The Conundrum: Supply & Demand, Wages and the Skills Gap

Most people understand the basic economic principle of supply and demand and incorporate it into their daily decisions. They may not do it consciously, but economic decisions are made every day by each and every one of us. For example, if there were two major-brand service stations across from each other on a street, and one was selling gas for twenty cents a gallon less that the other, the rational consumer will buy the less expensive gas versus the more expensive gas. So you see that economics-based decisions are made every day in our personal and business lives.

Supply and demand theory simply states that price (wages) for a given good or service (labor) will change until such time as demand from buyers (employers) equals the quantity made available by the suppliers (employees) of the good or service. For purposes of this column, I will focus on one of the four basic laws of supply and demand: If demand remains unchanged and supply decreases, a shortage occurs, leading to a higher equilibrium price.

Even before the release of the October 2011 survey of manufacturing company executives conducted by Deloitte and The Manufacturing Institute, we have repeatedly heard about the 600,000 “missing” skilled workers that are direly needed by the U.S. manufacturing industry. President Obama and Mitt Romney both lamented the situation in their campaigns and numerous new or expanded federal and state training initiatives have been announced to “fix” the issue.

Consider this — perhaps the secret behind this skills gap is that it’s not a skills gap at all. Perhaps there is simply a supply and demand imbalance for skilled manufacturing workers driven by individuals making rational economic choices. Choices that lead them to acquire the knowledge and skills needed to enter the future workforce in higher paying, versus lower paying, career paths.

In an environment characterized by a low supply of skilled labor, economics would dictate that price (i.e. wage rate) must rise. Yet according to the Bureau of Labor Statistics, as the number of skilled manufacturing workers has decreased over the past decade, so has their wages rates.

Here’s a real life example. As part of my duties at College of the Canyons, I manage a program that trains skilled Computer Numerically Controlled (CNC) machinists. CNC machinists are in high demand in Los Angeles County to operate sophisticated machining centers valued at hundreds of thousands of dollars to manufacture everything from aircraft and automotive components to medical devices. On average, those graduates start as $12.60 per hour, or less than $27,000 a year. From recent family experience, I can tell you that a server at a local breakfast restaurant wielding a tray that costs $2.50 makes more than $12.60 an hour, including tips.

So why are manufacturing firms seeming to defy the basic laws of economics? Part of the reason lies in the fact that the vast majority of manufacturing companies voluntarily provide employee benefits like medical insurance and a retirement plan. These are real costs to employers that can easily add 50% to 70% to the cost of a labor hour. The other and more significant issue it that today’s manufacturers must be globally competitive to survive. They must compete with manufacturers located in low-wage countries or their customers will move the work to suppliers located in those low-wage countries.

And there's the conundrum. How do U.S. companies provide a wage rate high enough to attract the future workforce to a career in manufacturing while maintaining or improving their global competitiveness? I believe we can achieve that by assuring the U.S. has the best trained employees using modern equipment to expand its lead as the world's most productive country. What do you think? Log onto The Signal's web site and post your comments.

Joe Klocko is the Director of the Center for Applied Competitive Technologies (CACT) hosted by College of the Canyons. Mr. Klocko's column reflects his own views and not necessarily those of The Signal. For more information about how the college's CACT and Employee Training Institute can help your business, call (661) 362-3112, e-mail cact@canyons.edu or visit www.canyonsecondev.org.