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A recession-proof career path? Only for the lucky ones

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By Tim Harford
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How long will the economic downturn last? While some claim to see green shoots, others – such as my colleague Martin Wolf – see a slow and painful process ahead. I have little to add to that debate, but I can guarantee that for some of us, the impact of this downturn will last a lifetime.

That is the conclusion I draw from the research of Till Marco von Wachter, an economist at Columbia University, who has been tracing the lasting effects of bad luck in the job market. Having to look for a job at the wrong time can force us into compromises whose repercussions can last years or even decades.

For example, when von Wachter teamed up with two US government economists, Jae Song and Joyce Manchester, to study the experiences of those hurled into unemployment by mass layoffs in the 1982 US recession, they discovered horrendously long-lasting effects. The recession itself – one often compared with today's downturn – was savage, but it was over in less than two years. Yet von Wachter and his colleagues discovered that those who lost their jobs had incomes about 20 per cent lower than would otherwise be expected, even two decades later.

It is possible that this result is really capturing the effect of being a less productive (and thus expendable) worker, or of being trapped in a declining industry. But that is unlikely. Such mass layoffs are by their nature indiscriminate, and the researchers tried hard to compare like with like. The results remain robust – and they match similar research done in Germany, and earlier studies in the US with smaller data sets.

Why such a big effect? In part, it is a question of luck. Most people who have secured a decent, secure, full-time job have enjoyed a dose of luck in doing so. "It is hard to get lucky twice," comments von Wachter. The difficulty of retraining is also a factor. Many people have to switch careers when they lose their jobs, meaning long-standing skills fade and new skills must be learnt. Certainly, when people are laid off during a boom, the loss of income is much smaller, presumably because it is easier for them to find a comparable job before their skills start to be lost.

A similar problem lies in wait for those graduating during a recession. "People have to make compromises," says von Wachter, which often means taking a stopgap job with a less glamorous employer, and trying to switch careers or switch employers later on. The longer this process takes, the longer the impact on the unlucky cohort of graduates.

Relying on a very large data set from Canada, von Wachter, Philip Oreopoulos and Andrew Heisz estimate that the typical student who graduates during a recession can expect to be 10 per cent poorer in the year after graduation, a disadvantage that slowly fades over a decade. Even a couple of years' work experience is enough to insulate a cohort of young graduates from a recession – but those who graduate into its teeth, especially from less prestigious schools, can suffer all the way through to, well, the next recession.

One striking recent study, by Paul Oyer of Stanford's Graduate School of Business, showed that the Stanford MBA class of 1988 earned low incomes for many years. Why? Because they were applying for jobs just after the crash of 1987, and the high-paying bank jobs were simply unavailable.

The inspirational message from this research: if you are forced to accept a less attractive job because of temporary hard times, actively look to get back on your dream career path as soon as you can. The less inspirational message: luck matters, and bad luck lasts.

Tim Harford's new book, 'Dear Undercover Economist' (Little Brown), is out now