A Recession for the Educated?

In September and October of 2000, the aggregate unemployment rate bottomed out at 3.9 percent, having fallen steadily from its June 1992 level of 7.8 percent. This halving of the unemployment rate substantially improved the employment opportunities for groups—such as the less educated, teenagers, and blacks—that historically have had the highest unemployment rates.1

With the steady softening of labor markets over the past year—the unemployment rate hit 5.4 percent in October 2001—the question arises as to whether these traditionally disadvantaged groups have been bearing the brunt of the economic downturn. After all, the anecdotal evidence suggests that bad economic times hit these groups hardest. Looking at the unemployment data across education levels, however, it appears that, so far, it has instead been the most-educated group whose recent employment gains have eroded first.

Take 1994 as a reference point, a year during which the aggregate unemployment rate fell below 6 percent, which was thought by many at the time to be the natural rate of unemployment. In that year, the average unemployment rates for college graduates, those with high school diplomas but no college, and those without high school diplomas were 2.6 percent, 5.3 percent, and 9.8 percent, respectively. By September 2000, these rates had fallen to 1.9 percent, 3.4 percent, and 6.2 percent. Since then, as the aggregate unemployment rate has risen, so have the unemployment rates for these three educational categories.

The accompanying chart tracks the movement since October 2000 in the three-month moving averages of the unemployment rates for the three education levels, relative to where those rates were in 1994. For the most-educated group, those with college degrees, the unemployment rate has already reached its 1994 level; for those with a high school diploma but no college, about two-thirds of the gap has already been closed. In contrast, for those without a high school diploma, only about one-third of the gap between current unemployment and 1994 unemployment has been closed.

At this early stage, it is not possible to explain why this has been the case. One explanation is that this downturn has simply hit those industries where the highly educated are more likely to work. So far, the downturn has affected the telecommunications, computer services, and airline industries relatively more than traditional blue-collar industries such as home construction and automobile manufacturing. It is perhaps too early, however, to know how unemployment is eventually going to be distributed: job losses for the less educated might still be looming. It is also possible that the extremely long expansion of the 1990s has enabled more of the less educated to weather the storm because the long economic expansion enabled them to gain the skills, experience, and seniority to make it less likely for them to become unemployed now than in the past.

—Howard J. Wall