at the wage they were willing to pay. The total desired employment is often much greater than short-term projections of supply because the employers are reporting their wish list, not what they will do facing the realities of the labor market (just as I would like to hire a chef, maid, and gardener if I could find ones willing to work at the trifling wages I could pay!). Similarly, surveys indicating that employers have job openings that they have not filled are sometimes used to suggest that there is a labor shortage. In fact, many jobs remain unfilled at any point in time because employers rightly prefer to spend some time and energy searching while others simply do not want to adjust their expectations to market realities--either by raising wages or adjusting requirements to what is available. From the perspective of an individual employer, it is a very real problem if they cannot afford to pay the market wage for workers they need. But it is not a labor shortage nor even necessarily a problem for public policy.

IF THERE IS NO LABOR SHORTAGE?

Why does it matter if the arguments about long-term shortages of labor are not true, especially for individual employers? A long-term decline in labor supply of the kind that countries like Japan or parts of Western Europe face might have clear and very powerful implications for employment strategies. Planning to send work to other countries, either through outsourcing or through foreign operations, becomes a very compelling proposition. Substituting capital for labor, for example by automating lower-skill jobs, also becomes more attractive.

More generally, if there is a real shortage of labor, just being able to staff operations that remain in the U.S. would be a considerable source of competitive advantage, and almost anything that could make that happen is worth doing. Raising wages and other terms and conditions of employment to attract more applicants is a necessary response to a tight labor market and especially to a labor shortage because of the need to hire scarce workers away from competitors. It might also make sense to simply accept lower skill and performance standards to fill positions, something that

happens frequently, although employers rarely want to talk about it. For example, the credentials needed to become an airline pilot in the U.S. have varied considerably over time, rising when the military was releasing large numbers of experienced pilots and falling when the supply of applicants was scarce. If there truly is a shortfall of skilled workers, employers also have a much greater incentive to expand training and development programs, essentially growing their own talent internally rather than "buying" it on the outside market. There is evidence that employers do expand training when labor markets are tighter. More fundamentally, it makes sense in the face of a true long-term shortfall of labor to expand immigration. But if one believes that there is no shortage of workers, none of the above strategies are necessarily appropriate.

WHAT IS DIFFERENT NOW?

Despite the arguments above, many employers have a gut feeling that the labor market situation they experienced in the late 1990s was a sea change, something very different from what has come before. Part of the explanation may be just that few employers now have memories long enough to recall any thing but slack labor markets. Whether the future will be more like the 1950s and 1960s, a period of tight labor markets, or the 1970s and 1980s, a period of slack labor markets, is a very difficult question for economic forecasters to answer. The period 1998-2001 did offer up new challenges in addition to tight labor markets, however, and I believe that it is at least in part these new challenges to which employers are reacting. First, the pressure to hire laterally, from the outside, in order to bring in new skills and expertise is a new development, and the range of jobs that are filled by outside hiring now includes all positions through to the CEO. This is in contrast to previous generations where recruiting was almost entirely limited to entry-level positions that were filled by new entrants. Increased outside hiring contributes to the second development, higher quit rates and turnover, which force employers to be in a continuous hiring mode just to maintain a given employment level.

Turnover-Driven Hiring

Even though there may have been no overall shortage of workers, 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. 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. But by the time employers began to develop more sophisticated recruiting and selection systems to hire more workers faster, retention management programs, and performance management competencies, the economy turned down. Companies that struggled hard to be an "employer of choice" in 2000, offering the best terms and conditions of employment to attract more applicants, found that unnecessary after 2001: Good workers stayed put, meaning far fewer vacancies to fill, and hiring was far simpler given the supply of laid-off workers.

One basic conclusion from this story that has been known for hundreds of years is that rising unemployment makes an employer's life much easier. Not only is it easier to find and keep workers, but fear of layoffs keeps everyone on their toes. Another obvious conclusion is to reject the notion that the state of the labor market is driven by demographics: The demographic picture was basically the same in 1999 as in 2001, yet the labor market went from boom to bust.

When the economy rebounds, employers will face some of the same problems of retention that they faced before. If they again rely solely on hiring to address them, they may well have the same false sense that there are not enough workers to go around. Instead, what employers need to do is invest in a range of responses--not just recruiting--to meet their labor force needs. Most companies also have to get better at recruiting, but doing so requires going beyond the goal of simply coming up with more applicants or filling vacancies more quickly. Attracting more applicants per se is unlikely to be cost-effective because of the effort required to sort through to find the best ones. Applicant tracking systems and more sophisticated software will continue to help employers identify where their recruiting investments are most effective. But the overall goal of recruiting should be to make better matches between applicants and jobs. That means uncovering the right applicants who truly fit the jobs. Those better matches not only lead to better performance but also to reduced turnover. Better fits begin with the nuts and bolts of human resource work--identifying the competencies truly needed in jobs--and end with crafting distinctive value propositions that attract and retain the applicants with those competencies to those positions.

CONCLUSIONS

Overall, then, what can we conclude about the future of the labor market from this quick summary of the past? From the 1970s through to the late 1990s, most employers experienced an abundant supply of labor that made it possible to offset and overlook the inadequacy of their human resource competencies and practices. Employers did not have to be good at recruiting or selection when overqualified applicants were queuing up at their door. They did not have to worry about retention policies when no one was quitting. They did not have to develop employees when corporate hierarchies were shrinking and what talent was needed could easily be found outside. And when companies were downsizing and restructuring, the first things cut were the human resource capabilities in areas like recruiting that they did have. When labor markets tightened, really for the first time in a generation, surplus labor was no longer available to offset the absence of these competencies. And the recruiting function, which had eroded into the role of simply taking job orders, could not by itself solve all the problems caused by the breakdown of these other systems.

No one knows whether future labor markets will be tight or slack--it depends almost entirely on growth prospects for the economy--but it is safe to say that the greater mobility of labor and the greater pressure to hire from the outside have increased the labor market challenges that human resource departments have to manage independent of the state of the economy. Going forward, employers should focus on developing competencies in recruiting and selection, performance management, retention policies, and other practices that support the ability to find and keep good workers. And don't worry about changing demographics.

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