

YOUNG ADULT ECONOMICS SERIES

Paycheck Paralysis: Jobs and Incomes in Today's Labor Market

1. HIGHER AND HIGHER
EDUCATION

2. PAYCHECK PARALYSIS

3. GENERATION DEBT

4. THE HIGH COST OF PUTTING
A ROOF OVER YOUR HEAD

5. AND BABY MAKES BROKE

Winter 2007

Job security and stability were defining characteristics of the U.S. labor market from the 1950s to the mid-1970s. A large portion of the workforce was unionized, and workplace benefits such as health insurance and pensions were standard. Today, young workers can no longer expect to work at a company with the intention of staying until retirement. Union membership has dropped to just 8.6 percent of the private-sector workforce, and benefits are becoming increasingly rare. Job instability is the new reality.

As the economy has transitioned away from a manufacturing base and toward a service economy, the labor market has also changed. Feeling pressure from foreign competition, many companies have slashed manufacturing jobs permanently. Many of the high-paying blue-collar jobs that used to be a central component of our middle class no longer exist, leaving young workers without college degrees in a serious financial pinch. While the earnings for young workers without college credentials have declined considerably in one generation, the earnings for college-educated young workers have simply stayed level over three decades. Faced with a volatile economic mix of high student loan debt coupled with a destabilized job market and skyrocketing costs of living, insecurity is the new reality for college graduates as well.

Diminishing Wages

Even during the boom years of the late 1990s, many 20- and early 30-somethings lost economic ground because their income did not grow as rapidly as their expenses. Many of those who did experience economic gains quickly lost them when the tech bubble burst and the economy went into recession. Between 2000 and 2002, household income for those under 35 dropped by 14 percent—the biggest decline of any age group.¹

Young adults with only a high school diploma can no longer match the lifestyle of those with college degrees. Even with a bachelor's degree, young people today make less than they did 30 years ago, on average.

- » In 1974, the typical male high school graduate in the 25 to 34 age group earned nearly over \$43,000 in inflation-adjusted dollars. In 2004, that age group was earning just over \$30,000.²
- » In 1974, a young adult male with a bachelor's degree or higher earned, on average, \$51,223 (in 2004 dollars). In 2004, young male college graduates earned \$50,700.³

Median Annual Earnings of All Wage and Salary Workers Aged 25 to 34 (in 2004 dollars)

| | Males | | | Females | | |
|-------------|----------------------------|---------------------|------------------------------------|----------------------------|---------------------|------------------------------------|
| | <i>High School Diploma</i> | <i>Some College</i> | <i>Bachelor's Degree or Higher</i> | <i>High School Diploma</i> | <i>Some College</i> | <i>Bachelor's Degree or Higher</i> |
| 1974 | \$42,697 | \$44,257 | \$51,223 | \$25,913 | \$29,556 | \$35,674 |
| 1984 | \$36,773 | \$39,806 | \$46,775 | \$24,449 | \$28,263 | \$35,030 |
| 1994 | \$29,996 | \$33,650 | \$45,629 | \$22,604 | \$26,938 | \$37,363 |
| 2004 | \$30,400 | \$36,400 | \$50,700 | \$24,400 | \$28,800 | \$40,300 |

Source: National Center for Education Statistics, based on data from U.S. Department of Commerce, Bureau of the Census, Current Population Survey, March Supplement, 1972-2003.

Even among college degree holders, there is much more polarization in incomes than there was a generation ago. Some college graduates end up earning modest middle-class incomes while others garner spectacularly high salaries. In 1975, the average income of young adults in the top 5 percent of earners was about two and a half times as great as the average income of young adults in the middle fifth; in 2003 it was nearly five times greater.⁴

The Real New Economy: Bouncers, Jugglers, and Tempsters

The bulk of American workers under 34 today entered the labor force during the 1990s, the decade that saw the culmination of America's postindustrial transition. By the beginning of the 1990s, the rules of the game had been totally rewritten. Wall Street investors were pushing short-term profits over long-term stability. Global competition created new pressures for companies to cut costs.

Today's young adults are the first generation to enter the workforce in this volatile new economy, and are coping in three major ways:

- 1) They are **Bouncers**, young college-educated adults who bounce from one job to the next in search of the elusive salary and benefits that a college degree supposedly should command.
- 2) They are **Jugglers**, young adults who work full-time and juggle college at the same time. Most jugglers are the half of all high school seniors who don't enroll in a 4-year college. They tend to work in low-wage jobs and manage to squeeze in courses at a community college.
- 3) They are **Tempsters**, those who work on a temporary or contingent basis without any explicit or implicit contract for long-term employment. Today, contingent workers make up 16 percent of the workforce.⁵ Tempsters earn less than they would if they were doing the same job on a permanent basis.⁶

These young workers face a bleak economic future. No matter how young adults try to cope with the new insecurity of today's labor market, they can't escape a simple reality: They will likely be the first generation who won't match the prosperity of their parents. Not only do entry-level jobs pay less than they did 30 years ago, but wage growth has slowed to a trickle. So instead of becoming more financially secure with each passing year, many young adults in their late 20s and early 30s find themselves struggling even more as they start having children and taking on mortgages.

About two-thirds of a worker's lifetime wage growth occurs during their first ten years of labor market experience, making the wages young workers receive strongly impact their lifetime earnings potential.⁷ Several studies have confirmed the lackluster wage growth experienced by most young adults; they indicate that all demographic groups of young workers are having more difficulty attaining middle-class earnings.⁸ Although all young workers are suffering from this "paycheck paralysis," young African-American and Latino men have higher unemployment and lower wages than any other group. In 2002, about 9 percent of white adults under age 30 were living in poverty, compared to 25 percent of African-American young adults and 15 percent of Latino young adults.⁹

Lack of Benefits

The inequality among today's young adults goes beyond earnings. Not only do jobs for college graduates offer better salaries, they also offer more fringe benefits such as health insurance and retirement plans. Young adults who juggle full-time work and school or who find themselves stuck in temporary or contingent work are far less likely to have benefits.

- » Today, young adults make up the single largest group of the uninsured in America—18 million and counting.¹⁰
- » In 1987, 68 percent of 25-to-34-year-olds had employer-based health insurance; in 2003, this figure was down to 61 percent.¹¹
- » In 1974, 44 percent of workers in the private sector were in a defined-benefit pension plan. Today, only 17 percent are in such plans.¹²

- » In 2000, just under 50 percent of all private sector workers were covered by any sort of pension, including 401(k) plans.¹³ About 73 percent of those in the top quintile of earners had a pension plan, as compared to only 18 percent of those in the bottom quintile.

Working More for Less

There exists in America today a pervasive misperception that young adults are not succeeding because they lack the work ethic possessed by the Baby Boomer generation. However, in reality, more young workers today are working multiple jobs and longer hours than the Baby Boomers did in their 20s and 30s. Compared to other age groups, young adults today are more likely to hold more than one job.

- » Young adult men aged 25 to 34 have the highest rate of multiple job-holding out of all male workers, and the highest rate of multiple job-holding overall goes to young, single women.¹⁴
- » Young adults are working longer hours, on average, than the previous generation. In 2002, Gen Xers worked on average 45.6 hours a week, nearly three hours more than young Baby Boomers worked in 1977.¹⁵

Living paycheck to paycheck is the new norm for young adults. Dwindling salaries and rising costs mean less money to put into savings, less to contribute to a 401(k), and less to put into their own children's college funds. All the while, they're racking up credit card debt to pay for any additional expenses, like going to the dentist or fixing the car, at exorbitant interest rates that rob them of even more money.

The Future Job Market

One of the ideas that separates the United States from other countries around the world is our promise of upward mobility. The belief that hard work guarantees rewards is part of our country's longstanding social contract between citizen and government. That social contract is in tatters. Many of the largest growing jobs are in the service sector, where wages tend to be low and mobility is virtually nonexistent.

While the fastest growing occupations—those that are growing quickly but not necessarily adding the most number of new jobs—are jobs in technology, such as computer systems analysts and computer software engineers that require some college education and typically pay middle-class wages, the largest growing occupations—those adding the most number of jobs—are in food service and preparation, with 2.9 million jobs predicted in 2010. These jobs paid on average from \$15,000 at the low-end to \$26,000 at the (not very) high-end in 2003.¹⁶ A glimmer of opportunity can, however, be found in two fields—teaching and nursing—where job openings are expected to swell at both the low- and high-ends of these occupations.

Policy Recommendations

There is a fundamental tension that exists in the American ideal of college for everyone and the reality that the largest growth in jobs will be in the low-wage sector of the economy. These are the jobs that don't demand bachelor's degrees and often require little more than a few days of on-the-job training.

Among the largest growing occupations over the next 10 years will be jobs in health services like medical assistants, personal home and health aides (the 8th largest growing occupation), as well as the higher-paying jobs in the field like registered nurses. In fact, registered nurses will be the second largest growing occupation, adding 703,000 new jobs by 2014. The same job growth trends are happening in the teaching field. Over the next decade, there is robust growth projected in both the low-end—paraprofessionals, also known as teaching assistants or aides—and the high-end, K through 12 teaching positions.

The fact that in two major occupational categories—teaching and the health professions—both low- and high-wage job growth is projected over the next decade signals an opportunity to design formal career ladders in these fields. Local and state initiatives that have proven effective in moving people up the professional ladder in these occupations should be expanded.

- » Several successful examples of career ladders exist, including programs that help teaching assistants become teachers and nursing assistants advance to registered nurses. These **programs should be scaled-up** through increased federal funding and nationalized standards.
- » An apprenticeship, or **career ladder program**, in the health and teaching professions would address the reality that most young adults cannot return to school full-time and would recognize that many must enter the labor force rather than attend 4-year college.
- » Because not all jobs are ripe for career ladders, such as those in the ever-growing food and retail industry, reforms are needed to remove barriers to unionization. The **Employee Free Choice Act**, introduced in Congress in 2003, would mandate that employers recognize and authorize the formation of a union when a majority of employees have signed union cards.

Endnotes

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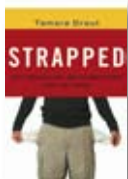
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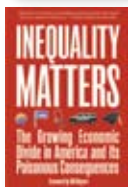
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