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Hello, Young Workers: One Way to Reach the Top Is to Start There

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IT being graduation time and all, one could almost hear the seeds of an old-style "eat your vegetables" commencement address growing out of Hillary Clinton's recent comments to the United States Chamber of Commerce about the need for a better work ethic among the young.

She said that "young people today think work is a four-letter word" and "think they're entitled to go right to the top with $50,000 or $75,000 jobs when they have not done anything to earn their way up." The remarks certainly got tongue rings wagging all over the country. Senator Clinton's own daughter, Chelsea, who earns high pay while working long hours as a management consultant for McKinsey & Company, called to object that she and her friends work hard, indeed. Mom soon apologized.

Lost in the argument over whether young people today know how to work, however, is the mounting evidence produced by labor economists of just how important it is for current graduates to ignore the old-school advice of trying to get ahead by working one's way up the ladder. Instead, it seems, graduates should try to do exactly the thing the older generation bemoans — aim for the top.

The recent evidence shows quite clearly that in today's economy starting at the bottom is a recipe for being underpaid for a long time to come. Graduates' first jobs have an inordinate impact on their career path and their "future income stream," as economists refer to a person's earnings over a lifetime.

The importance of that first job for future success also means that graduates remain highly dependent on the random fluctuations of the economy, which can play a crucial role in the quality of jobs available when they get out of school. That is good news for this year's graduates, who are entering the work force with the economy growing, but rather disturbing for recent graduates who were driven by recession into taking less-than-ideal first jobs and are now aiming to work their way up.

Consider the evidence uncovered by Paul Oyer, a Stanford Business School economist, in his recent paper, "The Making of an Investment Banker: Macroeconomic Shocks, Career Choice and Lifetime Income" (National Bureau of Economic Research Working Paper 12059, February 2006. http://faculty-gsb.stanford.edu/oyer/wp/mba.pdf). Dr. Oyer tracked the careers of Stanford Business School graduates in the classes of 1960 to 1997.

He found that the performance of the stock market in the two years the students were in business school played a major role in whether they took an investment banking job upon graduating and, because such jobs pay extremely well, upon the average salary of the class. That is no surprise. The startling thing about the data was

his finding that the relative income differences among classes remained, even as much as 20 years later.

The Stanford class of 1988, for example, entered the job market just after the market crash of 1987. Banks were not hiring, and so average wages for that class were lower than for the class of 1987 or for later classes that came out after the market recovered. Even a decade or more later, the class of 1988 was still earning significantly less. They missed the plum jobs right out of the gate and never recovered.

And as economists have looked at the economy of the last two decades, they have found that Dr. Oyer's findings hold for more than just high-end M.B.A. students on Wall Street. They are also true for college students. A recent study, by the economists Philip Oreopoulos, Till Von Wachter and Andrew Heisz, "The Short- and Long-Term Career Effects of Graduating in a Recession" (National Bureau of Economic Research Working Paper 12159, April 2006. http://www.columbia.edu/~vw2112/papers/nber_draft_1.pdf), finds that the setback in earnings for college students who graduate in a recession stays with them for the next 10 years.

These data confirm that people essentially cannot close the wage gap by working their way up the company hierarchy. While they may work their way up, the people who started above them do, too. They don't catch up. The recession graduates who actually do catch up tend to be the ones who forget about rising up the ladder and, instead, jump ship to other employers.

Dr. Oyer himself never bought into the view that young people today are slackers. "Kids today," he said in an interview, "are harder working and more programmed than any kids in history." Although he is a Stanford Business School star, Dr. Oyer said, laughing, "I don't even know if I could get into college if I were competing with kids today."

His research and that of other labor economists point out that hard work is not the only thing this year's graduates ought to have on their minds. But, if these findings represent the new reality of today's labor market, what remains for aspiring commencement speakers to say? Dr. Oyer's advice to the class of 2006 is not lofty: "Try to get lucky. And also, think carefully about that first job because it can matter for the rest of your career."

That advice may not have the inspiring ring of commencement mainstays involving elbow grease, never quitting and paying dues, but it is worth considering. These days paying your dues may be a whole lot more expensive than you think.

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