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The macro economy and educational outcomes

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The Macro Economy and Educational Outcomes


SJU alumnus Adam Quade '10 (right) and his sister Mackensie.

A recent *Wall Street Journal* story entitled, "Class Of 2015 Graduates Summa Cum Lucky ," featured Johnnie Adam Quade'10 to make an important point and sometimes underappreciated point about educational returns: in the job market, sometimes timing is everything. Or to quote Yankees pitcher Lefty Gomez, "I'd rather be lucky than good."

The *Wall Street Journal* article makes a very important point about economic outcomes: they are often not entirely controlled by the individual. The story contrasts the job searches of Johnnie Adam Quade '10 with that of his sister, St. Olaf grad Mackensie '14. Adam did not have a job by graduation in 2010, and he eventually ended up moving out of state to take a job in Des Moines, though that was not his preference. (Though I understand Adam's affection for Minnesota, I would note that Iowa has its charms too!) Mackensie, on the other hand, said, "By Thanksgiving

[of senior year], I was sitting around eating turkey, had a job, feeling great." Both siblings were biology majors and graduates of fine liberal arts schools. The difference, of course, was the state of the overall macro economy. "When Mr. Quade graduated, the unemployment rate was 9.5%. When his sister graduated four years later, it was approaching 6%." As the article notes:

> *Ms. Quade's bragging rights are likely to continue for years and the difference has little to do with sibling rivalry, according to economists. Labor market research shows that the lower the U.S. jobless rate at graduation, the better the career prospects for grads, yielding significantly higher wages compared with those who finish school amid higher unemployment….according to economists, [Ms. Quade] will hold a wage advantage for a decade or more. With the unemployment rate now at 5.4%, this year's graduating class (2015) is among the luckiest in decades. They will be starting first jobs with an unemployment rate below the average of the past 40 years, foretelling career success, according to labor economists. "There really is something special about that first year," said Jamin Speer, a University of Memphis economist who has published research showing that students who graduate during a time of elevated national unemployment often have their earnings crimped for years.*

This is a well-known phenomenon among economists and has been widely studied. (See: "The Career Effects Of Graduating in a Recession" and "Born Under a Bad Sign: The Cost of Entering the Job Market During a Recession." The difficulties for graduates is not only that jobs are harder to find in a recession and wages tend to be lower but, at least as important, is that the match between the employee and the first job is often less than ideal.

> *The problems begin as soon as a new graduate comes face-to-face with a tough job market and begins making compromises. "People leaving school in a recession are starting at a lower-level job and at a lower earning level," because there just aren't that many jobs around, says Lisa Kahn, assistant professor of economics at the Yale School of Management. In many cases, graduates end up taking jobs unrelated to their career plan. "By the time you switch back into your field," says Kahn, "you are behind."*

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Research suggests that the impact on wages does eventually disappear, but it typically takes up to 10 years and can take as long as 20.

The interesting question for graduates and their parents is what to do with this information. How should it affect a student's choices and behavior to know that graduates with identical degrees from similar colleges (and in the case of Adam and Mackensie, even similar genetic inheritances) might see very different outcomes in the labor market? The short answer is that it should not affect behavior at all because the WSJ article did not emphasize an even more important point about labor market outcomes. While the macro economy can affect economic returns for recent graduates , even for many years, it still pays handsomely to invest in human capital. While Adam may not have been as lucky as Mackensie in choosing his start date, he still did much better than his friends who did not go to college, as the table below shows. In 2009, at the depth of the recession, the unemployment rate for those with a bachelor's degrees was about half that of high school graduates, and college grads earned nearly 60% more than their high school graduate peers. So even if you cannot insulate yourself from the effects of business cycles, and, other than staying in school to get a graduate degree, most college graduates cannot, it still makes sense to go to college if you care about your economic future.

Unemployment rates and earnings by educational attainment

Education attained	Unemployment rate in 2009	2014(%)	Median weekly earnings in 2009	2014
Doctoral degree	2.5	2.1	$1532	$1,591
Professional degree	2.3	1.9	$1529	$1,639
Master's degree	3.9	2.8	$1257	$1,326
Bachelor's degree	5.2	3.5	$1025	$1,101
Associate's degree	6.8	4.5	$761	$792
Some college, no degree	8.6	6.0	$699	$741
High school diploma	9.7	6.0	$626	$668
Less than a high school diploma	14.6	9.0	$454	$488
All workers	7.9	5.0	$774	$839

Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.
Source: Current Population Survey, U.S. Department of Labor, U.S. Bureau of Labor Statistics

In some ways the macro economy is like the weather, you cannot predict it or control it, all you can do is prepare for it.

As a graduate from a fine liberal arts college in a state that knows a little bit about preparing for the weather, Adam will be just fine.

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