



Solving the Long-Term Unemployment Crisis for Older Workers

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Chairman Kohl, Ranking Member Corker, members of the Committee, I am honored to be invited to testify before you today on the employment situation of America's senior citizens. The employment problems that senior citizens face are indeed serious, and I thank you for holding this hearing.

I am a senior fellow at the Manhattan Institute. From 2003 until April 2005 I was chief economist at the U.S. Department of Labor. From 2001 until 2002 I served at the White House Council of Economic Advisers as chief of staff. I have served as Deputy Executive Secretary of the Domestic Policy Council under President George H.W. Bush and as an economist on the staff of President Reagan's Council of Economic Advisers.

The new U.S. Government Accountability Office report, entitled "Many Experience Challenges Regaining Employment and Face Reduced Retirement Security," provides sobering data on older workers. More than half of unemployed workers age 55 and over have been unemployed for 27 weeks or longer. The unemployment rate for these workers was 6.6 percent at the end of 2011.

It is especially important to address this problem due to the aging of the workforce and the entry of the Baby Boom generation into retirement. Older workers can expect to live until their mid-80s, sometimes longer, and dropping out of the labor force at 55 could mean 30 years of retirement. Such lengthy retirements mean that a larger older population is supported by a smaller younger population.

More urgently, our economy should be structured so that all those who want to work can find jobs. Millions of Americans are looking for work, and the number in poverty, 46.2 million, is the highest since the Census Bureau began compiling poverty data 52 years ago.

My testimony today is in direct response to the GAO report that has just been laid on the table before the committee. While I agree with the factual findings that older workers face serious difficulties in today's underperforming labor market, I disagree with the report's implication that the problems facing older workers require targeted policies that treat older workers differently than other workers.

Such policies would needlessly set one generation against another. They rest on the false premise that the problems facing older workers are the result of discrimination, or other factors that work specifically against older workers and in favor of younger workers. In fact, the problems facing older workers in today's stagnant labor market are not dissimilar from the problems facing all other workers – the lack of robust job

growth. Therefore I will speak about policies that will contribute to more robust job growth broadly -- policies that will benefit both older and younger workers

The GAO report makes it clear that younger workers are also finding a shortage of jobs. Figure 2 of the report, on page 9, shows that, as tough as older workers have it in today's labor market, their unemployment rates are lower than workers aged 25 to 64 and workers aged above 16. And, on page 18 of the report (Figure 9), the authors present evidence that since 2000 the labor force participation rates of workers 55 and over have been rising steadily, whereas the labor force participation rates of workers aged 16 to 24 and workers aged 25 to 54 have been declining. The biggest decline in labor force participation rates, according to GAO, can be observed for workers aged 16 to 24.

Despite the evidence that younger workers are worse off than older workers, the GAO report recommends that Congress offer temporary wage and training subsidies to employers who hire older workers who have experienced long-term unemployment; that Congress eliminate the requirement that Medicare is the secondary payer for workers covered by employer-provided health insurance; that Congress expand job search and training programs for older workers; and that Congress compensate older workers for accepting lower-paying, full-time jobs.

No cost estimate is provided for these programs, although the unnamed experts cited on pages 46 and 47 estimate that they "could be expensive" or "would cost money." Neither is any estimate of benefits provided, such as how much the duration of unemployment would be reduced if these programs were funded.

The GAO study lacks rigor in other ways too. It is filled with anecdotes from "focus groups" and "experts." Only 77 people were used in the focus groups, a remarkably small sample. The focus groups were interviewed in three cities, namely San Jose (California), Baltimore, and St. Louis. These cities are not representative of the United States as a whole.

Furthermore, the selection of the focus groups and experts is undocumented. Were employed seniors as well as unemployed seniors interviewed? The study purports to be a "performance audit" and that it meets "generally accepted government auditing standards," a rather vague term that certainly does not mean that the study was subjected to an outside independent review or audit. All of this effort took 18 months to prepare at taxpayer expense.

According to GAO, the main characteristic of older workers that makes them qualify for extra government help is the share unemployed for 27 weeks or longer, as can be seen in Figure 1 of this testimony. Fifty-five percent are out of work for 27 weeks or longer,

compared to 47 percent for workers aged 25 to 54, and 35 percent for young adults ages 20 to 24. Other than that, they are better off than other groups.

What is striking is that over the past ten years employment has increased among Americans 55 and over by 8.9 million. At the same time, it has declined by 3.1 million in the 25 to 54 age group, and by 313,000 among those aged 20 to 24. I show this in Figure 2.

Figure 3 shows how the labor force participation rate of seniors has increased by 5.7 percentage points from 2002 to 2011, yet declined in other age groups.

Compared with those aged 20 to 24 and 25 to 54, unemployment rates are lowest for the 55+ age group and have seen the smallest increase, as can be seen in Figure 4. Older Americans have seen unemployment rates rise by 2.8 percentage points over the past 10 years. Unemployment rates have risen by 4.9 percentage points for the 20 to 24 age group, and by 3.1 percentage points for Americans aged 25 to 54.

During some periods labor force participation rates have risen for older women and declined for older men. This is not true over the past decade, as can be seen from Figure 5. Both men and women ages 55 and over have seen similar increases in labor force participation rates.

This pattern holds for men and women ages 65 and over, and is shown in Figures 6 and 7. Both labor force participation rates and employment levels have risen steadily over the past 10 years.

The unemployment rate in 2011 for newly graduated men and women with bachelor degrees was 9 percent, far higher than the 4.9 percent rate such young adults experienced in 2006. The effects of the recession have fallen most disproportionately on them.

These unemployment rates not only suggest personal disappointment, but also large and lasting implications for them and for society. A recent paper in the *American Economic Journal Applied Economics* found that graduating in a recession leads to earnings losses that last for 10 years after graduation.¹

¹ Philip Oreopoulos and Andrew Heisz, "The Short- and Long-Term Career Effects of Graduating in a Recession: Hysteresis and Heterogeneity in the Market for College Graduates," *American Economic Journal: Applied Economics*, 2012, Vol. 4, No.1: 1-29.

The authors, University of Toronto economics professor Philip Oreopoulos, Columbia University professor Till von Wachter, and economist Andrew Heisz of Statistics Canada, found that earnings losses are greater for new entrants to the labor force than for existing workers, who might see smaller raises, but who have jobs. In addition, recessions lead workers to accept employment in small firms that pay lower salaries.

In addition to higher unemployment rates, large increases in college tuition in recent decades mean that young people are graduating with substantial debt. According to Howard Dvorkin, founder of Consolidated Credit Counseling in Fort Lauderdale, students who graduated in 2011 left school with almost \$23,000 in student loans, the most ever.

That is one reason why rates of recent graduates living at home with either a parent or grandparent have increased. In 2005 the share of 20-24 year olds who had at least a bachelor's degree but were living at home was 36 percent, and it reached 43 percent in 2011.

In November 2011 the Pew Research Center issued a lengthy study entitled "The Rising Age Gap in Economic Well-Being,"² which concluded that the gap in well-being between the young and the old is greater than ever before. Older Americans are doing better than in the past and younger ones doing worse. I attach the study, and I respectfully request that it is entered into the record.

Pew concludes that older Americans have benefited from appreciation of their homes, higher incomes, and lower unemployment rates. When these factors are taken into account, older Americans come out ahead of younger Americans. According to Pew, between 1984 and 2009, median net worth fell by 68 percent for households headed by adults younger than 35, and rose by 42 percent for households headed by those over 65. (Net worth is the value of assets less debt.)

The older age group had 47 times the net wealth of the younger group in 2009, compared to a multiple of 10 a quarter century earlier. It's not surprising that older people have more wealth, because they have been saving longer and building the equity in homes they own. That the ratio has risen so much is a result of contraction of net worth among the young and expansion for the seniors.

Older Americans who bought houses or condos have seen their home equity rise because they have held their homes for longer periods of time. The 2009 American

² Richard Fry, D'Vera Cohn, Gretchen Livingston, and Paul Taylor, "The Rising Age Gap in Economic Well-Being: The Old Prosper Relative to the Young," Pew Research Center, November 7, 2011.

Housing Survey reports that 50 percent of older Americans bought their homes before 1986, and 65 percent own their homes free of mortgages.

In contrast, younger Americans who own homes have seen them decline in value, particularly if they bought them during the housing boom of the previous decade.

As well as assets, Pew reports that incomes of older Americans have risen four times as fast as incomes of younger Americans. Compared to 1967, incomes of Americans 65 and older have risen by 109 percent, after adjusting for inflation, but incomes of adult Americans under 35 have risen by a far smaller amount, 27 percent. The inflation-adjusted median income of older Americans rose by 8 percent between 2005 and 2010, but the income of younger Americans declined by 4 percent.

As the GAO report states, the problem not just for senior citizens but for all Americans is too few jobs. The Labor Department issued another disappointing jobs report on May 4, showing that in April only 115,000 jobs were created in the economy, and the unemployment rate declined to 8.1 percent because another 342,000 people left the labor force. One reason that the employment picture is bleak is because it's getting harder to create jobs due to our regulatory environment.

Mr. Obama acknowledged this when, on January 18, 2011, he issued an executive order expanding Executive Order 13563, which was entitled Improving Regulation and Regulatory Review. The 2011 Executive Order asks for public input in reducing regulations, and calls on agencies to prioritize their regulatory reviews to deal with the most burdensome regulations first.

Tougher regulations lead employers to locate elsewhere. Friendlier regulations draw them back home.

One proposed bill that would interfere with job creation is S. 1471, the Fair Employment Opportunity Act of 2011. The bill would set up another protected class of workers, the unemployed. The unemployed would be allowed to sue employers for discrimination, just as women can sue for sex discrimination, older people can sue for age discrimination, and different minorities can sue for racial discrimination.

The bill, sponsored by Connecticut Senator Richard Blumenthal, has two cosponsors. It purports to solve the problem of the long-term unemployed finding jobs, but it would slow job creation and make it harder for everyone, including the long-term unemployed, to find jobs.

Christine Owens, executive director of the National Employment Law Project, has testified that "There is no official data on how frequently unemployed workers are

denied consideration for jobs because of their employment status.”³ This so-called problem is just based on anecdotal evidence. Monster.com, an online job search Web site, has stated that fewer than one hundredth of one percent of its job search ads excluded the unemployed.⁴

Penalties that the courts could levy on employers and employment agencies would be heavy, including back-pay, \$1,000 per violation per day, and punitive damages.

This would increase the cost of hiring American workers, making it more likely that employers will expand plants offshore. Employers would face more paperwork to show that they are not discriminating against the unemployed, and trial lawyers would target companies with threats of lawsuits.

Already, it is easier to employ workers overseas than in the United States, and the Fair Employment Opportunity Act of 2011 would add to that. *The Wall Street Journal* reported on April 27 that three-quarters of new jobs created by U.S. multinationals were offshore over the past two years.⁵

The GAO report falsely implies a crisis specific to older workers and thus calls for policies that would distort the free market to favor older workers. Such distortion of the market is not needed. While the problems that older workers face are real and serious, their situation is not significantly different from the situation facing workers age 25 to 54 and workers under 25.

The reality is that this administration's policies have failed across the board and resulted in a serious deficit of job opportunities for all workers — old and young alike. The problem will not be solved by special policies that favor one group over another. The GAO report advocates shifting some jobs to older workers but at the expense of younger workers. This sort of redistributionist policy is both unfair and unwise. It amounts to intergenerational class warfare. What we need instead are policies that broadly create more job opportunities for all, with older workers benefitting just as much as younger workers.

³ Written testimony of Christine L. Owens, Executive Director, National Employment Law Project, before the U.S. Equal Employment Opportunity Commission, February 16, 2011.

⁴ Monster.com, “Updated: Monster Speaks Out Against Employment Discrimination,” *Monster Thinking*, August 31, 2011.

⁵ Scott Thurm, “U.S. Firms Add Jobs, But Mostly Overseas,” *The Wall Street Journal*, April 27, 2012.

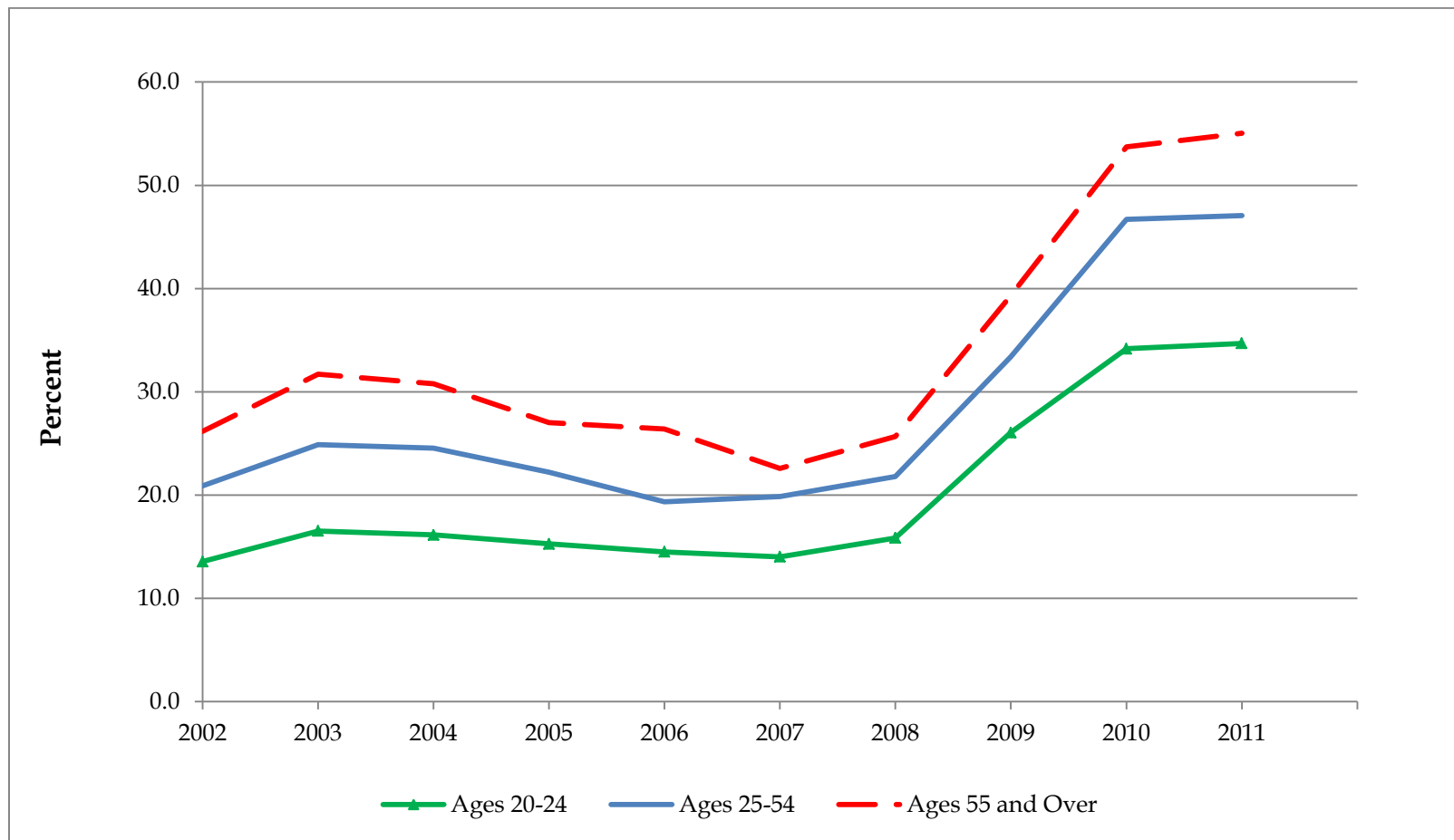
These policies include:

- Add more certainty to the tax system. Rates on income and capital are scheduled to rise dramatically next January 1, creating extensive uncertainty. Older Americans are disproportionately hurt by tax uncertainty because they have fewer options to react to changes in the tax code, particularly those affecting capital gains. They not have the same alternatives to postpone the realization of capital gains into future years.
- Eliminate the Environmental Protection Agency's new regulations on coal, which are affecting the utility sector, which employs a disproportionate number of older workers. Over 100 coal-fired plants have closed since January 2010. Also, the closing of coal-fired plants causes electric utilities to require higher rates which harm older Americans on fixed-income.
- Approve the Keystone XL Pipeline, so that Canadian oil could go to our refiners in the Gulf to be made into gasoline and other products. Millions of older Americans live in the states that will benefit from the construction projects associated with the Pipeline. Even more importantly, the pipeline will help reduce the cost of gasoline and other energy products, to the particular benefit of older Americans on a fixed income.
- Remove the \$2,000 worker per year penalty in the new health care law paid by employers with more than 49 full-time workers who don't offer the right kind of health insurance. Going from 49 to 50 workers will cost some employers \$40,000 per year beginning in 2014. By discouraging the growth of small businesses, the engine of employment growth in America and a primary source of new employment opportunities for older Americans, the \$2,000 penalty harms older Americans.
- Extend and expand the EB-5 visa program for foreigners who want to start companies in America, so that innovators can come and create jobs for older and younger workers alike. The program is due to expire in September 2012.

Americans are facing an employment problem on a scale that our government at times seems incapable of grasping. We need to think of ways to turn America around and head all of us in the right direction by generating jobs here at home. That will help older American workers and younger ones at the same time.

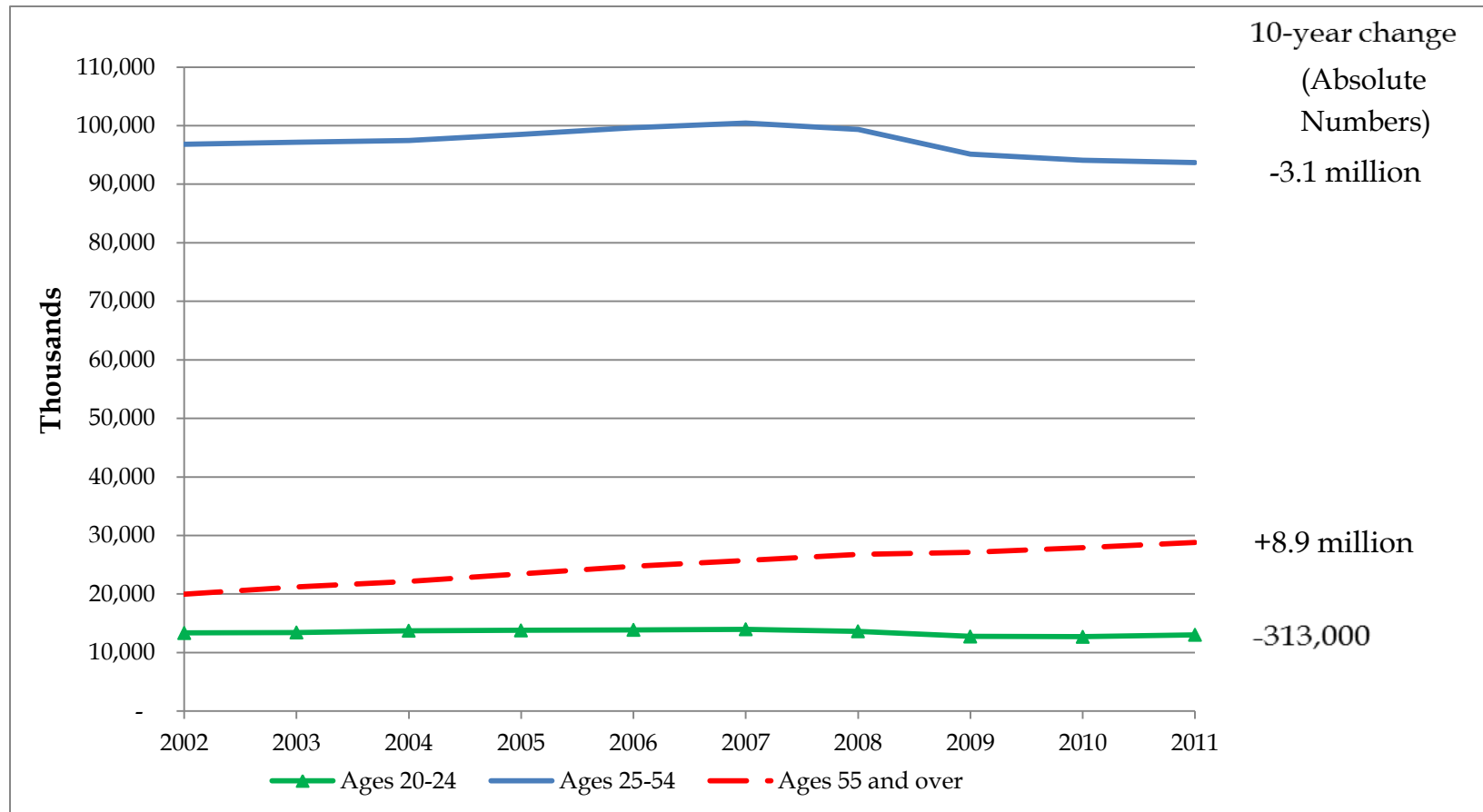
Thank you for inviting me to appear here today. I would be glad to answer any questions.

Figure 1
Long-Term Unemployed as Share of Unemployed by Age
2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

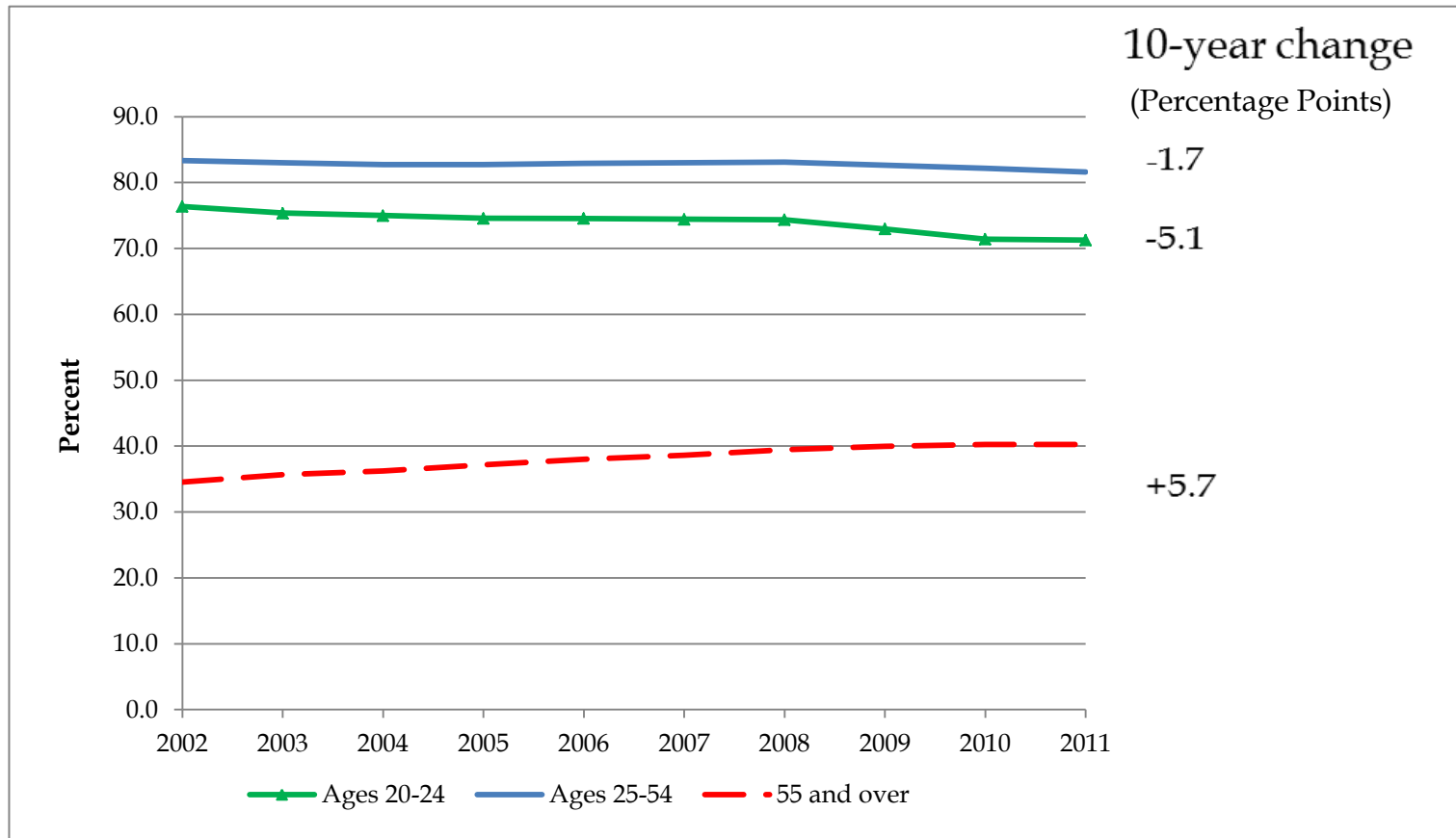
Figure 2
Employment Levels by Age
2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

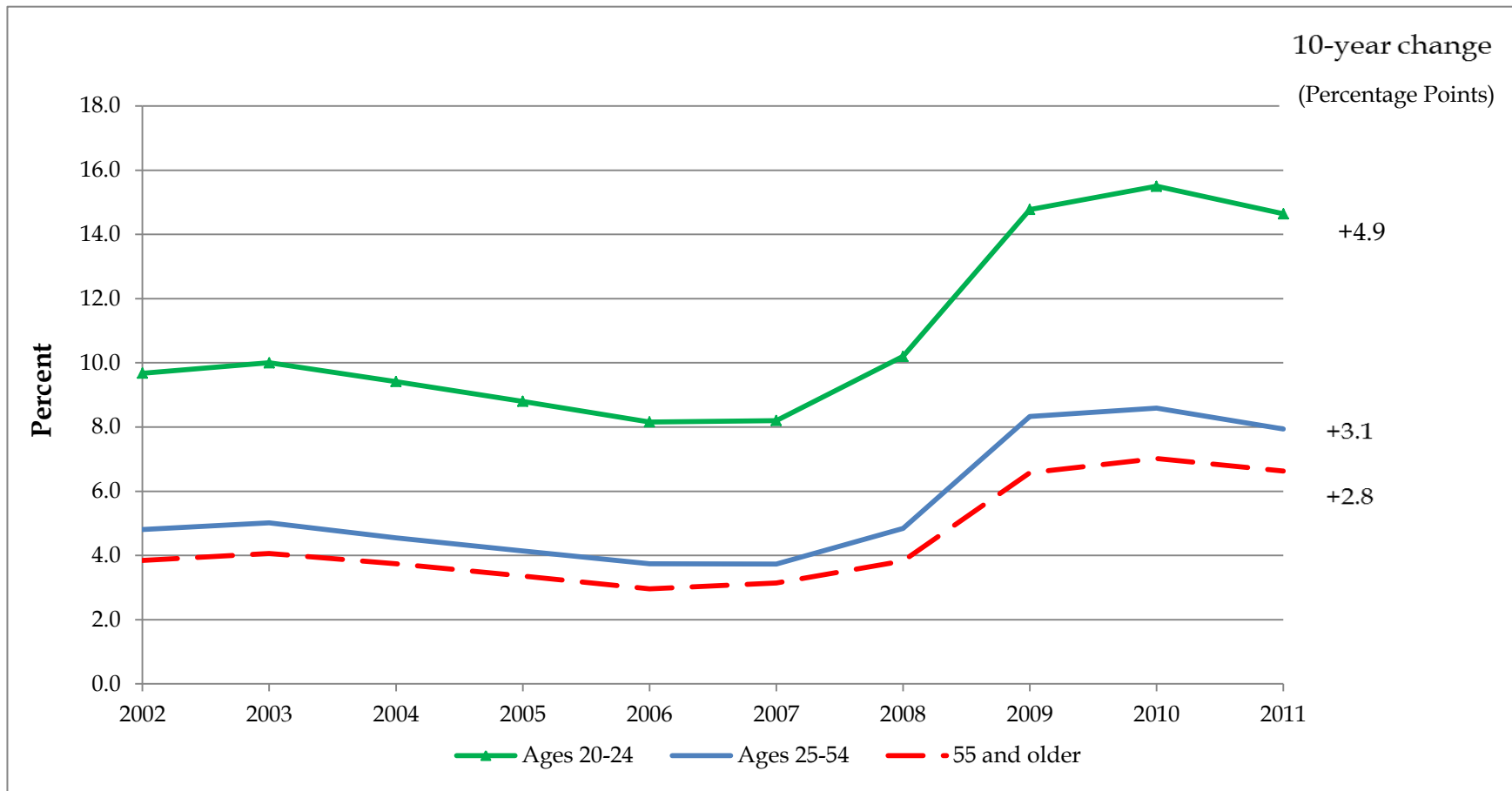
Figure 3

Labor Force Participation Rates by Age
2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

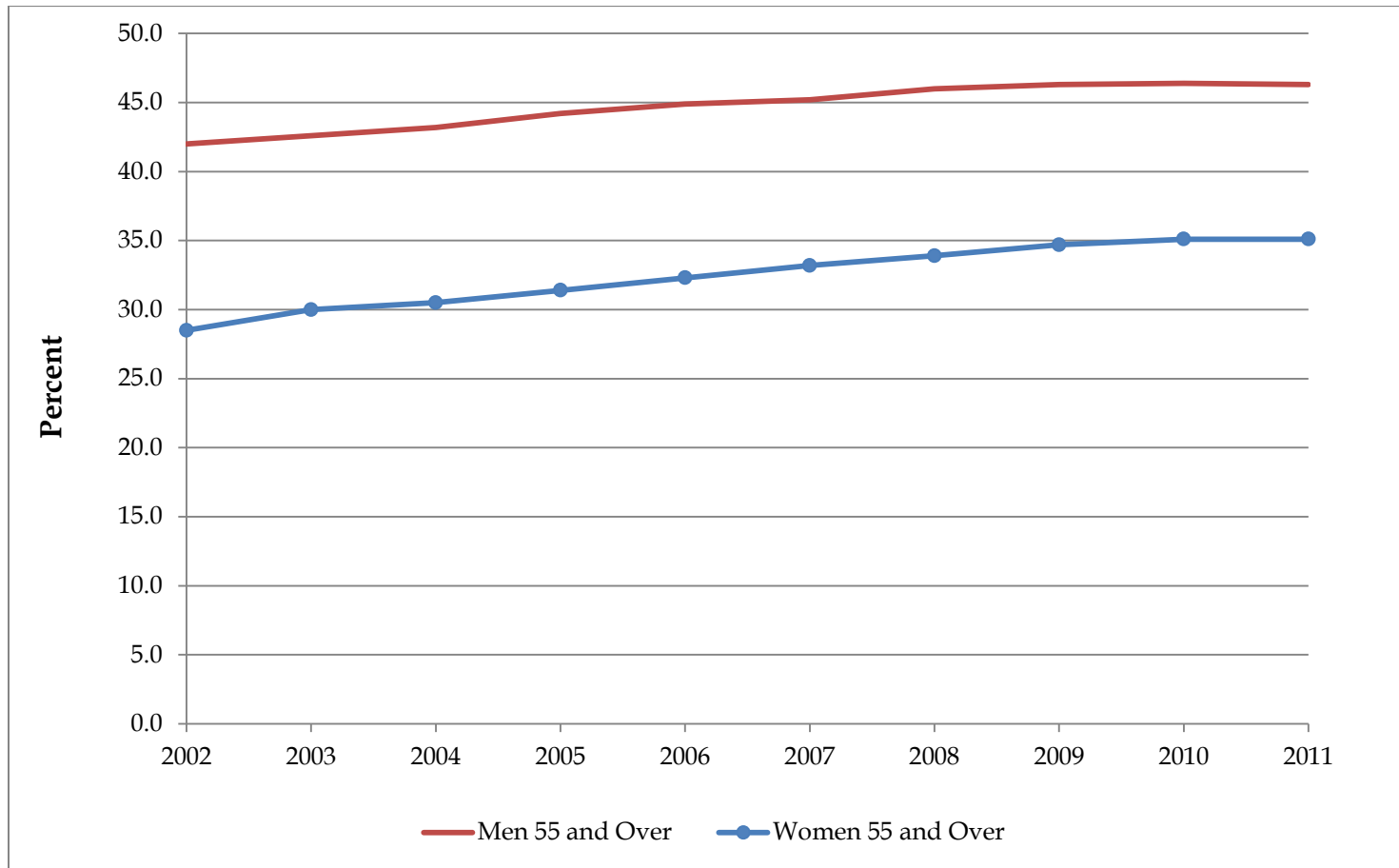
Figure 4
Unemployment Rates by Age
2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

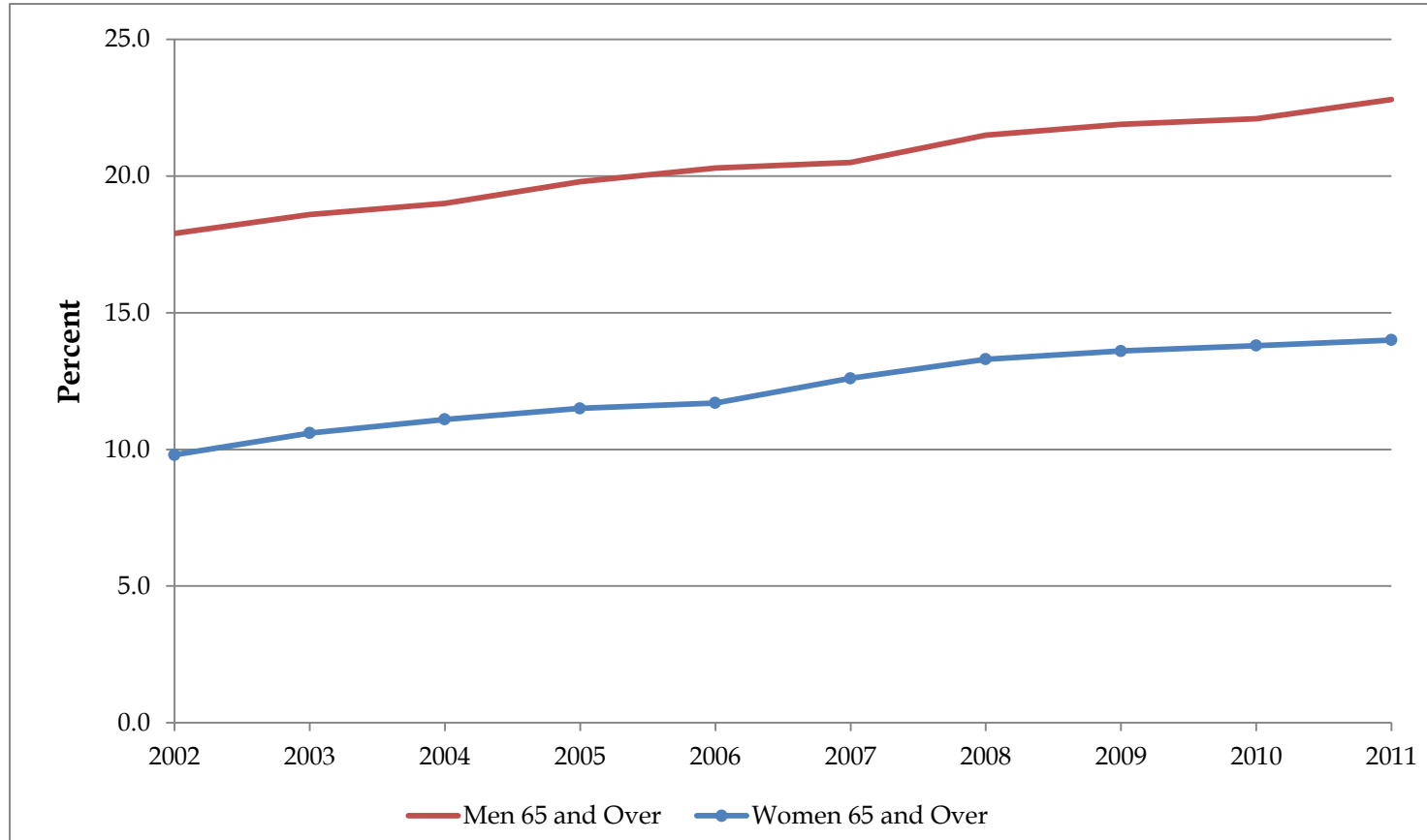
Figure 5

Labor Force Participation Rates by Sex, Ages 55 and Over
2002-2011



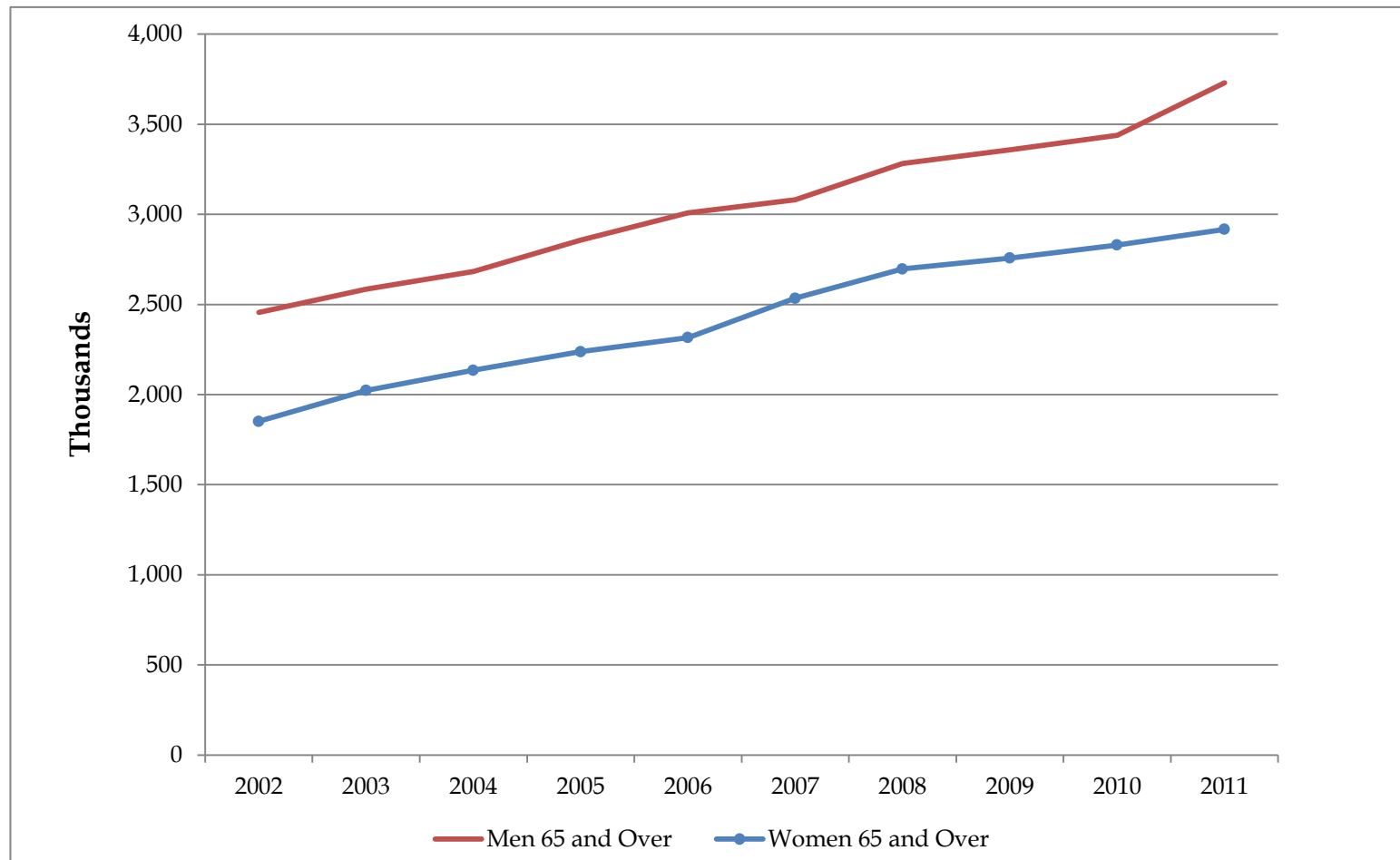
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Figure 6
Labor Force Participation Rates by Sex, Ages 65 and Over
2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Figure 7
Employment Level by Sex, Ages 65 and Over
2002-2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.