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The hazards of underemployment

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 By [Nick Bunker](#) | September 4, 2014


Over at *The Wall Street Journal*, Pedro Nicolaci da Costa [highlights](#) a paper on underemployment by economists from the Centre de Recerca en Economia Internacional, or CREI, at Pompeu Fabra University in Barcelona. The [paper](#), by economists Regis Barnichon and Yanos Zylberberg, tries to understand why workers end up employed in jobs for which they are overqualified and how this phenomenon changes over the course of business cycles. The paper has important implications for how we think about labor market slack—the amount of underutilized workers in the economy—and its relation to income inequality.

According to the authors, a worker is underemployed when she is overqualified for her current job. The archetypical example of underemployment is a recent college graduate working in a coffee shop. The graduate could be employed in a job where her acquired skills would be of use. But instead she's in a job that doesn't require those skills and someone with less training could do. The worker and work are mismatched.

Barnichon and Zylberberg make an adjustment to the standard search model of the labor market to understand underemployment and why it increases during recessions. The main tweak they make is that employers rank potential employees by their perceived quality or productivity before they hire. The ranking means that when a recession happens, higher-skilled workers will be better able to get a job than a lower-skilled worker. As Equitable Growth's Elisabeth Jacobs has put it, this is like a "[cruel game of musical chairs](#)."

Underemployment ends up redistributing risk (in this case, the risk of losing a job) from higher-skilled workers to lower-skilled workers. The economists estimate that this shift reduces the volatility of income for higher-skilled workers by about 20 percent and increases it by 15 percent for lower-skill workers.

The implications for income inequality are quite clear. But it also is an important factor in thinking about labor market slack. High levels of underemployment mean that stronger economic growth would expand the number of job opportunities. An increase in openings would hopefully allow overqualified workers move into better-suited jobs and then lower-skilled workers would have an easier time finding a job.

A [note](#) released today by two economists at the New York Federal Reserve, Jaison R. Abel and Richard Deitz, shows that recent college graduates are having an easier time finding jobs but they aren't finding good jobs at a

better rate. In other words, there's still a fair amount of underemployment in the U.S. labor market.

Part of the underemployment problem in the U.S. economy could be due to long-term trends such as decline in the demand for workers with cognitive skills that students learn in school. But we should consider underemployment as another aspect of labor market slack and the importance of not just creating any job, but goods jobs.

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