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Young Workers Left Behind: Hiring and the Great Recession

Eliza Forsythe
W.E. Upjohn Institute

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W.E. Upjohn Institute
for Employment Research
300 S. Westnedge Avenue
Kalamazoo, MI 49007-4686
(269) 343-5541
www.upjohn.org

Randall W. Eberts
President

Eliza Forsythe

Young Workers Left Behind

Hiring and the Great Recession

During the Great Recession, hiring fell dramatically in the United States, dropping from over 5 million hires per month to below 4 million between late 2007 and 2009. Total hiring has still not fully recovered—it remains below prerecession levels, with a 2014 monthly average of 4.6 million hires. If hiring had stayed on track from 2006, about 65 million additional hires would have been made in the 2007–2013 period.[1] Who are these 65 million missing hires? By understanding the composition of this group of workers, we can better understand the distributional impact of the Great Recession.

Hiring Varies by Age

Since 2006, workers under 30 made up less than one-third of working-age individuals; however, these workers comprised half of all hires.[2] This is consistent with classic evidence from Topel and Ward (1992) that most movements made between employers occur while workers are young. Using Social Security earnings records from 1957 to 1972, Topel and Ward find that about two-thirds of employer changes occur in the first 10 years of workers' careers. Moreover, this period accounts for about two-thirds of career wage growth.

There are several possible explanations for the life-cycle dynamics of mobility. First, young workers may be uncertain about their own career preferences. These workers try out different jobs to learn about their tastes and talents. Eventually, they will settle on a career and employer that are a good fit. Alternatively, they may learn skills on the job, which then qualify them for new positions at new firms. Finally, young workers may know what job they want, but temporarily accept suboptimal positions while continuing to apply for jobs until getting their desired one. All of these mechanisms of mobility lead to the prediction that the rate of employer change will fall throughout a worker's life. A young worker's ability to make these positive career movements between firms will be closely tied to the business cycle.

Hiring During Booms

During economic expansions, low unemployment rates and high hiring rates facilitate the movement of workers between firms. Figure 1 illustrates how the unemployment and hiring rates have evolved since 2000. These movements lead to virtuous cycles of vacancy chains: one worker moving to a new firm will require her old firm to either promote or hire another worker, which in turn creates a new vacancy. By revealed preference,

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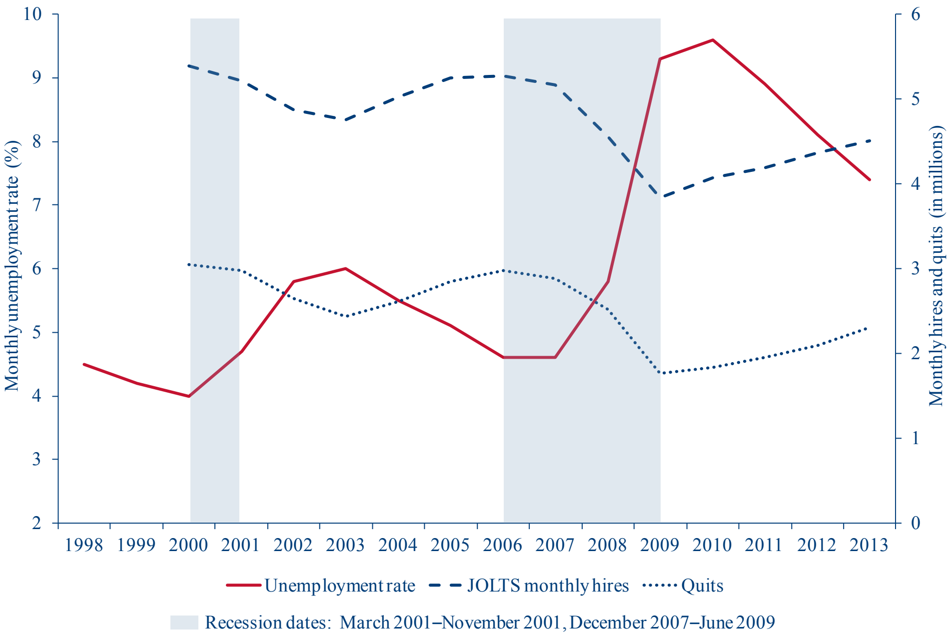
Figure 1 Unemployment, Hires, and Quits



SOURCE: Current Population Survey, Job Openings and Labor Turnover Survey (JOLTS), and National Bureau of Economic Research.

we know that these voluntary movements between firms create value, otherwise the worker would have chosen to keep her old job. Data from the Current Population Survey (CPS) indicate that between 1994 and 2007, 41 percent of hires moved directly from their previous employers, compared with 37 percent from unemployment, and the balance from nonemployment.

When hiring rates are high, workers can take new jobs with confidence, knowing that even if the position does not work out, the labor market will be flexible enough to allow them to move again in the future. This is evident in the third series in Figure 1, which shows quits data from the Job Openings and Labor Turnover Survey (JOLTS). Quits are measured by the firm from which the worker is exiting, so the number includes workers who leave for another employer, workers who will be searching for work, and workers who are exiting the labor market (for instance, for education or child-rearing). Before the two recessions, monthly quits averaged around 3 million. By 2009, that number had fallen by 40 percent to 1.8 million.

Hiring During Recessions

When recession hits, two things happen: first, many firms institute hiring freezes; second, workers themselves become cautious about employer changes. Many firms have informal last-in, first-out policies, so layoffs are concentrated among workers with the least job experience. As the expected duration of unemployment also rises during recessions, new jobs become much more risky. This is evidenced in the decline in quit rates, discussed above and illustrated in Figure 1.[3]

Several papers have documented the negative consequences of recessions on young workers just entering the labor market. Kahn (2010) and Oreopoulos, von Wachter, and Heisz (2012) use careful econometric techniques to determine the causal effects of graduating during a recession and demonstrate that these workers have reduced earnings that persist for many years after the recession has ended. Both papers show that during recessions, young workers spend more of their careers in lower-quality jobs, in terms of either occupation, as in Kahn, or the average compensation, as in Oreopoulos, von Wachter, and Heisz. Moreover, Oreopoulos and coauthors show that a key mechanism these workers use to recover from recessionary depressed earnings is to move to better-paying firms. Such strategies are dependent on firms hiring, a topic we return to next.

Young Workers Account for Two-Thirds of Missing Hires

We can use the CPS survey of households to investigate how hiring rates vary by the individual's age. In Figure 2, the middle line traces the percent of individuals reporting being hired from 1998 through 2013. Until 2007, the average was about 4 per 100 individuals. Scaled up by the working age population, this corresponds to a monthly hire rate of about 8 million.[4]

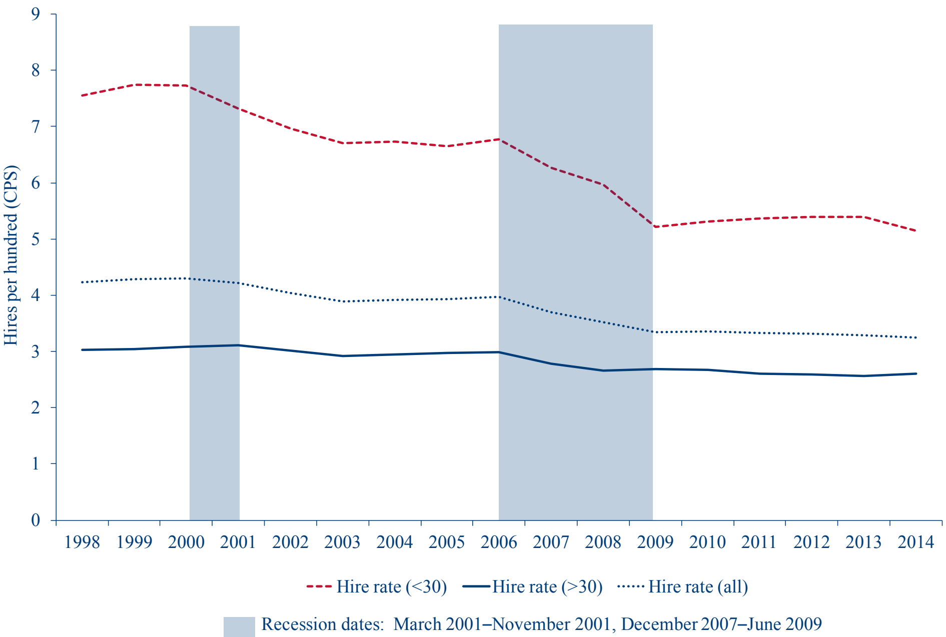
Broken out by worker age, the results appear very different. Throughout the time period, workers under 30 have much larger hire rates than workers over 30. This is consistent with what we know about worker mobility over the life cycle and theories of careers and human capital development. What is striking is how much of the fall in hiring is borne by young workers, the very individuals for whom we know mobility can be the most valuable.

In particular, among workers under 30 we see a drop from 6.8 hires per 100 in 2006 to a low of 4.2 in 2009. Scaling this number up by the population of the United States under 30, if hire rates had stayed constant at 2006 levels, there would have been 55 million additional hires of individuals under 30 through 2013. In contrast, for workers between 30 and 65, there would have been 33 million additional hires. Thus, young workers account for almost two-thirds of the decline in hiring from the Great Recession.

Conclusions

Although we have seen an improvement in the volume of individuals hired since 2009 (as evidenced by the data in Figure 1), hiring still needs to increase significantly in order to reach

Figure 2 Monthly Hiring Rates for Young Workers



SOURCE: Author's calculations based on data from the Current Population Survey.

prerecessionary employment rates, given the population growth of the last eight years. We see from Figure 2 that although the worker-reported rate of hiring stopped falling after 2009, there has been essentially no improvement in the share of workers who report being hired each month. Since young workers absorbed the bulk of the decline in hiring, these results indicate that they continue to be hampered in their ability to construct career-improving movements between firms.

However, the data do show some positive news. As discussed above, quit rates serve as an indicator of worker confidence in the labor market. Since 2009, quit rates have been steadily increasing. By October 2014, quits inched up to 2.7 million per month, just 10 percent below the prerecession peak. This indicates that workers are slowly becoming more willing to take a chance on new firms. Historically, an important source of wage growth comes from workers moving between firms. Until such mobility returns to prerecession levels, we should expect wage growth to remain depressed, especially for early career workers.

Notes

1. This figure represents the number of hires between 2007 and 2013 if hiring had held constant at the 2006 level of 5.28 million per month.

2. U.S. Census, American Community Survey, individuals 16–64, and Current Population Survey monthly data.

3. Involuntary separations also rise: according to JOLTS data, monthly involuntary separations rose from 1.7 million in 2006 to a high of 2.2 million in 2009. However, by 2011 involuntary separations had fallen to below 2006 levels, and 2013 recorded the lowest involuntary separation rates since the data series began in 2000.

4. Note that this is larger than the JOLTS estimates of around 5 million hires per month. This discrepancy is not surprising, given JOLTS is a survey of firms and the CPS is a survey of households.

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Eliza Forsythe is a postdoctoral scholar at the W.E. Upjohn Institute.