U.S. Economic Boom Spurs Despair Over Scarcity of Qualified Workers

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FORT WORTH, Texas -- One of the biggest potential threats to today's economic prosperity is playing out at places like Cowtown Driver Education School Inc.

There, trucking-company recruiters desperate for workers show up almost daily to offer ever-higher wages and benefits to the roughly 600 students attending Cowtown each year.

The trucking companies "are like a pack of wolves around a dead animal," says Tony Seghetti, Cowtown's co-owner. "Got students? 'Got students?' they say. 'We need 'em.'"

On Tuesday, the current economic expansion becomes the longest in the nation's history, growing non-stop since March 1991, as measured by the National Bureau of Economic Research in Cambridge, Mass. But as that milestone approaches, not all companies are ready to celebrate.

With the unemployment rate at 4.1%, the lowest since 1969, some industries are facing the kind of severe labor shortages that have the potential to bring these good times to a screeching halt. There are examples all across the country of companies that have been forced to cut production and turn away new clients due to inadequate staffing.

A Question of Location

But could the U.S. economy actually run out of workers? And if more companies are forced to scale back operations due to the lack of...
workers, could the broader economy suffer? It depends partly on where the labor shortages occur. Alan Krueger, an economist at Princeton University, says when labor shortages show up in areas where lower-skilled workers can get training to perform the jobs, the trend is healthy for the U.S. economy.

"There is still a sufficiently large pool of lower-skilled workers who are available to join the labor force," said Prof. Krueger. "And as the demand for these workers picks up, you see more occupational upgrading -- more people who go from McDonald's to higher-paying jobs, and companies provide the training." On the other hand, he says, if the shortages were among higher skilled workers, such as computer engineers, "I'd be more worried."

Robert Litan, director of economic research at the Brookings Institution in Washington, says there are reasons to worry right now. He notes that the 1960s expansion, previously the longest on record, serves as a warning about what can happen when labor markets get too tight. From 1960 to 1965, he points out, inflation averaged just 1.3%. But when unemployment fell to 3.8% in 1966, inflation began to pick up.

By 1969, unemployment reached 3.5%, inflation rose to 5.5%, and, not so coincidentally, the boom ended. "If the 1960s showed one thing, it's that if you run the economy too hot for too long, you have trouble."

**Role of the Fed**

That "trouble" normally comes from the Federal Reserve, which typically intervenes by raising interest rates, in an effort to slow growth, long before the labor pool can be depleted. Indeed, the current tight labor market is a major reason why the Fed has raised interest rates in recent months and why it is likely to do so again in February, despite low inflation.
Trucking already is suffering, as workers once attracted to the relatively good pay find they can get similar wages elsewhere without having to work long hours away from home.

That has prompted some companies to scale back. One such company is Frozen Food Express Industries Inc. in Dallas. Earlier this month, the company said it plans to cut 150 non-driver jobs and cut its trailer fleet by 20% in part because of a driver shortage.

Traditionally, the pool of truckers was made up of men, aged 20 to 40, usually with backgrounds in mechanics and often with military experience. Today, with labor tight, workers of all kinds are entering the industry. Demographic numbers are hard to come by, but Mr. Seghetti counts quite a few women, recent high school grads, ex-convicts, and even restless or laid-off pilots from nearby American Airlines as previous students.

Classmates Rudy Tuggle and Vallie Harris both diverge from the norm. Mr. Tuggle, a 54-year-old Texan, enrolled in Cowtown after his engine-machine business began to bore him. He plans to spend most of his first year on the road, though he will keep in touch with friends and his girlfriend through a laptop and a satellite hookup inside his rig. "This way, I can go anywhere and see anything," he says. "And they pay you when you get there, too."

**Creature Comforts**

A friend convinced him to look into trucking. The pay was okay, but Mr. Tuggle was most impressed with the creature comforts. Most companies draw recruits with offers of the best equipment, so Mr. Tuggle is likely to get himself a roomy, new machine with a comfortable rear living compartment, or condo. He will also be able to dial up cable television at certain truck stops. "You bet I'll use that," he said.

Ms. Harris, a 36-year-old single mother of four, is even more a rarity in the trucking world. She raised her four children with her wages as a manager for various fast-food outlets before being fired last year after a dispute with her boss. "If you don't make your quota, you're in trouble, but how can you make somebody buy a hamburger?" she laments.

If all goes well, she will graduate as a full-fledged truck driver next month. "Believe you me, I'll be happy," says Ms. Harris, who says her eyes brightened when recruiters began talking about an initial $36,000 a year in wages. "I'll be outside, on my own, but I'll be on the clock and I'll get paid for it."

In previous economic booms, the increased costs of hiring and
keeping employees led to worries about higher prices that could cause an inflationary spiral.

Some economists see the seeds of such a cycle in the trucking business. To attract workers, trucking companies have had to raise pay and add amenities. Equipment at truck stops allows truckers to dial up cable TV and check their e-mail.

But higher pay is the biggest draw. SignPost Inc., a Hudson, Wis., consulting firm, says that about 50 companies out of roughly 250 that it surveyed had raised wages between August and November; the average increase was 4.4%. With fuel prices climbing along with wages, industry leaders like J.B. Hunt Transport Services Inc. are expected to push for price increases of at least 5% this year. The portion of the producer-price index that tracks long-haul, full-truck transportation rose less than 1% last year, but bigger increases are more than possible.

**Pricing Pressure**

"Without price increases, it's very difficult for them to increase driver pay," said Bob Costello, chief economist of the American Trucking Associations, an Alexandria, Va., trade group.

Beyond the trucking, health-care, high-tech and a few other industries, however, overall low unemployment has been matched by declines in hourly wage increases, according to the Bureau of Labor Statistics. And so far, not much inflationary threat is seen from wage gains. "I don't see much risk of wage growth spiraling out of control," says Prof. Krueger.

Why isn't it happening now? Economists, of course, aren't in complete agreement, but they have some theories. One obvious reason is technology has improved productivity. Another is that more efficient temp agencies are able to fill empty job slots quickly and at less cost than hiring a full-time employee. Also, employees are receiving stock options, telecommuting privileges or other forms of compensation.

Another reason is that workers don't seem to be asking for raises. The influence of unions has declined and the consumer-price index grew at a relatively low 2.7% last year, with volatile energy prices being a big factor. Workers who get a typical cost-of-living wage increase close to that level don't feel like they need to demand higher wages. "Labor is generally more complacent," says Princeton's Mr. Krueger. Instead, workers who want more money simply change jobs.

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