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Peter Diamond Thinks the Beveridge Curve Might Not Tell Us Much of Anything

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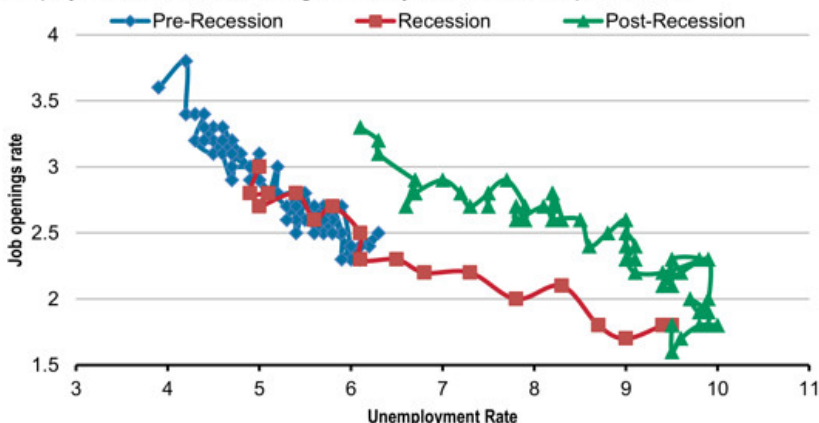
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By JOSH ZUMBRUN CONNECT

One of the most popular and unusual charts in labor market economics is the [Beveridge Curve](#), which tracks the relationship between job openings and the unemployment rate. The curve shows that, in general, as the unemployment rate rises the number of job openings falls, and vice versa. But a [new paper](#) from the Nobel Prize-winning labor economist Peter Diamond, and coauthor **Ayşegül Şahin** of the Federal Reserve Bank of New York, says the Beveridge Curve might not tell us anything useful. Specifically, it won't tell us if the unemployment rate is going to recover.

Not Quite Normal

The Beveridge Curve shows the rate of job openings for any given level of the unemployment rate. The curve begins in the year 2000 in the top left corner.



Source: Bureau of Labor Statistics | WSJ.com

The relationship shown by the Beveridge Curve was remarkably strong from 2000 to 2007. If job openings climbed, the unemployment rate tended to fall, as one would expect (the blue line in the accompanying chart).

During the recession, the unemployment rate soared toward 10%, and the availability of job openings plummeted (the red line). But then, in the recovery, something strange happened. The openings rate began to climb, yet unemployment remained stubbornly high. The new job listings were [not being filled](#) by the vast number of unemployed workers (the green line).

Some economists have hypothesized that if unemployed workers aren't filling the

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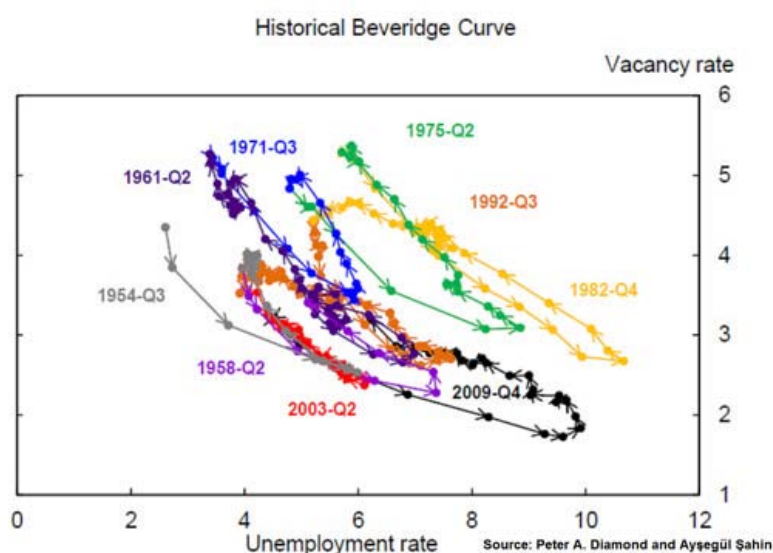
Sudeep Reddy
Editor

available jobs, then perhaps they lack the proper skills for the modern workforce.

But the data commonly displayed for the Beveridge Curve only dates to 2000, the year the Department of Labor launched its [Job Openings and Labor Turnover Survey, known as JOLTS](#). And what appears to be a stable relationship before the recession struck was only a brief period of calm.

By studying the Beveridge Curve over a longer period, today's curve doesn't look so unusual at all.

Mr. Diamond and Ms. Şahin look at the Beveridge Curve back to the 1950s, using a [data series](#) developed by Fed economist Regis Barnichon, to calculate job openings over time. (The challenge in calculating job openings is that newspapers were once the primary mode of advertising positions, but this has now shifted to the Internet. Mr. Barnichon's index combines newspaper and internet listings, while accounting for the change from one medium to the other, in order to construct the historical series.)



This new chaotic looking Beveridge Curve back to the 1950s shows that the current shift in the Beveridge Curve (the black line in the chart above) isn't that unusual and in fact the current economic data sits squarely in the middle of what's been experienced in recent decades.

When economists study this curve, a key question they want answered is what the economy will look like when it returns to normal. (Other variations of this question, what the labor market should look like, were the focus of the Fed's [Jackson Hole conference last weekend](#).) For example, if there were a major problem with the U.S. workforce, or a [damaging shift](#) in employer attitudes toward training, then the recent outward move of the Beveridge Curve could signal that the unemployment rate will remain elevated even once the economy has fully recovered.

Mr. Diamond looks back and determines that the Beveridge Curve has moved outward seven times before. But has this shift signaled the unemployment rate would not recover to its previous levels? Four times, yes. The Beveridge Curve shifted out and the unemployment rate didn't make it back to its previous lows. But three times, no. The Beveridge Curve shifted out but then the unemployment rate still made a complete recovery.

These complete recoveries occurred in the 1960s, 1980s and 1990s. Those were the three longest expansions in U.S. history, which suggests that recovery in the Beveridge Curve would be possible today, too, if the economy can keep growing for long enough.

"Our main takeaway from examining the historical data is that while outward shifts in the Beveridge Curve were very common in the U.S. economy, they were not predictors of the unemployment rate levels that the economy attained at the end of the following expansions," Mr. Diamond and Ms. Şahin conclude.



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