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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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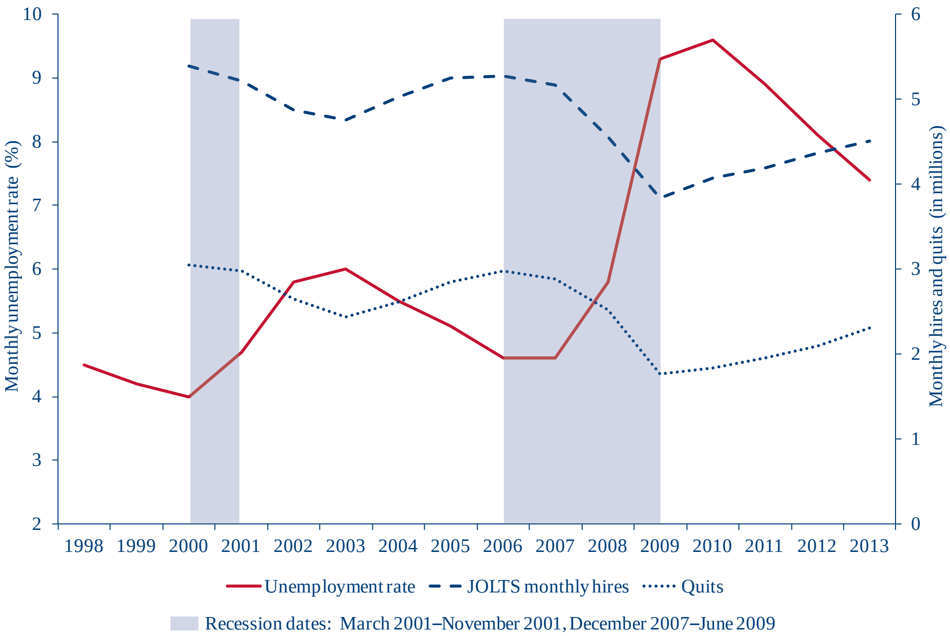
Figure 1 Unemployment, Hires, and Quits



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]

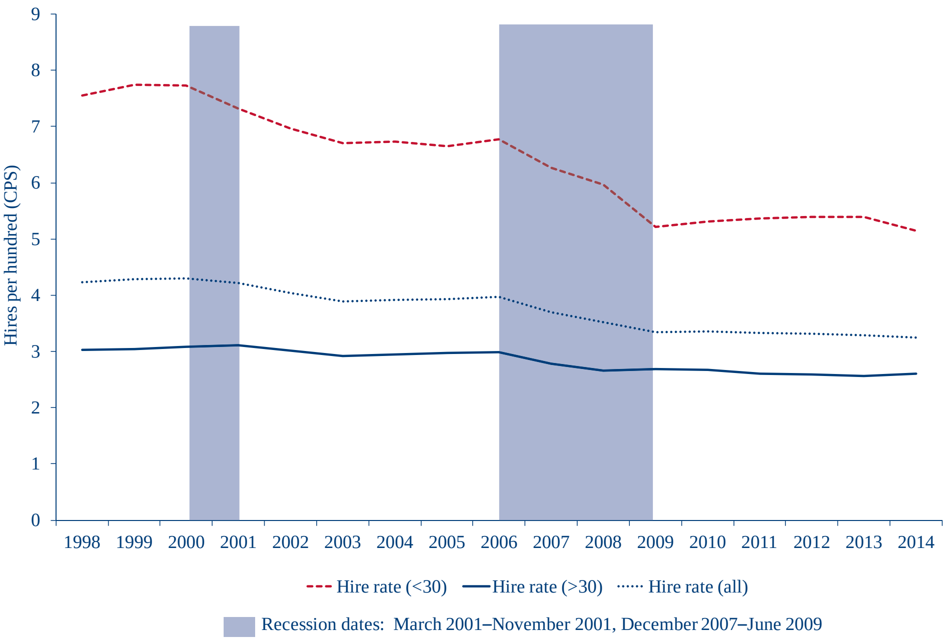
Broken out by worker age, the results appear very different. Throughout the time period, workers under 30 have much larger hire rates than workers over 30. This is consistent with what we know about worker mobility over the life cycle and theories of careers and human capital development. What is striking 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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Carl E. Van Horn

New Labor Market Realities Require New Workforce Development Policies

Workers and employers in the United States are facing new realities and uncertainties that current public policies and programs for adult learning and labor market navigation were not designed to handle. The Great Recession and other disruptive forces have changed and continue to alter the environment that workers, job seekers, businesses, educational institutions, and government all face, including globalization, labor market volatility, pervasive and rapid technological changes, shifting demographics, and resource constraints. Workforce development and educational policies must be reimagined during an era of scarce resources, new technologies, increased personal responsibility for career navigation and management, shifting skill requirements, and changes in the nature of employment.

More than 250 national and international experts gathered in October last year at Rutgers University in New Brunswick, New Jersey, to share their perspectives on strategies to transform education and job training services and policies. The conference, *Transforming U.S. Workforce Development Policies for the 21st Century*, was cosponsored by the Federal Reserve Banks of Atlanta and Kansas City and the John J. Heldrich Center for Workforce Development at Rutgers University.

The conference brought together a wide range of experts to discuss strategies and policies that will improve opportunities for job seekers, students, and workers; meet the needs of employers and society for a highly skilled, well-educated, competitive, and productive workforce; and deliver effective and efficient solutions that can be adopted by federal, state, or local/regional governments, as well as educational institutions, businesses, and nonprofit organizations

More than 60 presenters, including Federal Reserve Bank officers, former governors, and leaders from businesses, labor unions, private nonprofits, foundations, and academia, assessed the strengths and limitations of U.S. workforce policies.[1] Several panels focused exclusively on addressing the difficulties experienced by the long-term unemployed, those with limited formal education, older and youth workers, minorities, veterans, ex-offenders, and individuals with disabilities.

More than five years into the economic recovery, long-term unemployment remains at historic highs.

Presenters examined the funding, adequacy, and performance of Unemployment Insurance, Pell Grants, postsecondary education, reemployment programs, Workforce Investment Boards, the labor exchange system, and the potential impact of the Workforce Innovation and Opportunity Act of 2014. Panelists discussed promising strategies and policies from states, communities, and private firms that offer some potential for meeting the fundamental needs of job seekers and employers. Summaries of several panel sessions and video interviews with conference panelists are available on the Heldrich Center's Web site (www.heldrich.rutgers.edu).

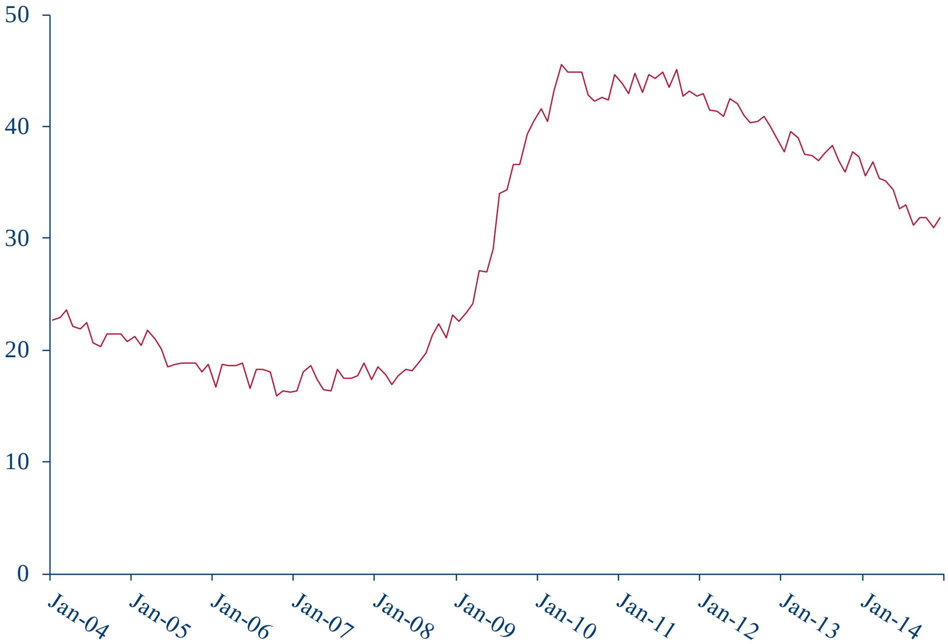
The conference, part of a multiyear collaboration, will result in the publication of an edited volume, *Transforming U.S. Workforce Development Policies for the 21st Century*, featuring 30 chapters and case studies authored by leading scholars and practitioners. It was compiled and edited by Carl Van Horn of Rutgers, Todd Greene of the Federal Reserve Bank of Atlanta, and Tammy Edwards of the Federal Reserve Bank of Kansas City and will be available this spring.[2]

Special Focus: The Persistent Problem of Long-Term Unemployment

One of the most urgent topics considered during the conference was the need to enhance workforce development services for the long-term unemployed—workers who remain jobless for longer than six months. More than five years into the economic recovery, long-term unemployment remains at historic highs: the short-term unemployment rate has returned to where it was pre–Great Recession, but there are still 2.8 million individuals among the long-term unemployed. Nearly one-third (30.7 percent) of all unemployed job seekers were unemployed for 27 weeks or more in December 2014 (Bureau of Labor Statistics 2014a), which is nearly twice the share among the unemployed in December 2006 before the Great Recession (see Figure 1). While the percentage of long-term unemployed workers has declined from nearly 46 percent in April 2010, it still exceeds the 26 percent level experienced in the worst previous recession in 1983. Unemployment rates in 29 states are at or near prerecession levels, but long-term unemployment remains above prerecession levels in 41 states (Bureau of Labor Statistics 2014b).

During and after the Great Recession, long-term unemployment has affected a much wider swath of the labor force than in prior recessions, including many highly skilled individuals with long work histories (Van Horn 2014). These people may be struggling to find another job for a variety of reasons. Many employers may be reluctant to hire the

Figure 1 Percent of Workers Unemployed 27 Weeks and Longer



SOURCE: Bureau of Labor Statistics.

long-term unemployed because they believe the skills of these individuals have deteriorated. Job seekers may also experience discrimination because of unemployment status, which is even more problematic for older workers (Ghayad 2013). Some job seekers may need to upgrade their skills; others must learn new job search techniques. The long-term unemployed would greatly benefit from impartial advice as they consider options for training, education, and employment (Van Horn, Krepcio, and Heidkamp forthcoming). This includes being better informed about the potential employment outcomes and returns on their investment in education and training.

Current public workforce system tools and resources are not sufficient to provide the targeted assistance that long-term unemployed workers need. A nationally representative sample of long-term unemployed workers conducted by the Heldrich Center for Workforce development reported that only 1 in 6 unemployed workers visited a federally funded One-Stop Career Center, also known as American Job Centers. One in 10 long-term unemployed workers attended a job club or professional networking meeting, and 7 percent met with a job coach or counselor. Only 7 percent of the long-term unemployed enrolled in a job training program; 4 in 10 paid for the training themselves (Van Horn, Zukin, and Kopicki 2014). The Obama Administration launched a promising new $150 million initiative in late 2014 to assist the long-term unemployed, called Ready to Work, but it likely will not be sufficient to reach the millions who need assistance.[3]

Many employers may be reluctant to hire the long-term unemployed because they believe the skills of these individuals have deteriorated.

More robust strategies, grounded in evidence from research on efforts to assist the long-term unemployed, must be developed and delivered to long-term unemployed workers as they struggle to reconnect to the labor market. Conference participants identified the following strategies that will help workers:

- *High-quality, unbiased labor market and career advising, including a dedicated Web site and access to virtual and in-person services.* Long-term unemployed workers are often no longer connected to the network of friends and associates from their prior jobs or with high school or college counselors. They cannot afford to hire professional consultants or job coaches who might guide them through the complexities of the labor market and a plethora of education and training options. They frequently must master new job search strategies, including the use of social media, such as LinkedIn and Facebook.

- *Peer-support professional networks such as job clubs to help combat the isolation many long-term unemployed job seekers experience*. Preliminary findings from an evaluation of job clubs based in community and faith institutions suggest that they can be very valuable to unemployed workers (Trutko et al. 2014). Such groups enable individuals to develop support networks and offer reassurance that their difficult experiences are neither unique nor insurmountable.

- *Commitments from employers to consider the long-term unemployed and to reform hiring practices that often exclude them from consideration*. These strategies build on efforts supported by the Obama Administration, which gained pledges from hundreds of employers to eliminate barriers to the long-term unemployed when filling job openings.

- *Incentives for employers to hire older long-term unemployed job seekers for trial employment opportunities.* For example, Platform to Employment (P2E), initiated by The WorkPlace in Bridgeport, Connecticut, provides counseling, job search assistance, and short-term paid employment while individuals “intern” with employers. It has expanded to at least 10 additional communities.

- *Leveraging access to resources that provide mental health, financial counseling, and other supportive services.* State and local public workforce agencies and community colleges should collaborate with local mental health associations to arrange for assistance when individuals need counseling to cope with depression, anxiety, and stress. Independent financial advice is important for the long-term unemployed as they cope with the various challenges that accompany a significant loss of income. Access to food pantries, child care, energy assistance programs, and other supports is also essential.

Conclusion

Throughout the conference the panelists and participants identified dozens of promising strategies and policies from states, communities, and private firms that could help all job seekers better prepare for employment or find another job if they are laid off. These strategies would also aid employers looking for qualified employees. While the conference was not designed to reach a formal consensus, 10 consistent themes and recommendations emerged:

1) The need for improved labor market and career information and intelligence for job seekers and students at all levels of the education and training system.
2) The value of predictive analytics to help workforce program managers and educators guide individual job seekers and learners.
3) The importance of enhancing technologies to deliver services, including social media techniques, to help employers and job seekers more efficiently and effectively, and to expand access to services.
4) The benefits of combining Unemployment Insurance support programs with more active job search and training strategies, especially at the early stages of unemployment.
5) The need to restructure postsecondary education financial assistance programs for unemployed and incumbent workers in order to assist job seekers who need short-term training or formal credentials.
6) Techniques for developing transparent and accurate assessments of education and training program outcomes for individuals, program managers, and policymakers.
7) Strategies for developing portable, industry-recognized credentials for students.
8) The application of competency-based learning strategies, work-based learning, and apprenticeship programs for youth and adult workers.
9) Methods of formally and routinely integrating employers in the development and delivery of education and skills training programs.
10) Effective strategies for providing holistic, wraparound support services for the unemployed who face significant barriers to either finding a job or maintaining one.

These evidenced-based reforms, if implemented at the federal, state, and local levels, would transform workforce development programs and policies for the benefit of students, job seekers, and employers.

Notes

1. The full list of presenters and speakers is available by reviewing the agenda for the conference at https://www.frbatlanta.org/news/conferences/2014/141015-workforce-development.aspx (accessed January 11, 2015).
2. To reserve a copy of the edited volume, which will be distributed without charge, please send a request with your name and address to Robb C. Sewell at the Heldrich Center for Workforce Development at robb@ejb.rutgers.edu.
3. http://www.whitehouse.gov/ready-to-work (accessed January 11, 2015).

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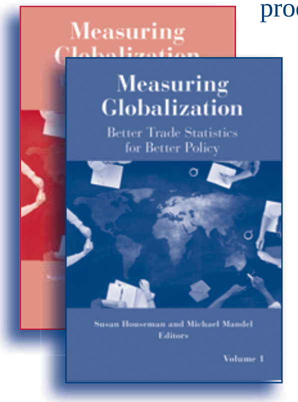
Carl E. Van Horn is a distinguished professor of public policy and director of the John J. Heldrich Center for Workforce Development at Rutgers University.

Coming February 2015

Measuring Globalization

Better Trade Statistics for Better Policy

Susan N. Houseman and Michael Mandel, Editors



Among the most pressing policy questions in the United States and other advanced economies are those concerning the impact of globalization: Has globalization fostered productivity growth and well-being in advanced economies? Or have the forces of globalization weakened key national industries, resulted in widespread worker dislocation and wage stagnation, and worsened inequality? Understanding the effects of globalization is critical to fashioning appropriate policies in a rapidly changing world. But this understanding requires good data, and national statistical systems were not designed to measure many of the transactions occurring in today's global economy.

The chapters in this two-volume set identify biases and gaps in national statistics, examine the magnitude of the problems they pose, and propose solutions to address significant biases and fill key data gaps.

In addition to examining the theoretical nature of price-index biases that have been exacerbated by the growth of globalization, the chapters in the first volume estimate the magnitude of various biases to price indexes and to real output and productivity growth in the United States and other countries. The findings point to a number of significant concerns, and the authors propose concrete solutions to address the biases, which include changes in the way some price indexes are constructed and the introduction of a new price survey.

The second volume extends the analysis to several other measurement issues arising from the growth of globalization. The fragmentation of production has given rise to so-called factoryless goods producers (FGPs): firms that design and market products but outsource the manufacturing of their products, often overseas. Several chapters consider the implications of a proposal to reclassify U.S. FGPs in the manufacturing sector. Other chapters review new data on trade in value added, which are designed to more accurately depict the volume of international trade and the stages of production performed in each country, and examine the classification of output of multinational corporations in national statistics and the explosion of international trade in data.

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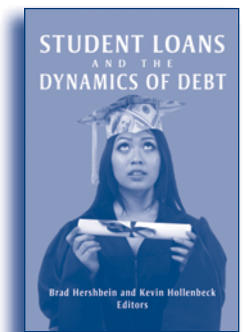
Ebook also available

Student Loans and the Dynamics of Debt

Brad Hershbein and Kevin M. Hollenbeck, Editors



Student loans are instrumental in broadening access to postsecondary educational opportunities. For many individuals who want to develop their own human capital but who otherwise do not have the means, loans serve as an important supplement to governmental or institutional grants in making educational investments affordable and increasing the educational attainment of the population. The availability of student loans thus has great value for individual students and the country as a whole.

However, the burgeoning volume of debt and repayment difficulties that many people now experience have created a vigorous debate on whether public policy should further intervene in student loan transactions. In economic terms, do the benefits exceed the costs? As with many public policy issues, answering that question is not straightforward. Close examination of the data on cumulative debt, number and characteristics of borrowers, types of institutions, and repayment dynamics raises almost as many questions as it answers.

In alignment with its mission of investigating the underlying dynamics of the labor market, a component of which is the educational preparation of the workforce, the W.E. Upjohn Institute for Employment Research organized a conference on student loans to catalyze careful and informed analysis of this understudied, but increasingly important, public policy. This volume includes the papers that were presented at the conference, held in Ann Arbor at the University of Michigan in October 2013. The Spencer Foundation and the Education Policy Initiative at the University of Michigan Ford School of Public Policy cosponsored the event.

The papers presented there and included in this volume represent the most current research and knowledge about student loans and repayment. This volume will serve as a valuable reference for researchers and policymakers who seek a deeper understanding of how, why, and which students borrow for their postsecondary education; how this borrowing may affect later decisions; and what measures can help borrowers repay their loans successfully.

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