

Youth and New Graduate Unemployment

As the world recovers slowly from the Great Recession of 2008, employment has lagged, particularly youth and new graduate employment. Why is this? Employing new graduates and the young is a longer term investment involving money, time and resources towards future productivity. Employing older, experienced workers is an investment in current productivity. Any future productivity must be subject to discounting by variability depending on general business conditions. In times of uncertainty, it is rational to invest in fixed capital, for which there is ownership over a potentially transferable, marketable asset, and experienced workers. Only when there is less uncertainty, or sufficient comfort from current success will businesses invest in future productivity, which incidentally may be mobile with the benefits accruing to the employee, not the firm. Business investment is likely to be a leading indicator, therefore, for a recovery in youth and new graduate employment. Evidence supporting this conjecture can be found in the recovery in part time employment, while full time employment has lagged. The thesis that education derives more value as a signaling device is also supported here. Employers prefer a hard signal, that is, actual and relevant work experience over an indirect and soft signal carried by a college degree. This does not suggest that a college degree is unimportant; workers without a college degree with similar years of (in)experience fare even worse.