The Dangers of Underemployment in the United States

Dr. Patrick O'Halloran
Monmouth University
West Long Branch, New Jersey

Dr. Michaeline Skiba
Monmouth University
West Long Branch, New Jersey

Abstract
Since the "Great Recession," which started in December 2007 and ended in June 2009 (National Bureau of Economic Research, 2010), the United States has experienced an unprecedented sluggish economic recovery. Although the official unemployment rate has lowered in most states over the last four years, a number of factors continue to exert a powerful impact on the entire workforce; one of these factors being underemployment. This paper will define the meaning of underemployment, explore the reasons why several constituents within both the government and private sectors should be concerned about it, and offer recommendations for easing underemployment's grip on the nation's future economic prosperity.

Introduction

The federal unemployment rate as reported by the Bureau of Labor Statistics (BLS) represents the number of workers who are actively seeking employment divided by the total size of the labor force. This rate does not include the underemployed – those who are overqualified in their jobs or those who are discouraged workers who, for various reasons, have stopped seeking employment. Even the government's broader measure known as the U6 – which includes total unemployed, all persons marginally attached to the labor force, and total employed part-time workers (BLS, 2011) – excludes overqualified workers. The inclusion of overqualified workers raises the rates of labor underutilization from 22% (McGuinness, 2006) to as high as one third of the workforce (Green & McIntosh, 2007; Green & Zhu, 2010).

Since the unemployment rates that are reported to the public exclude several important groups, a lower rate can give the impression that the economy is improving when, in fact, it may be worsening whenever the "documented" unemployed stop collecting unemployment insurance. The monthly poll conducted by Gallup in May 2013 validated this statement. Using a telephone-based survey of more than 30,000 Americans, Gallup found that the U.S. payroll to population employment rate (known as the P2P) worsened in May, dropping to 43.9 percent from 44.5 percent in April. Simultaneously, underemployment was 18 percent in May, up from 17.5 percent in April (Marlar, 2013). We believe that underemployment will increase as more people who fear being unemployed for too long will accept jobs for which they are both overqualified and underpaid.

One author has identified other populations that simply cannot collect unemployment insurance and are not counted in BLS data. These include workers who are hired and let go before 14 weeks of employment (a qualifier for collection of unemployment insurance), those who simply drop out of the workforce, the self-employed, and small business owners who do not pay unemployment insurance and cannot qualify to collect it (Smith, 2009). All of these groups combined have led astute observers to conclude that the unemployment and, more importantly, underemployment picture is far worse than what is reported in public venues.

During 2011, the U.S. economy added 1.9 million jobs in the private sector and lost 280,000 public sector jobs, primarily due to budget cuts and layoffs within the government and at all levels (Khimm, 2012). However, two years later and according to a BLS news release regarding the employment situation in May, 2013, both the number of unemployed persons (11.8 million) and the unemployment rate (7.6 percent) remained unchanged, and the number of long-term unemployed (those who are jobless for 27 weeks or more) was unchanged at 4.4 million. More disturbingly, other rates such as the labor force participation rate (at 63.4 percent), the number of persons employed part-time for economic reasons (also known as involuntary part-time workers) (at 7.9 million), and discouraged workers (at 780,000) also remained unchanged. While employment sectors such as retail trade, healthcare, leisure, and hospitality slightly expanded, professional and business services sector employment has grown by 589,000 over the course of the last year (BLS, 2013). It is important to note, however, that temporary help services in this latter sector is trending up – a factor that exacerbates the increase in underemployment.

Reviewing the literature on underemployment, many have found significant negative impacts on worker well-being. Wilkins (2007) finds that the consequences of underemployment are almost as severe as unemployment. Feldman (1996) theorizes that the antecedents of underemployment include economic factors, job type, demographic characteristics, career history, and job search strategies. He finds some empirical support that underemployment rises as recessionary pressure increases and varies by industry and profession. He also finds an increased instance of underemployment the longer one is unemployed. Given the lengthy durations of unemployment seen during and since the Great Recession, it is no surprise that statistics are showing heightened levels of underemployment. Most economic research on underemployment has focused on part-time employees who would prefer full-time employment or workers who self-report that they would like more work hours than the employer provides. Other research has concentrated on worker "dislocation" and focuses on wage losses associated with reemployment after losing a job. This narrow focus on single subgroups of the underemployed stems from a focus on quantitative analysis of the effects of underemployment on various outcomes such as job satisfaction, turnover intentions, and income.

The economics literature typically looks at three types of underemployment. Wilkins and Wooden (2011) review three distinct forms of underemployment. They delineate underemployment as either time-related underemployment (insufficient work hours), skills-related underemployment, or income-related underemployment. Of the three, time-related underemployment is the easiest to measure while skills-related underemployment and income-related underemployment are more difficult to measure.

Skills-related underemployment is hard to identify, but has been analyzed within the over-education literature. McGuinness (2006) identifies four methods of measuring over-education. One way is to compare a worker's level of education to that of others within similar occupations and industries. A similar approach involves comparing a worker's level of education to that which employment experts deem appropriate for the position. Alternatively, the two other approaches compare a worker's subjective assessment of minimum educational requirements of the job to actual levels of education, or survey questions asking whether they feel "over-qualified" for the job. Income-related underemployment would represent workers receiving income less than they would otherwise due to some feature of the employer or workplace such as a lack of on-the-job training or poorly organized work arrangements.

Underemployment's Greatest Enemy: Temporary Employment

Regardless of the global economic slowdown and continued federal government spending cuts, the first quarter of 2013 showed some progress regarding hiring. The question is: what are the genuine ramifications of these gains, and for whom?

One analyst from the Associated Press reported that the biggest job gains have occurred in lower-paying fields such as hotels, restaurants, and retail, and while average hourly pay increased, the average workweek (and weekly paychecks) declined (Rugaber, 2013). While many workers struggle to achieve economic stability, the temporary staffing industry is experiencing an economic "boom." Staffing Industry Analysts, a firm based on Mountain View, California, projects a six percent annual increase in temporary staffing revenue over the next two years (Green, 2013). While one might think that these gains originate from the industries that historically pay lower wages in general, temporary placements also have increased in heretofore professional level, full-time disciplines. Daryl Gaugler, a senior vice president with Quintiles Transnational Holdings Inc., stated that the top five pharmaceutical companies have increased their temporary staffing of sales and marketing professionals from five percent to as much as 20 percent of their workforces, and in the northwestern part of the country, health care systems are more than doubling their use of temporary nurses and various care therapists (Ibid., 2013).

The paucity of full-time employment, especially among retail and restaurant chains, has intensified with the increased use of scheduling software that breaks down schedules into 15-minute increments. These tools enable employers to instantly pinpoint workers' skills, availability, and productivity on a per-hour basis. Admittedly, employers that have long operating hours and high staffing needs must attend to their operating costs, and many people may prefer to work on a part-time basis to accommodate other pursuits; however, BLS data proves otherwise. In October of 2012, retail and wholesale employment sectors shed a million full-time jobs within six years and simultaneously added more than 500,000 part-time jobs. In addition, the same data reported that the number of part-timers who would prefer to work full-time increased to 3.1 million, two and a half times the 2006 level (BLS, 2012).

Another change that has affected the migration from full-time to part-time employment and subsequent increases in underemployment is the decline of labor unions' influence. According to Susan J. Lambert, a professor of organizational theory at the University of Chicago and an expert on part-time work, "They [labor unions] set a standard for what a real job was --- Monday through Friday with full-time hours. We've moved away from that" (Greenhouse, 2012, p. 4). According to BLS (2012) data, full-time workers were about twice as likely as part-time workers to be union members and younger workers have substantially lower rates of unionization compared to older workers. These trends imply further erosions in union membership and increased incidences of involuntary part-time employment.

Unfortunately, organized labor has not been the only sector experiencing fewer hours, lower pay, and fewer or no benefits. Since the Great Recession, almost all professional levels in all professions have felt the pain of indefinite unemployment or the harsh reality of indefinite part-time employment. Clearly, a confluence of factors has brought the United States to this fiscal doorstep. This paper emphasizes two factors that require serious and immediate attention from policymakers: fiscal policy and education.

A Governmental Impasse

In an examination of how little the current administration has done to fulfill promises made by political leaders who won their last national elections, a political analyst observed that nothing has been accomplished to ease the downward pressure on the economy. Persistent infighting within the government over federal budget cuts and the debt ceiling combined with the private sector's intransigence to do anything about those cuts have created not only discouraged workers but also a discouraged country. This analyst interpreted an Allstate/National Journal Heartland Monitor Poll with the following: "Holding on and not falling further behind is the way many workers now look at the future. Fifty-two percent of people in the poll said the middle class has less opportunity to get ahead than did their parents' generation, and sixty-five percent said the middle class has less job and financial security than did their parents' generation" (Balz, 2013, p. 2). Although he admitted that there are no quick fixes to our economic problems, he underscored the absence of serious efforts to live up to campaign promises that include improved productivity and getting people back to work.

Since the Great Recession, the collapse of the housing market has had a disproportionately negative impact on the wealth assets of most Americans. During the so-called "housing bubble," many people purchased their homes under variable interest rates that, over time, forced them to face foreclosure. Simultaneously, those who lost their jobs also saw their property values and savings plummet due to extended or indefinite unemployment and underemployment. Within the two years following the recession (2009-2011), the combination of the stock and bond market increases and the flat housing market created an enormous chasm in wealth distribution. According to Census Bureau data from 2009-2011 and analyzed by the Pew Research Center, "the mean net worth of households in the upper 7% [affluent group] rose by an estimated 28%, while the mean net worth of households in the lower 93% dropped by 4%" (Fry and Taylor, 2013, p. 1). Recently, net worth per household has improved in terms of investment equity at its pre-recession levels. However, those who have remained underemployed may continue to drain what remains in investment savings and not be able to invest at all, widening wealth distribution even further.

It is common knowledge that the Federal Reserve will maintain its monetary policy until the labor market improves. However, according to Daniel Aaronson, vice-president and director of microeconomic research and Scott Brave, senior business economist with the Chicago Federal Reserve, substantial improvement in trend employment growth is critical to economic growth. Their analyses reveal that "…payroll employment was about 6 million jobs, or 4%, below trend in 2012. Closing this gap by 2016, for instance, would require payroll employment growth of about 195,000 per month on average over the next four years" (Aaronson and Brave, 2013, p. 1). It is important to note that these authors cited both future labor force participation and immigration as integral forces that determine how their estimates will evolve.

Education and Monetary Policy Reform

Experts from the business and academic sectors continue to explore reasons for the sluggish U.S. economy. The problems are examined however, these sectors, in concert with our politically complacent government, continue to foist the blame elsewhere and offer too few actionable solutions.

One statement that is indisputable and permeates the literature is this: a higher education improves one's socioeconomic status. However, for several years the private sector has blamed the higher education sector in the U.S. for not equipping young professionals with the skills needed in an increasingly technical and global work world. Ironically, three economists from the University of British Columbia and York University in Toronto have proven otherwise through an examination of the average tasks performed by employed college graduates of all ages (Coy, 2013, p. 2). They found that the average "cognitive content" utilized on-the-job peaked in the year 2000 and has dropped steadily since that year. "In the same vein, the Conference Board, a company-sponsored research organization, found that since 2000 the importance of math and science skills in jobs declined, while social skills became more important" (Ibid., 2013, p. 2). According to BLS (2013) forecasts, most new jobs from 2010 to 2020 are projected to be in occupations that typically can be entered with a high school diploma. The same BLS study also points out that most high school occupations require extensive on-the-job training. Consequently, if employers are unwilling to incur the costs of training employees, this undoubtedly will become problematic.

During a policy briefing entitled "The Underemployed Generation: Matching Skills to Jobs" and hosted by *National Journal* in Washington, D.C. on May 21, 2013, experts from government, industry and academic sectors discussed labor market issues and how they could be improved. The keynote speaker for this event was Jane Oates, the Department of labor Assistant Secretary of Employment and Training Administration. As reported on the Society of Human Resources Management (SHRM) website, and as interpreted by these authors, the issues were identified but the improvements were scarce. For example and during this briefing, Oates said that the Labor Department has and uses tools to match job applicants with careers that are in demand. This implies that workers must take personal responsibility for being prepared for and seeking what is in *demand*. Elsewhere during the briefing, however, Oates cast an onus on employers – and the *supply* side of the equation – with the following: "If employers have jobs open 60, 90 days [in this economy], something's wrong. Is this because of a skills gap, or is it because employers aren't sure what they need? Job descriptions typically define technical skills well, but they don't clearly define soft skills requirements [such as teamwork, writing or speaking abilities]" (Minton-Eversole, 2013, p. 1). Lastly, in an examination of the academic sector, Martha Ross, a fellow at the Brookings Institution's Metropolitan Policy Program, astutely noted that while "bachelor's degrees have been given a sort of 'most favored nation' status" these degrees are "…being used now as sorting material during recruiting" (Ibid., p. 2).

Conclusions and Recommendations

In this brief examination of the pernicious specter of underemployment, it appears clear that many of our country's best thinkers from a host of disciplines have pinpointed the problems that continue to plague the employment picture. To add to the aforementioned examples, one business writer posits that "getting the U.S. economy producing at full potential would add about $950 billion to annual gross domestic product and go a long way toward putting people back to work," and that "…for the Fed [Federal Reserve Bank], accelerating economic growth through monetary policy is Job One" (Coy, 2013, p. 3). These statements focus on monetary policy reform made through the government. From the academic sector, Dr. Anthony Carnevale, research director at Georgetown University's Center on Education and the Workforce, has issued a warning of the increased costs needed to reform our education system with the following: "…the cost of putting the U.S. education system back on top globally has been estimated at between $150 billion and $200 billion" (Minton-Eversole, 2013, p. 2). Reviewing the economic dilemma, the entire editorial board of *The New York Times* dubbed the so-called "skills gap" "…a corporate fiction, based in part on self-interest and a misreading of government data." This same board chastised the business sector for its low recruitment efforts and interest in promoting the perception of a skills gap with the following: "They [corporate executives] want schools and, by extension, the government to take on more of the costs of training workers that used to be covered by companies as part of on-the-job employee development" (Editorial Board, The New York Times, 2013, p. 2).

For over 15 years, experts from a host of disciplines have warned us of the hazards and pitfalls inherent in the current U.S. economy. Again, they are too numerous to document in this paper. One noted economist – Robert Reich, former Secretary of Labor in the Clinton administration and currently the Chancellor's Professor of Public Policy at the University of California-Berkeley – continues to urge leaders from business, education and government to engage in an active dialogue that results in accountable outcomes (Reich, 2013). Inexplicably, his recommended topics for this dialogue seem to have fallen on deaf ears.

At the present time, typical views of our economic condition, ranging from local to international news outlets, describe our "Robin-Hood-in-reverse economy" (Warren, 2013, p. 13), in which the rich now steal from the poor, to our "Downton Abbey Days" (Gerard, 2013), a reference to the popular British television series in which the rich stay rich and the poor stay servants. These and other pundits who underscore the problems rather than viable solutions certainly will exacerbate deeper apathy and complacency within many Americans, most of whom want – and desperately need – genuine change.

In summary, these authors recommend that *simultaneously* unified, actionable, and quantifiable commitments are required from private industry, government, and, ultimately, our citizenry at large. While the education sector needs reform, it does not create, enact, and enforce policy; only our government and, by extension, the business sector can do so. Although this may sound daunting, it is unthinkable to believe otherwise.

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