M&B News Update

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At the August meeting of the Federal Open Market Committee (FOMC), the policymakers will discuss potential actions to stimulate the economy further. The policymakers are concerned that the economy may have stalled out in the middle of the year. With shaky economies in Europe potentially spilling over to hurt U.S. exports and panic investors, there is some danger that the U.S. economy could head into another recession. The FOMC is thought to be considering additional quantitative easing (buying bonds in the open market) to reduce long-term interest rates or more credit easing (changing the composition of its portfolio so that it would sell Treasury securities and buy more mortgage-related securities) to reduce mortgage interest rates in support of the housing market. An extreme policy change would be for the FOMC to try to increase inflation temporarily, in the hope that doing so would reduce real wages in the economy to increase the demand for workers and thus employment. Some Keynesian macroeconomists, such as Christina Romer, who had been the chair of President Obama's Council of Economic Advisers, have proposed such a step. But the classical economists worry that once inflation rises, it will be difficult to contain, and that a rise in inflation might spook investors and lead to a financial panic.

How is education related to unemployment? The U.S. unemployment rate, now at 8.2%, remains stubbornly high, and is the main concern of policymakers. (For a historical perspective, see M&B2, Figure 10.5, page 203 for a plot of the unemployment rate from 1948 to 2010.) However, the amount by which the unemployment rate increased in the latest recession is related to the education level obtained by a worker. Unemployment rose much more among those with less education. Although the overall unemployment rate is 8.2% as of June 2012, it is just 4.1% among college graduates aged 25 and up, as shown in Chart 1. For those with some college, the unemployment rate is 7.5%, while those with a high-school diploma and no college experience, the unemployment rate is 8.4%. Those who did not earn a high-school diploma face an unemployment rate of 12.6%. (Note: These data from the Bureau of Labor Statistics apply only to people aged 25 and up, so the chart does not reflect the additional difficulty in finding a job for people less than 25 years of age.)

Chart 1 underscores the importance of obtaining a college education. Although such an education does not guarantee a job or a high wage, it greatly increases the odds. And if you are a college graduate, you are much less likely to be laid off from your job in a recession, an important consideration once you own a house or start a family.

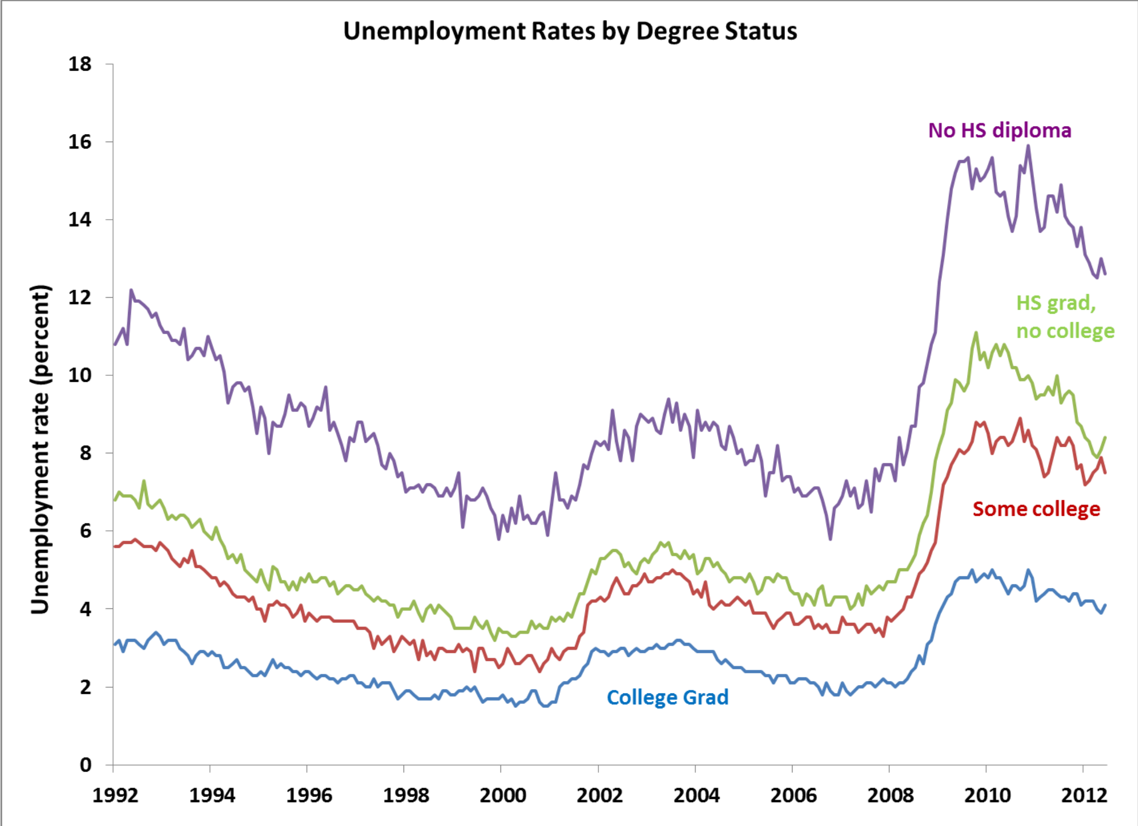

Chart 1: Unemployment rate by degree status, monthly, January 1992 to June 2012. Source: Federal Reserve Bank of St. Louis FRED database, original data from U.S. Bureau of Labor Statistics