Issues 2012 | No. 14 May 2012

MANHATTAN INSTITUTE FOR POLICY RESEARCH

THE UNEMPLOYMENT CRISIS FOR YOUNGER WORKERS

Diana Furchtgott-Roth
Senior Fellow

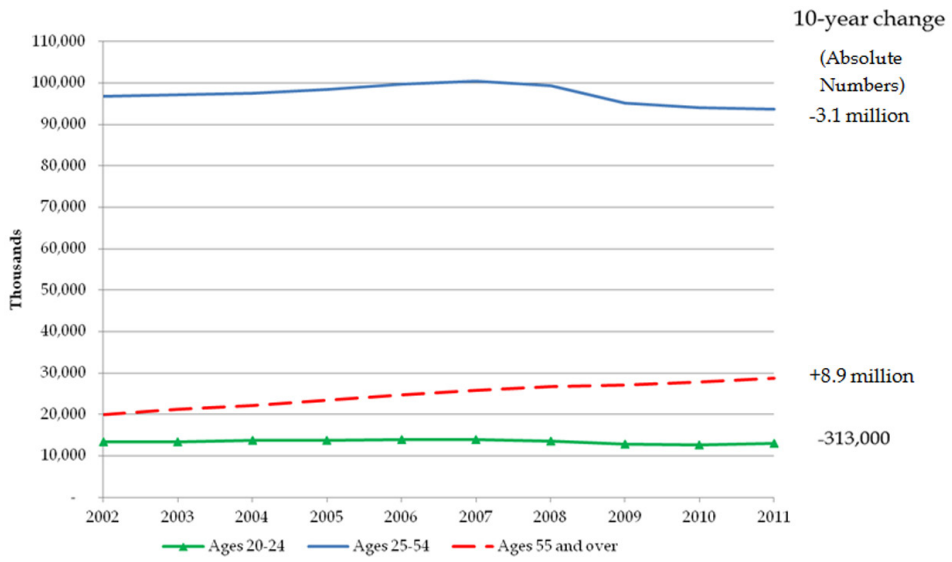
A new GAO report recommends that Congress offer temporary wage and training subsidies to employers who hire older workers who have experienced long-term unemployment; that Congress eliminate the requirement that Medicare is the secondary payer for workers covered by employer-provided health insurance; that Congress expand job search and training programs for older workers; and that Congress compensate older workers for accepting lower-paying, full-time jobs.

This concern is misplaced, because it is younger workers, not older workers, that have borne the brunt of the employment losses during the recession.

Since 2000 the labor force participation rates of workers 55 and over have been rising steadily, whereas the labor force participation rates of workers aged 16 to 24 and workers aged 25 to 54 have been declining. The biggest decline in labor force participation rates can be observed for workers aged 16 to 24. Over the past ten years employment has increased among Americans 55 and over by 8.9 million. At the same time, it has declined by 3.1 million in the 25 to 54 age group, and by 313,000 among those aged 20 to 24 (see Figure 1).

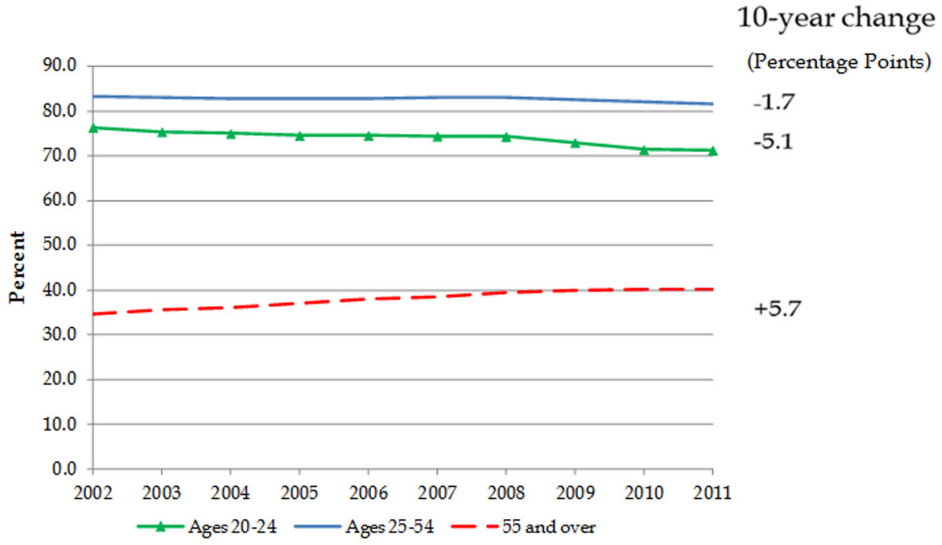
Published by the Manhattan Institute

Figure 1. Employment Levels by Age 2002-2011



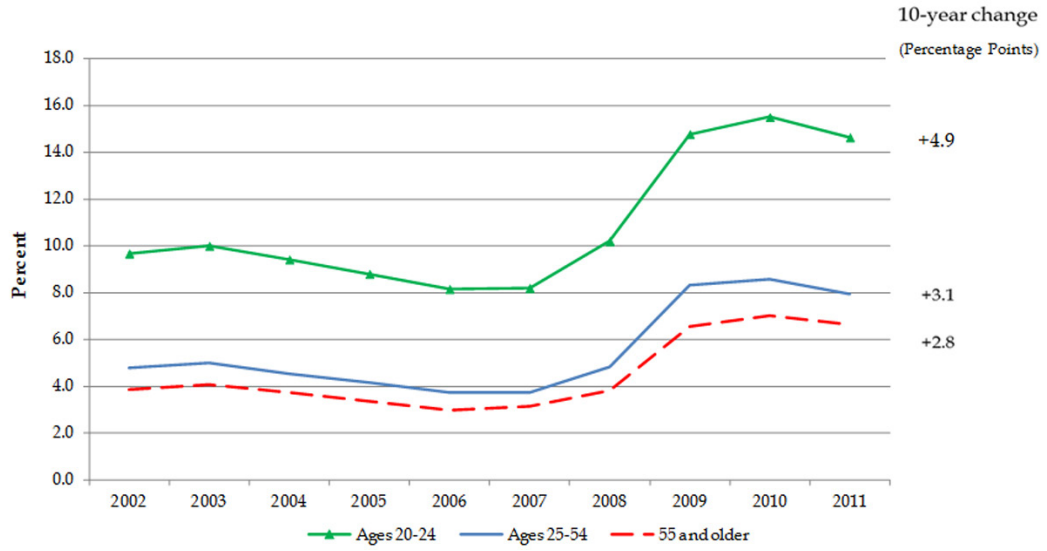
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Figure 2. Labor Force Participation Rates by Age 2002-2011



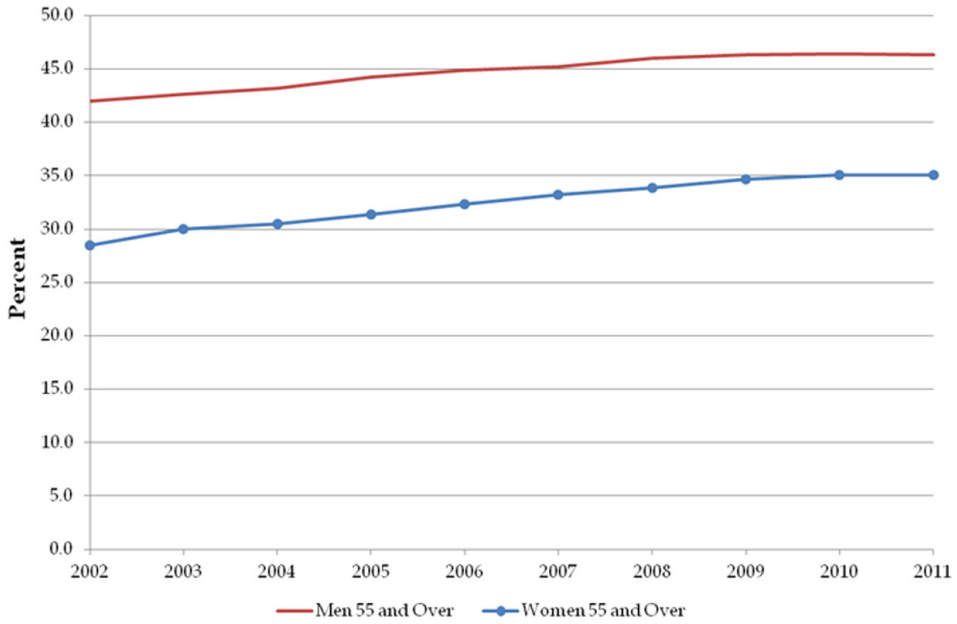
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Figure 3. Unemployment Rates by Age 2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Figure 4. Labor Force Participation Rates by Sex, Ages 55 and Over 2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Figure 2 shows how the labor force participation rate of seniors has increased by 5.7 percentage points from 2002 to 2011, yet declined in other age groups.

Compared with those aged 20 to 24 and 25 to 54, unemployment rates are lowest for the 55-and-older age group and have seen the smallest increase, as can be seen in Figure 3. Older Americans have seen unemployment rates rise by 2.8 percentage points over the past 10 years. Unemployment rates have risen by 4.9 percentage points for the 20 to 24 age group, and by 3.1 percentage points for Americans aged 25 to 54.

During some periods labor force participation rates have risen for older women and declined for older men. This is not true over the past decade, as can be seen from Figure 4. Both men and women 55 and over have seen similar increases in labor force participation rates.

This pattern holds for men and women 65 and over, and is shown in Figures 5 and 6. Both labor force participation rates and employment levels have risen steadily over the past 10 years.

The unemployment rate in 2011 for newly graduated men and women with bachelor degrees was 9 percent, far higher than the 4.9 percent rate such young adults experienced in 2006. The effects of the recession have fallen most disproportionately on them.

These unemployment rates not only suggest personal disappointment, but also large and lasting implications for individuals and for society. A new paper in *American Economic Journal: Applied Economics* found that graduating in a recession leads to earnings losses that last for 10 years after graduation.[1]

The authors, University of Toronto economics professor Philip Oreopoulos, Columbia University professor Till von Wachter, and economist Andrew Heisz of Statistics Canada, found that earnings losses are greater for new entrants to the labor force than for existing workers, who might see smaller raises, but who have jobs. In addition, recessions lead workers to accept employment in small firms that pay lower salaries.

In addition to higher unemployment rates, large increases in college tuition in recent decades mean that young people are graduating with substantial debt. According to Howard Dvorkin, founder of Consolidated Credit Counseling in Fort Lauderdale, students who graduated in 2011 left school with almost $23,000 in student loans, the most ever.

That is one reason why rates of recent graduates living at home with either a parent or grandparent have increased. In 2005 the share of 20-24 year olds who had at least a bachelor's degree but were living at home was 36 percent, and it reached 43 percent in 2011.

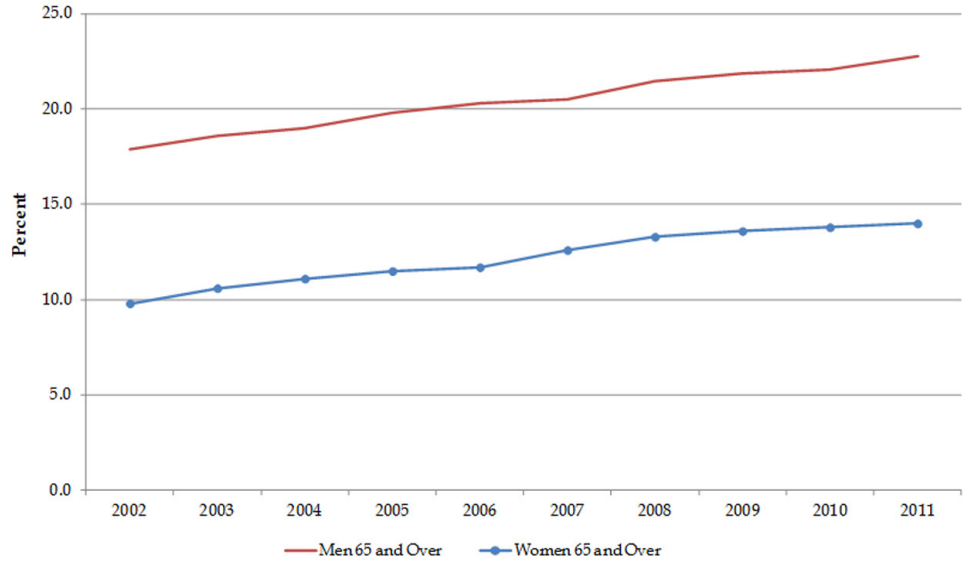
In November 2011 the Pew Research Center issued a lengthy study entitled "The Rising Age Gap in Economic Well-Being,"[2] which concluded that the gap in well-being between the young and the old is greater than ever before. Older Americans are doing better than in the past and younger ones doing worse.

Pew concludes that older Americans have benefited from home value appreciation, higher incomes, and lower unemployment rates. When these factors are taken into account, older Americans come out ahead of younger Americans. According to Pew, between 1984 and 2009, median net worth fell by 68 percent for households headed by adults younger than 35, and rose by 42 percent for households headed by those over 65. (Net worth is the value of assets less debt.)

The older age group had 47 times the net wealth of the younger group in 2009, compared to a multiple of 10 a quarter century earlier. It's not surprising that older people have more wealth, because they have been saving longer and building the equity in homes they own. That the ratio has risen so much is a result of contraction of net worth among the young and expansion for the seniors.

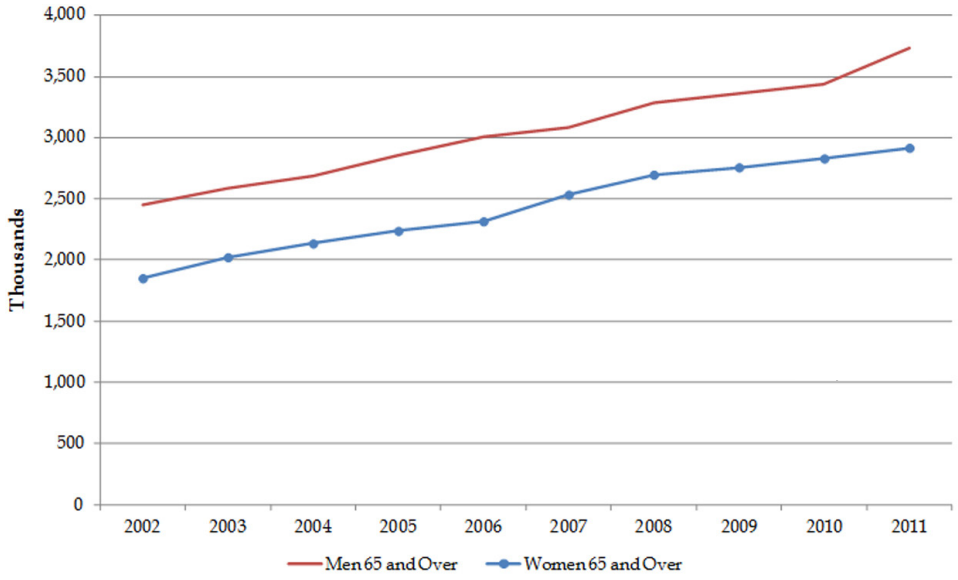
Older Americans who bought houses or condos have seen their home equity rise because they have held their homes for longer periods of time. The 2009 American Housing Survey reports that 50 percent of older Americans bought their homes before 1986, and 65 percent own their homes free of mortgages.

Figure 5. Labor Force Participation Rates by Sex, Ages 65 and Over 2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Figure 6. Employment Level by Sex, Ages 65 and Over 2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

In contrast, younger Americans who own homes have seen them decline in value, particularly if they were bought during the housing boom of the previous decade.

Pew also reports that incomes of older Americans have risen four times as fast as incomes of younger Americans. Compared to 1967, incomes of Americans 65 and older have risen by 109 percent, after adjusting for inflation, but incomes of adult Americans under 35 have risen by a far smaller amount, 27 percent. The inflation-adjusted median income of older Americans rose by 8 percent between 2005 and 2010, but the income of younger Americans declined by 4 percent.

As the GAO report states, the problem not just for senior citizens but for all Americans is too few jobs. The Labor Department issued another disappointing jobs report on May 4, showing that in April only 115,000 jobs were created in the economy, and the unemployment rate declined to 8.1 percent because another 342,000 people left the labor force. One reason that the employment picture is bleak is because it's getting harder to create jobs due to our regulatory environment.

President Obama acknowledged this when, on May 10, 2012, he issued an executive order expanding Executive Order 13563, which was entitled Improving Regulation and Regulatory Review. The May 10 Executive Order asks for public input in reducing regulations, and calls on agencies to prioritize their regulatory reviews to deal with the most burdensome regulations first.

Tougher regulations lead employers to locate elsewhere. Friendlier regulations draw them back home.

One proposed bill that would interfere with job creation is S. 1471, the Fair Employment Opportunity Act of 2011. The bill would set up another protected class of workers, the unemployed.

The unemployed would be allowed to sue employers for discrimination, just as women can sue for sex discrimination, older people can sue for age discrimination, and different minorities can sue for racial discrimination. This would make the employment problem worse, because it would raise the costs of hiring in America.

The bill, sponsored by Connecticut senator Richard Blumenthal, has two cosponsors. It purports to solve the problem of the long-term unemployed finding jobs. Moreover, by favoring the unemployed, Blumenthal's proposal makes it harder for everyone, including the young and long-term unemployed, to find jobs. Younger people would have a harder time entering the job market. Job creation would be slowed as more companies left the United States for more attractive locations.

Christine Owens, executive director of the National Employment Law Project, has testified that "There is no official data on how frequently unemployed workers are denied consideration for jobs because of their employment status."[3] This so-called problem is just based on anecdotal evidence. Monster.com, an online job search website, has stated that fewer than one hundredth of one percent of its job search ads contained language that excluded the unemployed.[4]

Penalties that the courts could levy on employers and employment agencies would be heavy, including backpay, $1,000 per violation per day, and punitive damages.

This would increase the cost of hiring American workers, making it more likely that employers will expand plants offshore. Employers would face more paperwork to show that they are not discriminating against the unemployed, and trial lawyers would target companies with threats of lawsuits.

Already, it is easier to employ workers overseas than in the United States, and the Fair Employment Opportunity Act of 2011 would add to that. *The Wall Street Journal* reported on April 27 that three-quarters of all new jobs created by the largest U.S.-based multinationals were offshore over the past two years.[5]

Our economy should be structured so that all those who want to work can find jobs. Millions of Americans are looking for work, and the number in poverty, 46.2 million, is the highest since the Census Bureau began compiling poverty data 52 years ago.

Rather than pass yet another bill discouraging employers from creating jobs, how about some sensible solutions to generate jobs?

- Add more certainty to the tax system. Rates on income and capital are scheduled to rise dramatically next January 1, creating extensive uncertainty.

- Eliminate the Environmental Protection Agency's new regulations on coal, which are affecting the utility sector, which employs a disproportionate number of older workers. Over 100 coal-fired plants have closed since January 2010.

- Approve the Keystone XL Pipeline, so that Canadian oil could go to our refiners in the Gulf to be made into gasoline and other products.

- Remove the $2,000 worker per year penalty in the new health care law paid by employers with more than 49 full-time workers who don't offer the right kind of health insurance. Going from 49 to 50 workers will cost some employers $40,000 per year beginning in 2014.

- Extend and expand the EB-5 visa program for foreigners who want to start companies in America, so that innovators can come and create jobs. The program is due to expire in September 2012.

Americans are facing an employment problem on a scale that our government at times seems incapable of grasping. We need to think of ways to turn America around and head us in the right direction by generating jobs here at home. That will help all American workers of all ages.

ENDNOTES

[1] Philip Oreopoulos and Andrew Heisz, "The Short- and Long-Term Career Effects of Graduating in a Recession: Hysteresis and Heterogeneity in the Market for College Graduates ," *American Economic Journal: Applied Economics*, 2012, Vol. 4, No.1: 1-29.

[2] Richard Fry, D'Vera Cohn, Gretchen Livingston, and Paul Taylor, "The Rising Age Gap in Economic Well-Being: The Old Prosper Relative to the Young," Pew Research Center, November 7, 2011.

[3] Written testimony of Christine L. Owens, Executive Director, National Employment Law Project, before the U.S. Equal Employment Opportunity Commission, February 16, 2011.

[4] Monster.com, "Updated: Monster Speaks Out Against Employment Discrimination," Monster Thinking, August 31, 2011.

[5] Scott Thurm, "U.S. Firms Add Jobs, But Mostly Overseas," *The Wall Street Journal*, April 27, 2012.