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Does Graduating in a Bad Economy Penalize Your Pay tor Life?

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Does Graduating in a Bad Economy Penalize Your Pay for Life?

My daughter is graduating from high school this month and headed off to college in the fall.

What will the economy be like when she finishes with her schooling? And will the state of the economy when she finishes make any difference to her in the long run? The answer to the first of these questions is difficult

because neither I nor she know how many years of additional schooling she intends to complete, and because it is incredibly difficult to predict what will happen to the economy, especially several years into the future. The answer to the second question — Does the state of the economy when one graduates from college matter? — is emphatically, yes! Rigorous research has shown that it does matter. And, unfortunately, given the current slow-growth labor market, it matters not just for earning in the first job after college but also for compensation years in the future.

Economy Now Can't Always be Overcome Later
More experienced and better educated people earn more. Pay rises more quickly in some occupations than others. But this column is about something else entirely. Well-executed studies have taken into account background, training, occupation and the like and explicitly determined if graduating in a bad economy has long-term impacts relative to graduating in a good economy. Imagine comparing sets of people



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who are otherwise identical except one set graduates into a bust economy, the other in a boom.

The first and classic study of this type was by Paul Beaudry (University of British Columbia) and John DiNardo (University of Michigan), ("The Effect of Implicit Contracts on The Movement of Wages Over the Business Cycle: Evidence from Micro Data," *Journal of Political Economy*, 99(4), 1991). Beaudry and DiNardo show that (controlling for the kind of personal characteristics I note previously) the unemployment rate when you started your job is more closely related to your current wage than is the current unemployment rate. In other words, the *current* unemployment rate has no significant effect on wages after we know the unemployment rate when you graduated.

In an interesting related study, Lisa Kahn (Yale University) showed that there are long-term effects of graduating from college in a bad economy. In "Long-Term Labor Market Consequences of Graduating from College in a Bad Economy" (*Labour Economics*, 17(2), 2010), she finds "large negative" wage effects from graduating in a bad economy that stick for as long as two decades.

What About CEOs?

We have heard a lot about inequality in earnings in the United States and other countries for some time. Could it be that these negative effects of graduating in a bad economy are only relevant for some workers but, perhaps, those at the very high end of the distribution of earnings are not affected? Recent research by Antoinette Schoar and Luo Zuo (both from MIT) find that there is even evidence of this phenomenon for CEOs. In "Shaped by Booms and Busts: How the Economy Impacts CEO Careers and Management Style," (National Bureau of Economic Research Working Paper #17590) the authors show that "economic conditions at the beginning of a managers' career have lasting effects on the career path and the ultimate outcome as CEO."


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In particular, those who become CEOs and began their careers (graduated) during a recession actually become CEOs faster than those who graduate outside of a recession. At the same time, however, they become CEOs of smaller companies, are paid less, and are less likely to change firms and industries over their careers.

But At Least I Have My Health, Right?

Recessions are bad on graduates' pocketbooks, at graduation and in years to come. If that's not enough, it looks like recessions could be bad for these graduates' current and future health too. J. Catherine Maclean studies the effects of graduating from

college during a bad economy on physical functioning, mental functioning and depressive symptoms on men. In "The Health Effects of Leaving School in a Bad Economy," (part of Maclean's May 2012 Cornell Economics Ph.D. thesis), she finds that men who leave school during a bad economy have worse health outcomes by age 40 than otherwise comparable men who leave school during a good economy. There is good reason economics is called the dismal science.

For my daughter, the business cycle timing is in her favor. I expect that the labor market at the time she enters may be in a stronger upswing. Of course I want my daughter to continue to engage with school and enjoy what she is learning — for the nonmonetary as well as monetary rewards of doing something she finds interesting and fulfilling. It just turns out that the timing of those pursuits may matter a lot too. 



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