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Unemployment Trickles Down to Poorer Workers, Study Finds

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By PEDRO NICOLACI DA COSTA

Unemployment "trickles down" to America's poorest and most vulnerable because, during recessions, higher-income workers with more education take jobs that are below their qualification level, according to new research.

Such underemployment, in turn, leaves fewer job openings for which the so-called lower-skilled workers are qualified.

"Some high-skill workers move down the occupational ladder in order to find a job more easily," write Regis Barnichon and Yanos Zylberberg, economists at CREI, Universitat Pompeu Fabra, in Barcelona. "Through this process, unemployment trickles down from the upper-occupation groups to the lower-occupation groups, so that high-skill workers enjoy not only higher expected income but also lower income volatility."

"Job competition is biased and favors high skills, because a high-skill worker applying to a low-skill job is systematically hired over competing low-skill applicants," the CREI research paper finds.

"Trickle-down unemployment can be a powerful redistributive mechanism" that further boosts already historically elevated levels of income inequality, the authors add.

The U.S. unemployment rate has fallen sharply from a postrecession peak of 10% in October 2009 to 6.2% in July, still well above the 5.2%-5.5% range Federal Reserve officials expect to see in the long run. This rate is technically known as the U-3 rate, which counts the number of unemployed people actively looking for work as a share of the total labor force.

Making a case that several Fed officials, including Chairwoman Janet Yellen, have emphasized in the past, Messrs. Barnichon and Zylberberg argue the U-3 rate is too narrow to capture all of the labor market weakness that has resulted from the recent recession, the most severe economic downturn since the Great Depression.

"While the unemployment rate is the traditional gauge of the labor market, this paper shows that underemployment is an important, yet overlooked, characteristic of the labor market," they say.

A broader gauge of labor market conditions, known as the U-6 rate of unemployment, includes all the people in the U-3 count plus those who have become too discouraged to search for work but would like a job and individuals who are working part-time but would like full-time jobs. That figure has also come down substantially–from a 2010 peak of 17.2% to 12.2% last month–but remains historically elevated.

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Fed officials have made clear they are considering different measures of slack, or unused capacity, in the labor market as a key reason to feel comfortable leaving interest rates near zero, where they have been since December 2008, for a while longer. But as the U-3 jobless rate moves closer to a level policy makers consider normal, the debate is heating up over when to raise rates.

"Either you're a U-3er or a U-6er-and I'm a U-6er,"Atlanta Fed President Dennis Lockhart told The Wall Street Journal last month on the sidelines of the Kansas City Fed's annual meeting in Jackson Hole, Wyo.

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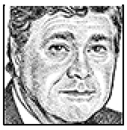
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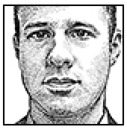
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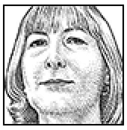
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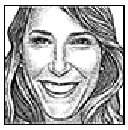
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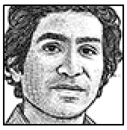
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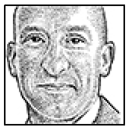
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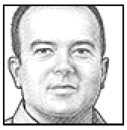
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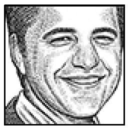
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