

Use It or Lose It: College Grads and Underemployment



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Conventional wisdom holds that nothing beats the value of higher education. But tell that to the growing numbers of college graduates who find themselves serving coffee and stocking shelves. You might call them overqualified; economists dub them “mismatched.”

Mismatches occur when workers accept jobs for which they are overqualified because none are available in their field or when workers who want to work full time accept part-time jobs because that’s all they can find. Some mismatch, however, is part of a healthy, dynamic economy. If every firm with a job opening waited for the perfect match or if every unemployed worker waited for the perfect job, the economy would stagnate. In fact, a mismatch can be ideal for the firm, which may get a worker with more education for the same price as a less-educated one.

What’s not clear, though, is how much mismatch is either ideal or healthy for an economy. In the wake of the last recession, more college grads are getting hit by the mismatch phenomenon, according to data from the Current Population Survey (CPS). This trend predates the recession, but it has accelerated since 2007.

Looking at data from the CPS, which contains information for hundreds of different occupations, we found a small increase in the percent of bachelor’s degree holders in occupations that do not require a degree. It’s unclear whether the increase observed during the recession is significant, so we narrowed our focus to 33 occupations that don’t require bachelor’s or associate’s degrees — such as bartenders, waiters, retail salespersons, and hotel desk clerks — and seem most likely to draw underemployed degree holders. In 2004, 14.7 percent of employees in these occupations had bachelor’s degrees. In 2007, that number had edged up to 15.3 percent (a 0.6 percentage point gain). By 2010, it was 17 percent (a 1.7 percentage point increase). The difference in pre- and post-recession rates of change corresponds to 356,000 people, or 2.6 percent of the unemployed. The result, unfortunately, does not resolve the question of how significantly job mismatches feature in the post-recession economy.

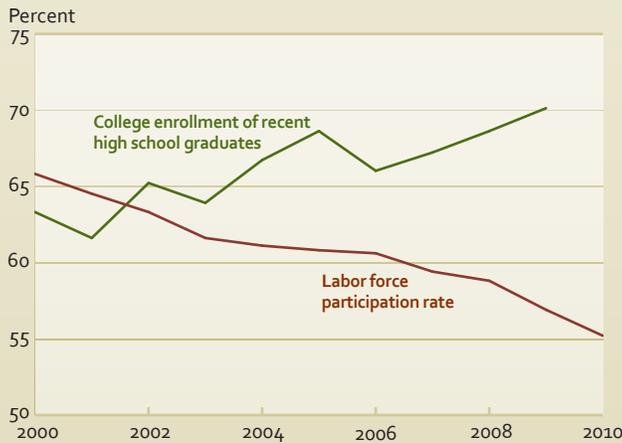
College graduates invest in their education with time and money (or parents’ money); societies invest in education with taxpayer subsidies to universities and with subsidized and guaranteed debt. If grads take a low-skilled job after college, they may not be producing a high-value product or service, not getting a high return on their human capital, and probably not earning enough to pay off their debts and stimulate the economy as consumers.

It is also worrisome that while grads are employed in low-skilled jobs, their human capital is depreciating. “They forget things they learned in school. They probably won’t keep up with advancements in their once-chosen field,” says Stephan Whitaker, research economist at the Federal

The Enduring Appeal of Higher Education

Big events can spawn big changes. It's not obvious yet how much of an impact the recession had on young people's attitudes toward higher education. But some early evidence is encouraging because it shows the value of higher education for people's economic situations. Consider the recent drop in the rate of labor force participation: It has coincided with an increase in college enrollment, suggesting that young people may be beefing up their skills before entering the work force.

Labor Force Participation and College Enrollment, 16–24 years old



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

It's worth noting that women are now enrolling in college in greater numbers than men. Another lingering question in the wake of the Great Recession is whether men — who

traditionally held lower-skilled but relatively well-paying manufacturing and construction jobs — will find new niches in the new economy.

Reserve Bank of Cleveland. “They won’t gain career-related work experience to make themselves more productive. And if they do get back on their chosen career path, their earnings growth will start later, so their lifetime earnings will be lower.”

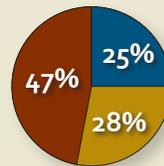
Less-skilled workers without degrees can also be hurt by the growing underemployment trend. Economic theory tells us that when there are more workers in the low-skilled market, wages are depressed for everyone in that market. When grads are hired in place of less-skilled workers, it decreases the chances that those workers will be able to find jobs and build their work histories.

So while some mismatches are part of a healthy economy, too many can be a waste of human capital. The ability to make a good match once a student has earned a degree

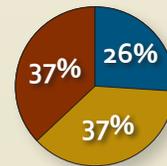
traditionally held lower-skilled but relatively well-paying manufacturing and construction jobs — will find new niches in the new economy.

Compared with 2009, respondent's family is...

■ Better off ■ Same ■ Worse off



Some or Completed High School



Five to Eight Years Education beyond High School

Sources: Center for Human Resource Research at the Ohio State University; Federal Reserve Bank of Cleveland.

One piece of subjective evidence on the long-term importance of higher education comes from the Ohio State University's *Consumer Finance Monthly* survey. It found that 47 percent of families whose members' highest education levels topped out at “some or completed high school” rated themselves as worse off financially in 2010 than in 2009. By comparison, 37 percent of respondents with between five and eight years of education after high school said they were worse off.

While this doesn't necessarily suggest changes in future behavior with regard to college enrollment, it's at least noteworthy that the survey results seem to confirm that people with multiple years of education beyond high school have weathered the recession better than those with less education.

is certainly part of the motivation for pursuing higher education. And conventional wisdom actually still holds: High education levels are critical for economic growth. Research, including studies by the Federal Reserve Bank of Cleveland, shows that states with higher percentages of college graduates also have the fastest economic growth.

How much the most recent recession changed young people's (or taxpayers') attitudes about the value of an education is therefore of critical interest to economists — and anyone else interested in America's economic future. ■

Recommended reading



Stephan Whitaker and Mary Zenker. 2011. “Are Underemployed Graduates Displacing Nongraduates?” *Economic Trends* (July). www.clevelandfed.org/research/trends/2011/0711/01labmar.cfm