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TESTIMONY

DREAMS DEFERRED: YOUNG WORKERS AND RECENT GRADUATES IN THE US ECONOMY

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YOUNG AMERICANS AND THE CURRENT US LABOR MARKET

Chairman Merkley, Ranking Member Heller, and members of the Committee: thank you for the invitation to discuss the economic conditions facing young workers and recent graduates.

INTRODUCTION

The young are always far more affected by an employment crisis than older workers. Today, however, they face one of the worst labor markets of any generation. Not only have they experienced the Great Recession, but six years later they still face a poorly performing labor market. Their employment level is down, earnings and earnings growth are lower, wealth is lower, and millions of the young have yet to even enter the labor force. In fact, they are a large part of the biggest ongoing economic challenge we face today—the shrinking labor force.

If this continues and we have a permanently smaller labor force, we will have slower economic growth and a diminished standard of living in the future.

Part of the solution is, of course, policies that promote stronger economic growth and stronger job creation. Another part of the solution is to focus on youth, particularly those that have not participated in the labor market. This means doing what we can to lower the cost of hiring for companies and raising the incentive to work for the young.

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THE GROWING PROBLEM OF YOUTH DISENGAGEMENT FROM WORK

The gloomy job environment has implications for the young far beyond the bad news contained in the high unemployment rate for their age cohort, which is twice that of older Americans.

Today, just 63.4 percent of youth aged 18 to 29 are employed. Job prospects have been so bad that many have withdrawn from the labor force and do not even show up in the official unemployment rate statistics. This decline in participation since 2007 means that there are about 2 million young workers missing from the labor force. If not left uncounted in the official unemployment rate, these 2 million would raise the youth unemployment rate from its current 10.9 percent rate to 15.4 percent—well above their highest rate in over 65 years (see figure 1).

It is well established that the longer an individual is out of the labor force, the less likely they are to return to employment. Or, in this case, ever enter the workforce. Currently 1.2 million of the unemployed are trying to find work for the first time in their lives. Worse, a shocking 400,000 of the long-term unemployed have never worked before (see figure 2). If the labor market doesn't improve and many of the long-term jobless youth don't enter the workforce soon, they may never work.

This youth disengagement from the labor force poses a real problem—and not just for the young but for the future performance of the US economy. A permanently smaller future workforce would impact income growth and possibly even lower our future standard of living. To maintain economic growth, we need the two "Ps"—participation and productivity. That is, we need to have an active labor force that is educated and skilled. Economic forecasters have for years predicted a slowing of US economic growth as baby boomers retire. If youth labor force participation doesn't improve, the decline will be even more dramatic.

HOUSEHOLD IMPACT OF UNEMPLOYMENT AND UNDEREMPLOYMENT

The labor market difficulties of the young go beyond finding work. The young today face a multitude of difficulties: lower household wealth, lower income, and significant underemployment.

For families where the head of the household is younger than 35 years old, the Federal Reserve found that household wealth fell by an average of $45,000—that is, by about 41 percent—during the recession.

Further, research shows that those unlucky enough to graduate during a recession but lucky enough to find a job will take a 9 percent pay hit right off the bat compared to other cohorts. Further, they will likely experience slower earnings growth for a decade or more. This will impact any young worker's ability to repay student debt, buy a house, and save for retirement.

There is almost certainly a great deal of youth underemployment. The share of the employed that are just part-time workers remains elevated well above the pre-recession level. In addition to lower starting pay, there are indications that many new graduates are underemployed relative to their skills and education. Job creation occurs not only when the economy expands and the number of jobs grows but also when workers leave their occupations and need to be replaced. In most occupations, many more job openings occur when workers leave their occupations to advance in their careers or to simply retire. So far, the level of voluntary job leavers—those moving on to advance their careers and those retiring—remains low. This slows the career advancement for the young.

SOLUTIONS

The solution is, of course, economic growth and a stronger labor market. Employment and income growth for the young has lagged because the economic recovery has been one of the weakest in US history. Besides just generally good economic policy, we need to focus on helping to reduce the cost of hiring the young and increasing the incentive for them to enter the workforce.

Policies that raise the cost of hiring or reduce the incentive to work particularly impact the young and are counterproductive. For example, there is a considerable amount of economic research that finds that raising the minimum wage only works at the expense of jobs and hours worked for the least experienced workers. Wage growth is important, particularly for those earning near minimum wage—but raising the cost of hiring may result in the perverse and unintended effect of reducing youth employment. The Congressional Budget Office recently agreed that raising the cost of hiring with a huge 39 percent increase in the minimum wage would result in significant job loss. And, as I said, for some it may mean never entering the labor force.

CONCLUSION

A full six years after the start of the Great Recession, the young today continue to face one of the worst labor markets of any generation. Not only is unemployment and underemployment a real problem, but our current very low rate of youth labor force participation may mean that millions of youth never become fully active in the labor market. This potentially affects everyone's future income growth and standard of living.Raising the rate of labor force participation needs to be a central focus of federal policymakers, in order to strengthen our economy and raise the prospects of low-income Americans. To do this, we need to make it easier, not harder, for companies to increase hiring. We also need to encourage individuals to re-enter the labor force, not discourage them. Government assistance for the jobless is important, but the re-employment of the jobless is what we need to reduce poverty and lower income inequality.

ABOUT THE AUTHOR

Keith Hall is a senior research fellow at the Mercatus Center at George Mason University. From 2008 until 2012 he served as the thirteenth Commissioner of the Bureau of Labor Statistics. In this role, he headed the principal fact-finding agency in the Federal Government in the broad field of labor economics and statistics. The BLS is an independent national statistical agency that collects, processes, analyzes, and disseminates essential statistical data to the American public, the US Congress, other Federal agencies, State and local governments, business, and labor.

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Figure 1. Youth unemployment rate.

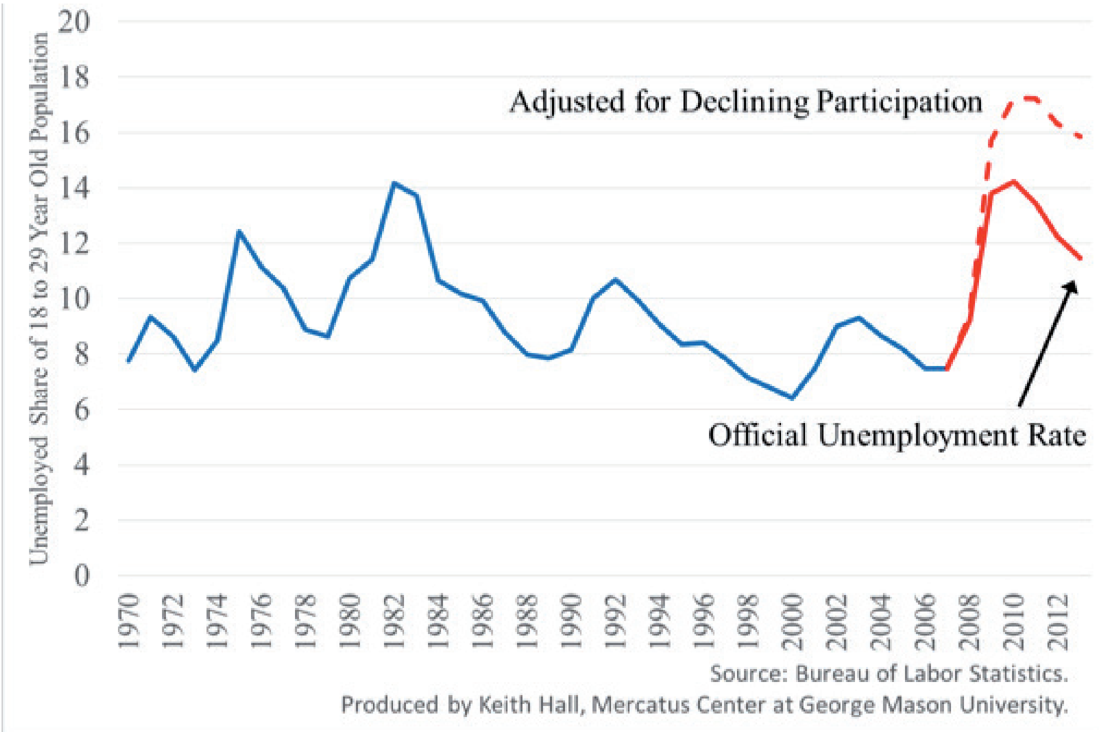

Figure 2. The number of unemployed with no work experience.