

GETTING IN THE FRONT DOOR IN THE AGE OF AI: POLICIES TO HELP EARLY-CAREER WORKERS

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EXECUTIVE SUMMARY

A LOOMING THREAT TO EARLY-CAREER WORK?

Concerns are growing across advanced economies that artificial intelligence (AI) could seriously disrupt entry-level job opportunities. While aggregate employment data remains inconclusive, there are some early signs of trouble in early-career hiring, particularly in sectors with high AI exposure. If AI models automate the routine, “codified knowledge” tasks that belonged to recent graduates, traditional entry-level pipelines might be fundamentally destabilized.

THE HIGH COST OF INACTION

Weak entry-level job markets can have long-run effects. Young workers entering a low-hire economy face wage penalties, downward occupational mobility, and psychological impacts that can last for over a decade, with the worst effects concentrated among the least advantaged. In addition, a breakdown in early-career hiring threatens to hollow out future leadership pipelines for employers and significantly strain public finances through increased reliance on social assistance. Ultimately, the economic effects could translate into political risk, as a growing population of disaffected young adults threatens to accelerate the decline of trust in liberal democracies.

A POLICY PLAYBOOK FOR THE AI ERA

To prepare for potential disruption, policymakers must look beyond interventions designed for mid-career displacement. A comparative review of historical responses to early-career unemployment shocks—from Europe’s Great Recession strategies to East Asia’s vocational reforms—offers a menu of options addressing four potential entry-level market failures:

- **Matching and Screening Failures:** Job search assistance and income support to help new entrants navigate a congested market.
- **Price Barriers:** Targeted hiring subsidies, payroll tax cuts, and training wages to lower the financial risk of hiring inexperienced talent.
- **Skills and Credential Barriers:** Apprenticeships, vocational education reform, and employer training incentives to realign human capital with shifting labor demands.
- **Demand Shortfalls:** Service corps programs, government hiring, and public internships to directly absorb young workers during severe hiring freezes.

THE “NO REGRETS” PATH FORWARD

While historical interventions offer a starting point, they come with caveats. Supply-side training alone cannot compensate for a lack of employer demand, and public job creation often fails to translate into private-sector employment. Policymakers must navigate a wide spectrum of potential AI scenarios, ranging from temporary job-matching frictions to structural declines in entry-level demand. Given this uncertainty, banking on a single fix is risky, as it may solve for the wrong problem.

However, this uncertainty should not become an excuse to wait for perfect data before acting. Reforms that systematically strengthen the education-to-work bridge represent “no regrets” bets. By reimagining their education and training systems, policymakers can help young workers make better transitions into the workforce, regardless of how AI scenarios ultimately unfold.

INTRODUCTION

Across the industrialized world, concerns are growing about the future of entry-level work.

In the United States, more than half of Americans ages 18 to 29 say they see artificial intelligence (AI) as a threat to their job prospects.¹ In the United Kingdom, former Prime Minister Rishi Sunak, now an adviser to Anthropic and Microsoft, warns that AI is already “flattening the jobs market for young people.”² In global surveys, young workers are both the heaviest users of AI, but also the least confident in their job security.³

Is this fear justified?

For now, the evidence is inconclusive. The labor market has clearly cooled for young workers, especially relative to the post-pandemic hiring boom of 2021-2022.⁴ But this is happening at the same time interest rates have risen globally, more people are working from home, and tariffs and trade policies are creating uncertainty. With so many factors at play in the macroeconomy, it is difficult to isolate AI’s impact from other phenomena.

However, there are some early causes for concern.

First, we know that many advanced economies are in a “low-fire, low-hire” environment, where employers are avoiding mass layoffs but significantly reducing hiring due to economic uncertainty.⁵ Younger workers are disproportionately impacted in this context because they are structurally dependent on new hiring to enter the workforce.⁶

Second, there are some signs that traditional entry-level tasks, particularly in office-based white-collar work, might be especially vulnerable to AI disruption.

Because large language models (LLMs) are trained on written text, they excel at replicating “codified knowledge”—exactly the type of textbook learning and formal rules that young graduates traditionally bring to their first full-time jobs.⁷ In contrast, younger workers are typically much shorter on the “expertise and judgment” that has so far proven more augmentative and harder to displace.

Finally, AI models are improving so quickly that today’s data may not be predictive of the future. Studies that look at past models could be a lagging indicator of disruption still to come.⁸

In the most pessimistic scenarios, the entry-level pipeline breaks down. Firms slow junior hiring, increase experience requirements, and redesign their workflows to reduce the training investments that once were ubiquitous in early-career roles.

To be clear, this outcome is far from inevitable. AI’s impact on jobs is not preordained. Its effects will very much depend on how firms choose to adopt the technology and redesign work. However, I argue that the risks are significant enough to look beyond “wait-and-see” and towards potential strategies.

In global surveys, young workers are both the heaviest users of AI, but also the least confident in their job security.

OVERVIEW

If these early-career disruptions do appear significant, how should policymakers prepare to respond?

- 1 In this paper, I **first** review the evidence to date on whether and how AI is affecting entry-level jobs (Part I).
- 2 **Second**, I step back to examine why young workers merit particular focus in an AI transition (Part II).
- 3 **Third**, I scan what prior economic shocks can teach us about the costs of entering the labor market during a challenging hiring environment (Part III).
- 4 **Fourth**, I survey the policies that governments have used in the past to help young people connect to work to inform the option set for the AI era (Part IV), and **then** assess how well that evidence translates to a structural, AI-driven disruption (Part V).

Building on this history, I argue that governments need a distinct playbook for early-career workers, rather than recycling strategies intended for mid-career displacement. The right policy tools will depend largely on the answers to two key questions:

- Is the weakness in the labor market for new entrants a **short-term, more cyclical downturn**, or a **longer-term structural shock**?
- Is the problem a **mismatch** between available jobs and young people's skills and interests, or a **demand shortfall**, with too few entry-level opportunities overall?

Depending on the diagnosis, policy priorities should shift. Helping young people adapt to structurally different economy and labor market likely implies different tools than the ones that help recent graduates survive a temporary downturn.

Finally, however, policymakers need not wait for perfect clarity to act. Identifying no-regrets policies that help improve education-to-work transitions is likely to pay dividends, regardless of how the AI transition ultimately unfolds.

A NOTE ON SCOPE

- This paper is ***focused on advanced economies***. The implications of AI may look very different in developing economies.
- Even within advanced economies, diverse ***institutional contexts*** (e.g., union density, labor market flexibility) will significantly affect how an AI shock materializes and, thus, the appropriate policy response.
- This paper is focused on ***potential responses from government*** to AI disruption. Public policy can play an important role in shifting incentives or addressing market failures. While the decisions of firms and educational institutions will be equally (if not more!) important in shaping labor market outcomes, they are largely beyond the scope of this paper.
- This paper focuses on ***education and labor market interventions***. While other policies also affect early-career workers—housing affordability, for instance, can act as a barrier to job access—these policies are outside the scope of this analysis.

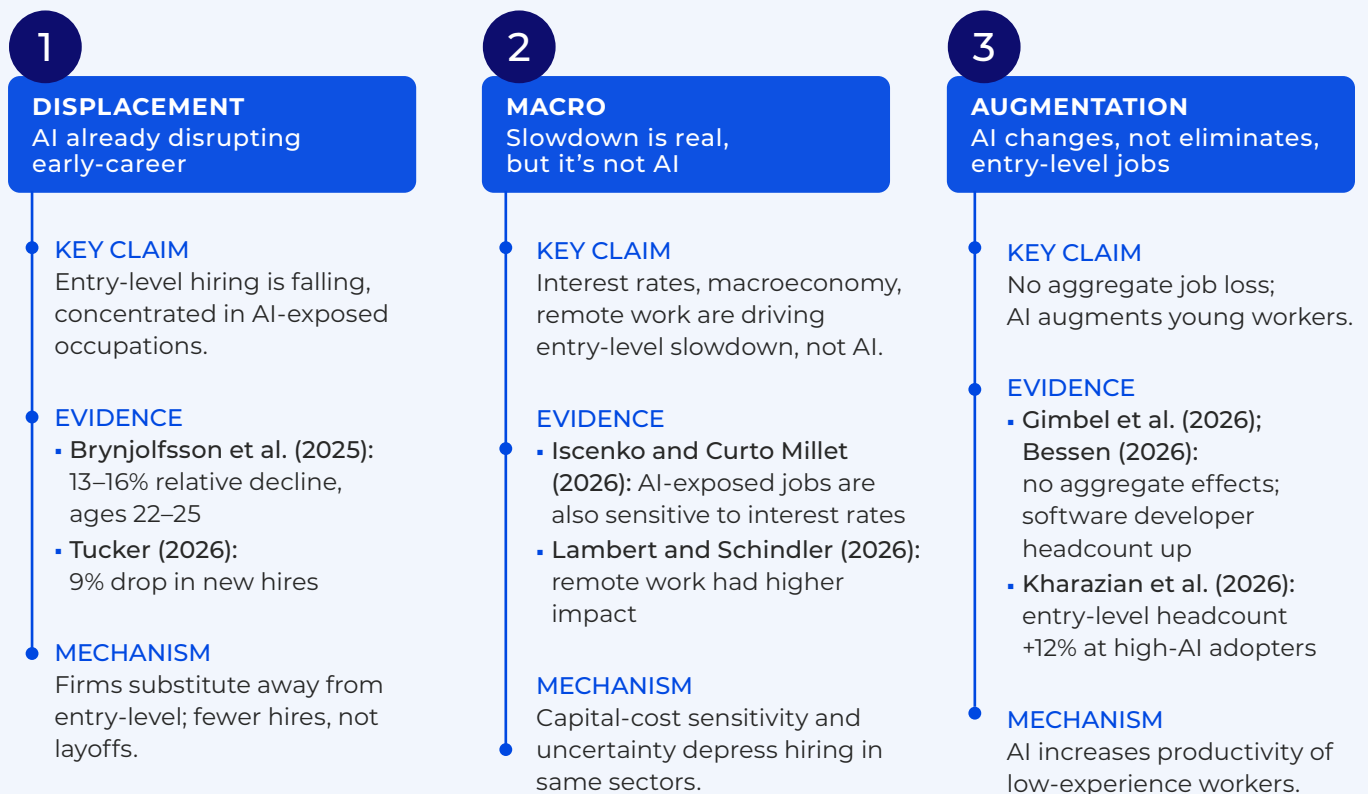


PART 1

**THE EVIDENCE:
IS AI ALREADY
AFFECTING
ENTRY-LEVEL
WORK?**

In this section, I characterize **three prominent but differing views** from the literature and summarize the best arguments for each claim. In my read, the data is still inconclusive. Early-career hiring appears to have slowed since 2022 in many advanced economies, including in sectors with high AI exposure, but researchers disagree about the causes and whether current trends will persist.

Figure 1:
Three views on AI and the entry-level slowdown.



VIEW 1

“AI IS ALREADY DISRUPTING EARLY-CAREER PATHWAYS.”

The disruption premise: a weakening entry-level labor market

In the U.S., labor market conditions for recent college graduates have worsened across a few key metrics. According to the NY Federal Reserve, unemployment for early-career graduates (ages 22-27) reached a three-year high of 5.7 percent in the fourth quarter of 2025.⁹ The unemployment rate for workers under 35 with a master’s degree has spiked to its highest levels in twenty years, and now this population has a higher unemployment rate than young adults with an associate’s degree.¹⁰ Simultaneously, the rate of underemployment—graduates working in jobs that do not require a college degree—has risen to 41.5 percent, or its highest level since 2020.¹¹

The volume of entry-level opportunities has also fallen substantially from the post-pandemic peak. Job postings on Handshake (a U.S. campus-focused job platform) are 50 percent below their 2022 peak, and dropped 15 percent to 16 percent year-over-year between August 2024 and August 2025.¹²

On Indeed, junior-level job postings fell 7 percent year-over-year in 2025, and internship postings ended the year at their lowest levels since 2020.¹³ LinkedIn data from July 2025 also found that U.S. entry-level hiring has declined 24 percent compared to pre-pandemic levels—though overall hiring has fallen by a nearly identical 23 percent.¹⁴ As openings have declined, competition for the remaining roles has intensified. For instance, the average internship posting on Handshake received 109 applications in the 2024–25 school year, up from 43 in 2022–23.¹⁵

Data from Revelio Labs similarly show entry-level postings falling roughly 35 percent between January 2023 and mid-2025, with postings for the most AI-exposed entry-level roles declining fastest—more than 40 percent—even as demand for senior versions of the same roles held up.¹⁶

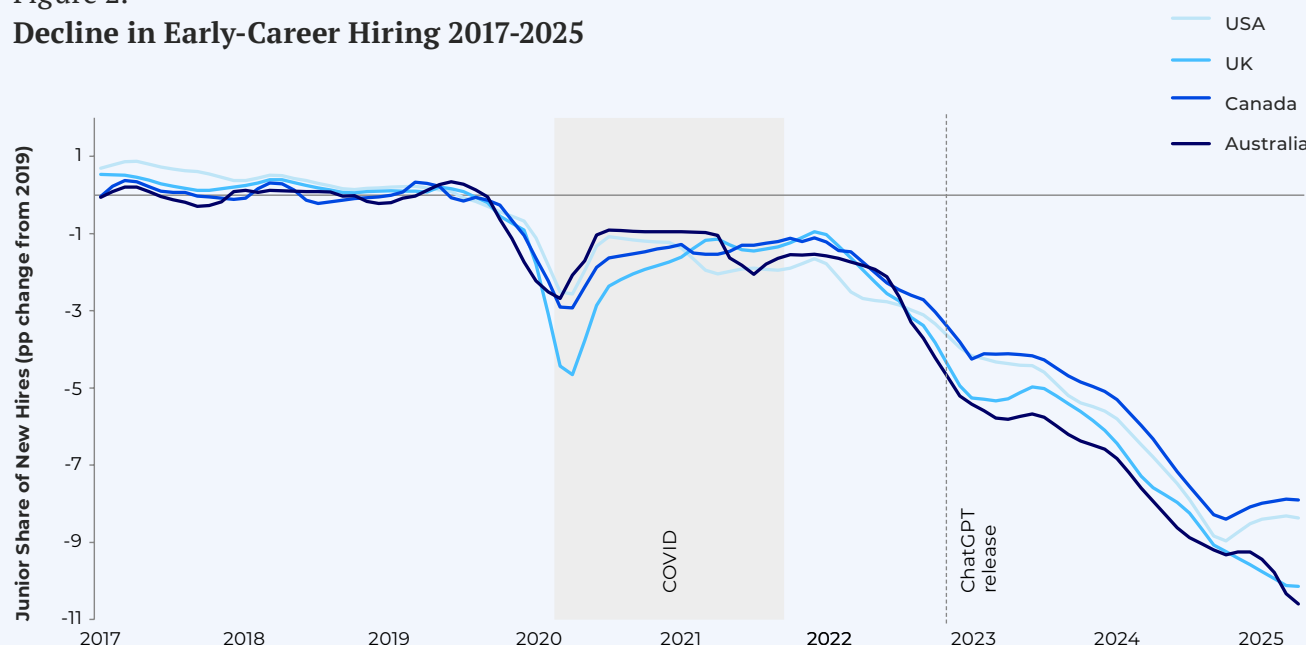
Revelio Labs finds the class of 2025 fared especially poorly—only about 37 percent of graduates started a job the same year they finished their degree and real starting wages were the lowest in years.¹⁷

Similar pressures are visible in some other advanced economies, though the evidence is uneven. In Singapore, just 74 percent of 2025 university graduates in the labor force secured full-time employment, down from 88 percent for the 2022 cohort, while the share unemployed and actively searching more than tripled from 3 percent to 11 percent.¹⁸ Canada and the United Kingdom have also seen signs of weaker entry-level labor markets.¹⁹ There does appear to be heterogeneity, however. For instance, Japan is still reporting strong new graduate hiring, in part due to demographic pressures.²⁰



In the U.S., labor market conditions for recent college graduates have worsened across a few key metrics.

Figure 2:
Decline in Early-Career Hiring 2017-2025



Source: Reproduced from Figure 1 in Lambert and Schindler (2026) “The Broken Ladder: AI, Remote Work, and Early-Career Hiring” (SSRN Working Paper No. 6787638) Underlying data provided by Revelio Labs. Notes: Values are approximate, extracted via digitization from the original publication’s Figure 1. Shaded band marks the COVID-19 pandemic; vertical line marks the public release of ChatGPT (November 2022). Authors define “junior hiring” as the share of new hires classified in the bottom two of Revelio Labs’ seven seniority tiers (Entry-Level and Junior), assigned from job title and the worker’s prior résumé history.

The disruption evidence: linking hiring declines to AI exposure

To make the strongest case for immediate disruption, proponents point to the 2025 Stanford “Canaries in the Coal Mine” study, which is the most prominent academic work to date finding evidence of AI displacement for young people. Brynjolfsson, Chandar, and Chen analyze individual-level payroll records for millions of U.S. workers through ADP, the largest payroll software provider in the United States. They find that since ChatGPT’s release in late 2022, early-career workers ages 22 to 25 in the most AI-exposed occupations, including software development and customer service, saw a 13 to 16 percent relative decline in employment. Employment for older, more experienced workers in the same occupations held steady or grew, suggesting that firms may be substituting away from junior labor while retaining senior talent.²¹

The study’s most AI-specific contribution is its exposure measure. The authors compare employment trends with Claude usage data, separating occupations where AI mainly automates tasks, such as coding or auditing, from those where it mainly augments workers. The decline among young workers is concentrated in occupations with high AI exposure. In more augmentative occupations, employment of younger workers increased.

The mechanism is fewer entry-level hires, not widespread layoffs

The early-career effect appears to be showing up through reduced hiring, not mass layoffs. Using matched employer-employee data from the Census Bureau’s Quarterly Workforce Indicators, Tucker (2026) finds an immediate 9 percent drop in new hires for workers ages 22 to 24 in the most AI-exposed industries within states after ChatGPT’s release.²² The study also finds that AI-exposed firms became less likely to replace departing older workers with young workers.

VIEW 2

“THE ENTRY-LEVEL SLOWDOWN IS REAL, BUT AI IS NOT THE MAIN CAUSE.”

The macro premise: AI-exposed sectors are also highly sensitive to interest rates

Those who counter the AI disruption narrative emphasize that macroeconomic tightening, rather than technology, catalyzed the slowdown. Iscenko and Curto Millet (2026) show that many of the occupations in the top category of AI exposure are concentrated in information, finance and insurance, and professional and technical services. These specific industries are precisely the sectors most sensitive to capital costs and broad economic uncertainty.²³ Zens, Böck, and Zörner (2020) find that workers with easily automated tasks are also disproportionately affected by conventional monetary policy shocks.²⁴ One story that could be consistent with this is tech companies’ own acknowledgment that they “overhired” during the 2021-2022 period when interest rates were low, then had to change course when rates rose and demand slowed.²⁵ That would show up as a decrease in entry-level hiring.

The entry-level job market was already getting worse before ChatGPT

The Federal Reserve began raising interest rates in March 2022, and job postings in the highest AI-exposure occupations appear to have peaked around March and April 2022, several months before ChatGPT’s release.²⁶ Some analyses find that postings in these occupations had already started falling in spring 2022.²⁷

A longer-running trend may also be at work. Cline and Kaymak find that job-finding rates for young college graduates in the U.S. have been declining since around 2000, as labor demand shifted from college-biased to more education-neutral growth in labor demand. They argue that the recent narrowing of the unemployment

gap between young college and high school graduates reflects an erosion in college graduates’ relative job-finding advantage, not just post-pandemic conditions or AI.²⁸

Confounding variables: remote work and policy headwinds

A third possibility is that AI exposure is picking up other changes that make employers less willing to hire entry-level workers. Lambert and Schindler (2026) show that remote work is highly correlated with AI exposure. They argue that remote work, which makes it harder to supervise, mentor, and train early-career employees, may be the stronger explanation for slowed hiring.²⁹

Furthermore, proponents of this view argue that other macroeconomic factors cannot be discounted. For instance, in the United States, tariffs and broader macroeconomic uncertainty may also be encouraging firms to delay hiring. In the United Kingdom, recent tax and minimum-wage increases, as well as recent changes to employment protections, may also be weighing on hiring. Some employer groups argue these changes have a disproportionate effect on young workers, because firms will be less willing to take a chance on inexperienced hires.³⁰

VIEW 3

“AI MAY CHANGE ENTRY-LEVEL WORK MORE THAN ELIMINATE IT.”

Aggregate evidence does not yet show overall job loss

Those taking a more optimistic view highlight that, to date, the evidence for broad employment losses remains limited. Gimbel, Kinder, Kendall, and Lee (2026), for instance, find no discernible change in aggregate U.S. employment trends since the release of ChatGPT.³¹ Hartley et al. (2024) similarly find no significant aggregate employment effects from AI exposure, and some wage gains in exposed occupations.³²

New firm-level evidence is emerging to support this view. Linking AI vendor payments in Ramp’s corporate spending data to Revelio Labs workforce records for more than 21,000 U.S. firms, Kharazian, Simon, and Stevens (2026) find that firms making the largest AI investments grew total headcount by roughly 10 percent in the two years after adoption, with entry-level headcount rising 12 percent.³³

Some highly exposed jobs have continued to grow

In addition, proponents of this view point out that exposure does not equal displacement. Bessen (2026) finds that U.S. software-developer headcount has actually grown since ChatGPT’s release.³⁴ Data from the UK’s Annual Population Survey also finds that a high “AI exposure” score does not equal job loss; in fact, several of the most highly exposed occupations are booming. Since 2021, the UK has seen the number of IT business analysts grow by 38 percent and programmers grow by 18 percent.³⁵

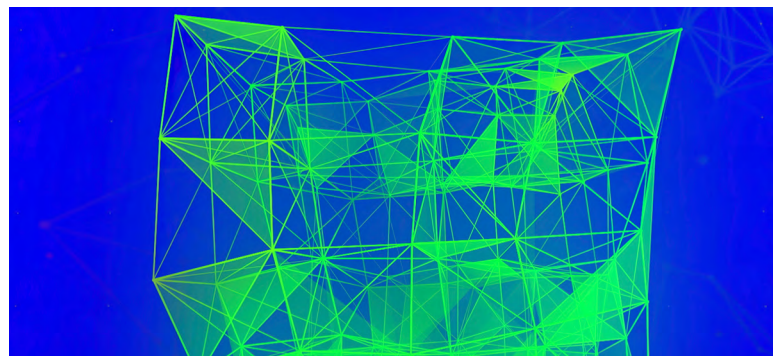
One reason researchers suggest highly exposed jobs can keep growing is that automation does not only substitute for labor; it can also lower costs and prices, improve quality, and enable new and better products. As Bessen

argues, when demand is “elastic” enough, productivity gains can increase total employment even as less labor is needed per unit of output.³⁶ In software, AI may make individual developers more productive while also expanding the amount of software customers want to buy. The concern for entry-level workers is that firms may meet that demand by equipping experienced workers with AI tools rather than hiring as many junior workers.

The augmentation argument:

AI accelerates learning and lowers barriers to entry

Rather than replacing junior talent, some literature suggests AI could actually augment young workers because the technology helps less-experienced workers become productive faster.³⁷ In a field experiment with customer-support staff, Brynjolfsson, Li, and Raymond (2025) find that a generative AI assistant increased productivity the most for low-experience workers.³⁸ Studies of software developers and professional writing tasks have found similar patterns. AI tools often improve speed and output quality, with especially large gains for workers with less experience.³⁹ There is also some evidence that AI can lower the barriers to acquiring knowledge itself, opening routes to expertise that may depend less on landing a traditional first job.⁴⁰





WHAT TO WATCH:

BEYOND THE UNEMPLOYMENT RATE

The headline unemployment rate alone may not be the best way to track AI's impact on entry-level work. Other indicators policymakers should watch:

→ ***Underemployment:***

Are graduates crowding into non-degree jobs?

Headline unemployment rates may be misleading if college graduates are avoiding joblessness by accepting jobs that don't require a bachelor's degree.

When this "occupational downgrading" occurs, it creates "cascade" effects.⁴¹ During the Great Recession, for example, graduates took relatively high-paying office, sales, and information-processing roles that don't require a degree.⁴²

As overqualified candidates move down the ladder, they push less-credentialed workers out of lower-level roles.⁴³

→ ***Labor Force Participation Rate (LFPR) and Not in Employment, Education or Training (NEET):***

Are young adults opting out?

Unemployment rates only count active job seekers. When there is a weak job market, young people may "shelter" in education to wait out the shock. Others may grow discouraged and stop looking for work.

LFPR and NEET rates better capture this disconnection and the true number of young people sitting on the sidelines.⁴⁴

→ ***Task composition: Are the foundational skills of entry-level jobs changing?***

Many of the most immediate AI disruptions will show up in the nature of the work rather than the number of jobs. Policymakers should monitor shifts in skill requirements within job postings and occupational surveys.

PART 2 **THE STAKES:
WHY FOCUS
ON YOUNG
WORKERS?**

The evidence that AI is weakening entry-level pathways remains unsettled. But the downside scenario matters because the first job is not just a paycheck. It is where young workers build experience, get matched to employers, learn workplace norms, and begin moving up the career ladder.

2.1. THE FIRST DECADE OF WORK IS A CRITICAL PERIOD FOR CAREER ADVANCEMENT

Topel and Ward (1992) find that roughly two-thirds to 80 percent of lifetime wage growth occurs in the first decade, driven largely by “job-shopping”—young workers moving between employers to find better matches.⁴⁵ Schwandt and von Wachter (2019) similarly emphasize that early mobility is how young workers build experience and move toward better-paying firms.⁴⁶

2.2. WEAK ENTRY CAN HAVE LONG-LASTING EFFECTS

Economists call the damage caused by a poor labor market entry “scarring.” Starting out in a bad labor market can have long-run effects on earnings, job quality, and career progression. Workers who enter the job market during economic downturns often begin at lower-paying or lower-quality employers, then spend years trying to move back onto a better trajectory.⁴⁷

Oreopoulos, von Wachter, and Heisz (2012) document earnings losses for “unlucky cohorts” of graduates take up to ten years to fade out.⁴⁸ Kahn (2010) finds even longer-lasting wage effects for college graduates entering in a bad economy.⁴⁹

Schmillen and Umkehrer (2017) show that poor early-career matches and early unemployment can shape later outcomes through lower-quality jobs and reduced mobility.⁵⁰ Mroz and Savage (2006) find that even a six-month unemployment spell at age 22 can depress wages into workers’ early thirties.⁵¹ Gregg and Tominey (2005) find similar long-term scarring in the United Kingdom. Even after controlling for education, region, family background, and personal characteristics, a year of unemployment at age 22 is associated with substantially lower wages two decades later.⁵²

2.3. AN AI SHOCK MAY FALL HARDEST ON YOUNG PEOPLE WITH THE FEWEST BUFFERS

Historically, the long-term costs of graduating into a bad economy are very unequal. Tracking Canadian college graduates over twenty years, Oreopoulos, von Wachter, and Heisz (2012) find that the least advantaged graduates suffer cumulative earnings losses over their first ten years almost double those of the median graduate, and more than four times those of the most advantaged graduates.⁵³

This persistent penalty is driven by a lack of upward mobility.⁵⁴ When more advantaged young people need to accept “worse” first jobs in a bad economy, they typically catch up within two to four years. They do so by aggressively “job-shopping” and moving to better firms once the market recovers. Less-advantaged graduates are less likely to make those moves. They become permanently “down-ranked” to lower-paying employers and sectors, with fewer opportunities to move up when the economy recovers.⁵⁵

2.4. THE COSTS OF HIGH EARLY-CAREER UNEMPLOYMENT SPILL OVER TO FIRMS AND SOCIETY

First, companies may suffer long-run from the lack of entry-level hiring. The lack of pathways into senior expertise could hollow out the future leadership pipeline and potentially depress longer-term productivity.⁵⁶ Luis Garicano, Jin Li, and Yanhui Wu (2026) argue that AI creates a “supervision threshold” between the routine tasks AI is very good at and higher-level tasks that require human judgment. Junior employees historically built judgment by performing routine tasks that also produced value for the firm. If AI absorbs that work, the economics of entry-level training may shift for the worse for firms.⁵⁷ But if firms stop producing entry-level roles, they also stifle the mentoring and exposure that makes those junior employees valuable senior employees later on.

Second, there are significant public fiscal costs that firms typically do not internalize when they cut entry-level hiring.⁵⁸ When young people aren’t working, they pay less in taxes and are more likely to claim public assistance. In the U.S., young people who graduate into a bad labor market rely on SNAP (food stamps) and Medicaid at higher rates.⁵⁹ The scale of this drain is substantial. During the Great Recession, Eurofound estimated that the immediate public costs associated with high levels of young people not in school or work reached 153 billion Euros (1.2 percent of GDP) by 2011.⁶⁰ That estimate doesn’t include the costs of permanently lower labor market attachment over these workers’ careers, meaning the true lifetime cost to the taxpayer is significantly higher.

Third, there are societal and long-term human costs that extend beyond the economic sphere. Unemployment does more than reduce output and erode skills. It is strongly associated with worsened mental and physical health, including higher risks of depression, suicide, and lower life expectancy. Goldsmith, Veum, and Darity (1997) find that early-career joblessness creates persistent feelings of helplessness and lower self-esteem—psychological scars that can endure for years.⁶¹ Youth unemployment is also associated with higher crime rates, especially property crime.⁶² The literature hints at a vicious cycle, where early joblessness raises the probability of later unemployment and can permanently depress income later in life.⁶³

2.5. THE FORTUNES OF YOUNG WORKERS MATTER FOR DEMOCRACY

Leaders often assume that younger workers will be able to adapt to technological change, and in many cases, they do. But history also offers cautionary tales of what happens when there is widespread unemployment or underemployment among young adults. It is a threat not just to their own well-being, but to social stability at large.

A generation that perceives diminished economic opportunities is also a political risk. In many of the world’s liberal democracies, trust in democratic institutions is already declining among younger demographics. Society’s failure to deliver on the promise of good jobs is likely to only accelerate civic disillusionment.

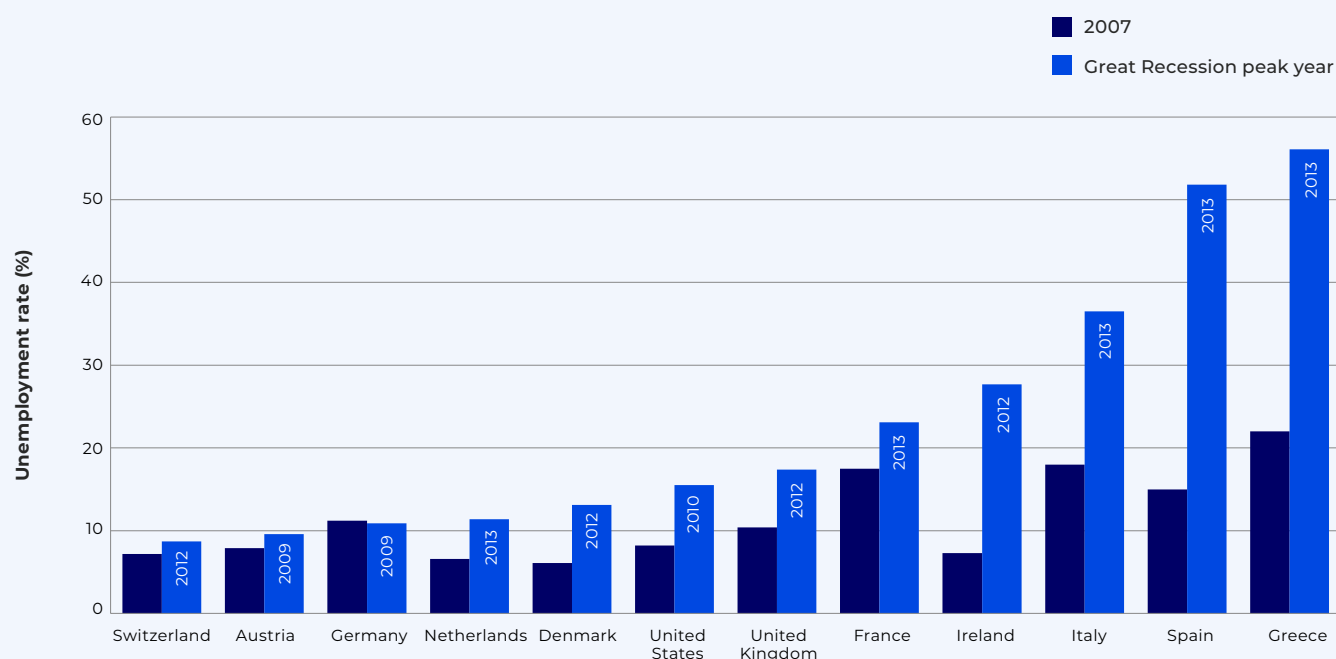
PART 3 LEARNING
FROM PRIOR
ECONOMIC
SHOCKS

To evaluate the policy toolkit available for a severe entry-level disruption, I turn to lessons from past economic downturns. Many observers point to the post-1960s decline in manufacturing employment in many industrialized economies as a parallel to the AI moment. The “China Shock”—when American manufacturers faced a surge in import competition after China joined the World Trade Organization—has become a particularly salient comparison. However, this analogy has significant limitations. The China Shock primarily displaced incumbent workers in manufacturing communities, resulting in highly uneven effects across regions and demographics.

3.1. THE GREAT RECESSION WAS THE LAST CRISIS FOR ENTRY-LEVEL WORK

For an entry-level AI shock, the Great Recession is a more interesting precedent. The Great Recession was characterized by a widespread decline in hiring that hit young labor-market entrants especially hard. Across the OECD, youth unemployment among 15-24 year olds reached nearly 19 percent by the end of 2009, a six-point rise in two years. In the EU, the youth rate climbed from 15.7 percent in 2007 to 23.4 percent in 2013, exceeding 50 percent in Greece and Spain.⁶⁴

Figure 3:
**Changes in Early-Career Unemployment
(Ages 20-24) During Great Recession**



Source: OECD.

Figure 3 shows unemployment rates for the 20-24 cohort across selected OECD countries, comparing 2007 with each country's recession peak. Rates rose almost everywhere, but the spike varied widely, with more modest effects across much of northern Europe, and much higher increases in the south.

The breadth and scale of the downturn also produced an unusual amount of policy experimentation. With young people bearing a disproportionate share of the losses, governments tried a wide range of targeted interventions. For instance, in 2013, the EU adopted a bloc-wide “Youth Guarantee,” which committed member states to offer every young person a job, apprenticeship, traineeship, or continued education within four months of leaving school or becoming unemployed.⁶⁵

The following section categorizes and reviews some of the key interventions tried during this period to distill lessons for the future.



An AI-driven transition will differ from the Great Recession in fundamental ways.

3.2. HOW AN AI SHOCK WILL DIVERGE FROM THE GREAT RECESSION

Despite these parallels, an AI-driven transition will differ from the Great Recession in fundamental ways. The Great Recession was primarily a demand-side shock triggered by a financial crisis. Households and firms spent less, businesses stopped hiring, and unemployment rose. But once the economy recovered, many of the same kinds of jobs returned.

By contrast, most observers expect AI to trigger a structural transition, meaning it will fundamentally transform the nature of work.⁶⁶ While this transformation could initially present in cyclical forms—much like the 1990s Dot-com bubble, which saw speculative over-hiring followed by a sharp correction—the underlying technology will permanently alter the economy long after the immediate boom-and-bust cycle subsides.

The industries and workers most exposed to AI are also likely to be different. The Great Recession hit construction, manufacturing, finance, and other cyclical sectors especially hard, and workers without a college degree were disproportionately affected.⁶⁷ Conversely, early AI exposure measures tend to point toward white-collar office roles: software, customer support, administrative support, marketing, legal research, analysis, writing, and other information-heavy work.⁶⁸ Many of these jobs are in sectors that historically required higher levels of postsecondary education and offered pathways into high-paying careers.

Finally, the mechanism of disruption may also look different. The Great Recession featured mass layoffs, firm closures, and a broad collapse in hiring. At least so far, the concern with AI and early-career has been less about young people being laid off *en masse* and more about fewer new workers being hired.

PART 4

**A POLICY
MENU
FOR AN AI
SHOCK**

This section draws on past interventions to map the policy tools that could help early-career workers weather an AI-related disruption to entry-level work. Rather than propose a single, one-size-fits-all solution, the goal is to illuminate which tools best fit the different incarnations of a disrupted market. When evaluating these options, we must keep in mind the reality that job transitions happen constantly. For instance, in the U.S. labor market alone, roughly 5 million workers are hired and 5 million leave every month, mostly voluntarily.⁶⁹ Consequently, policymakers must navigate the risk of deadweight loss—subsidizing employment outcomes that would have happened anyway.

Figure 4 organizes the policy menu around four potential market failures:

1. MATCHING AND SCREENING FAILURE

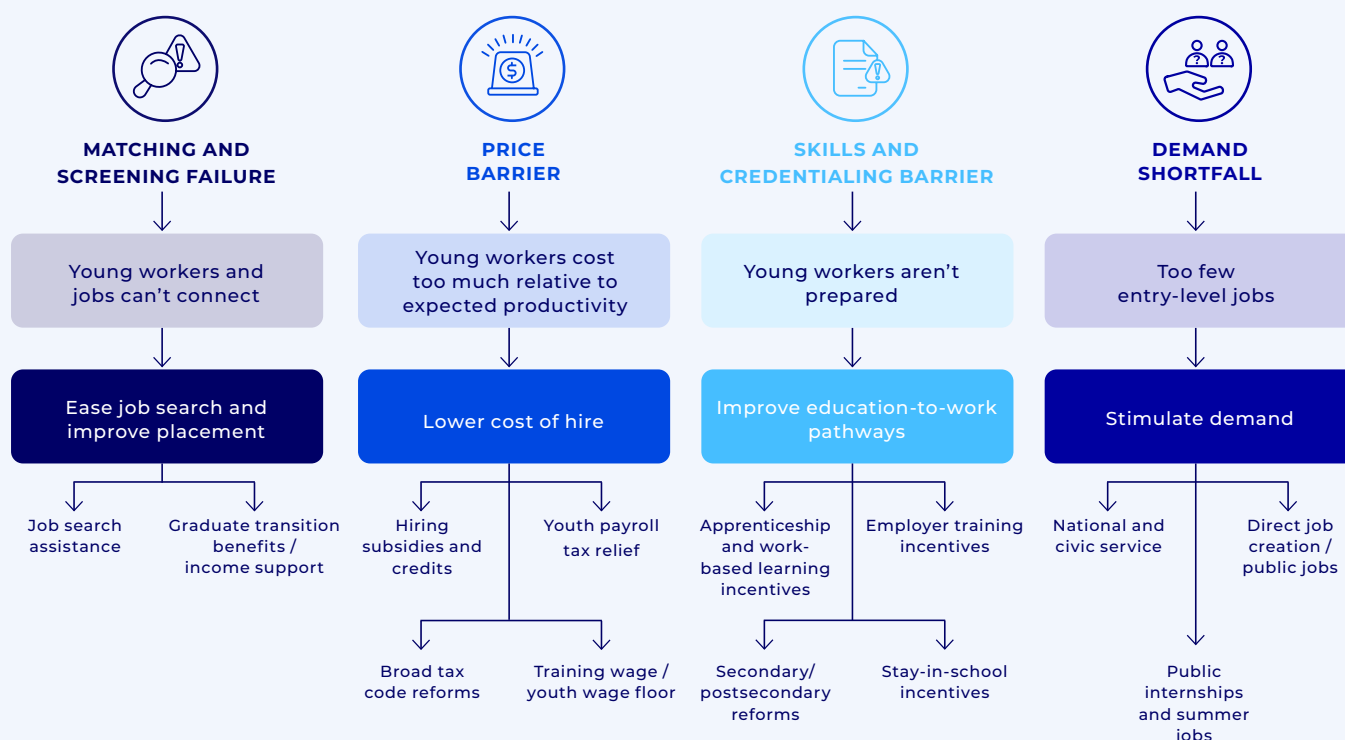
2. PRICE BARRIER

3. SKILLS AND CREDENTIALING BARRIER

4. DEMAND SHORTFALL

If and where these conditions do materialize, each could call for a different policy response.

Figure 4:
What could constrain entry-level hiring in an AI shock?





MATCHING AND SCREENING FAILURE

Response: ease job search & improve placement

4.1. POLICY OPTIONS TO ADDRESS ENTRY-LEVEL WORK IN THE AGE OF AI

These policies assume enough job openings will exist and that the key challenge is helping young people connect to them. If deployed effectively, AI itself could help jobseekers and employers better connect. However, AI could also make matching harder, by flooding employers with huge numbers of applicants and making it hard to screen serious, qualified candidates from the pool (*congestion externality*).

JOB SEARCH ASSISTANCE, PLACEMENT, AND COACHING

BEST CASE

Among the lower-cost active labor market policies; generally produces positive short-run effects.⁷⁰

RISKS

May help the individuals who receive extra search support at the expense of the others who don't—changing who gets hired rather than adding net-new jobs (*general-equilibrium effects*).⁷¹ Less effective during bad labor markets and for long-term unemployed youth.⁷²

PAST EXAMPLES

Intensive counseling with private providers (France).

During Great Recession, young graduates (18–30, 2+ years of higher education, 6+ months without stable work) were referred to private and nonprofit agencies for up to one year of intensive counseling. Providers were paid partly on outcomes (placement, still employed after six months; incentives up to ~€2,100 per person). Evaluation found gains for participants came partly by displacing other jobseekers who didn't receive the services.⁷³

Youth Work Plan (Belgium). Fast-track support system for unemployed under age 25: public-sector caseworkers contacted young jobseekers early and met with them intensively (rather than waiting for long unemployment spell). Began in 2008 with low-educated youth in major cities and expanded in 2009 to all jobseekers under 25.⁷⁴

Co-located American Job Centers (US). Public employment services located on community college campuses (e.g., West Los Angeles College; City Colleges of Chicago), may help connect students and recent graduates to internships and employers.⁷⁵

INCOME SUPPORT FOR NEW ENTRANTS (“TRANSITION BENEFITS”)

BEST CASE

In downturns, good matches take longer. Transition benefits give liquidity-constrained graduates time to find a better first job instead of getting stuck in a low-paying or temporary role.⁷⁶ They may also help counter discouragement during a challenging search.

RISKS

Could incent staying unemployed—though recent European eligibility changes have not shown this effect.⁷⁷

PAST EXAMPLES

“Graduate Rate” (Denmark). In 2009, Denmark started allowing students to enroll in its unemployment insurance system during their studies, bypassing traditional work history requirements to claim benefits right after graduation.⁷⁸

Unemployment insurance (UI) modernization (US).

Recent graduates in the U.S. today are largely not eligible for UI, but the Wyden-Bennet UI reform bill (2023) proposed the creation of a “jobseekers’ allowance.” During the Great Recession, some states reformed UI eligibility so part-time work during school could count toward benefits, but opportunities to close coverage holes still exist.⁷⁹



PRICE BARRIER

Response: Lower the cost of hire

These policies assume young workers cost too much relative to their productivity. If AI automates routine tasks, this could break the financial model for entry-level hiring.⁸⁰ Lowering hiring costs may lead firms to employ more entry-level workers at the margin. Temporary incentives assume hiring will pick back up after the shock; permanent changes assume AI has fundamentally shifted entry-level hiring and aim to shift firms' hiring structure for the longer-term.

HIRING SUBSIDIES FOR YOUNG WORKERS (TAX CREDITS & WAGE SUBSIDIES)

BEST CASE

Offset early productivity costs and create “stepping stone” jobs that build experience for the unsubsidized market.

RISKS

May subsidize jobs that would have existed anyway, shift opportunities away from other workers; gains may disappear after subsidy ends; high fiscal cost per job created.

PAST EXAMPLES

Future Jobs Fund (United Kingdom). Introduced in 2009 as part of the response to the financial crisis, FJF targeted 18–24 year olds who had been unemployed for at least six months. The government provided up to £6,500 per job to organizations, mainly in local government and non-profit sectors, to create temporary, wage-subsidized roles. Policy required that the jobs be strictly “additional,” last a minimum of six months, offer at least 25 hours of work per week at the minimum wage, and provide a tangible benefit to the local community. The program placed over 105,000 young people into jobs at ~£680 million before it closed in 2010. Two years after starting, participants were about 11 percentage points more likely to be in unsubsidized employment. A revised version was reintroduced during COVID.⁸¹

PAYROLL TAX CUTS FOR YOUNG WORKERS

BEST CASE

Lowers the cost of hire at the margin without lowering wages; automatic administration through the tax system enables near-universal take-up; longer-term policies can shift hiring norms toward early-career talent.

RISKS

Employers may capture the gains by raising wages; higher fiscal cost than targeted hiring subsidies.

PAST EXAMPLES

Youth payroll tax cut (Sweden). From 2007–2015, Sweden implemented a large, broad-based payroll tax cut in employer social security contributions for workers age 19–26, from ~32 percent to 21 percent in 2007, then reduced again to ~15 percent after the onset of Great Recession. The program achieved near-universal take-up. Early evaluations of the policy found fairly modest effects at a high cost-per-job, but later research found more encouraging effects when looking at firms directly. Businesses that saved more on labor costs tended to hire more, including some workers outside the targeted age group.⁸²



TAX CODE REFORMS

BEST CASE

Rebalance a tax system that favors software and equipment over human capital, reducing firms' incentive to automate. Most relevant if the shock is structural.^{83,84}

RISKS

Blunt instrument that may not reach young workers; raising corporate or capital gains taxes may deter productivity-enhancing investment.

PAST EXAMPLES

No specific precedent; most proposals focus on the corporate tax code. Acemoglu et al. 2020 find that the U.S. taxes labor far more heavily than capital (effective labor tax >28.5 percent vs. ~5 percent on equipment/software), and taxing them more evenly could increase employment by ~4 percent.⁸⁵

TRAINING WAGE (YOUTH MINIMUM WAGE)

BEST CASE

Encourages employers to take a chance on the youngest, least-experienced workers; can encourage part-time work during school.⁸⁶

RISKS

Could substitute for older workers, or lower young workers' pay without increasing employment.

PAST EXAMPLES

Youth minimum wage (Netherlands). Rather than implementing a universal minimum wage across age groups, the Netherlands sets a tiered youth minimum wage, calculated as a percentage of the adult minimum wage, by age (starting from ~30 percent at age 15, to ~80 percent at age 20). The policy has often been cited as a contributor to low Dutch youth unemployment. However, when the Netherlands raised minimum wages for 20–22 year olds in 2017, there was no negative effect on jobs or hours.⁸⁷





SKILLS AND CREDENTIALS PROBLEM

Response: Improve the education-to-work bridge

These policies assume young workers aren't prepared for changing jobs. If the structure of jobs is changing, young workers may need different skills than they were trained for. That could mean new skills to harness AI on the job, or skills for more AI-resilient occupations.

APPRENTICESHIP, WORK-BASED LEARNING, AND EMPLOYER TRAINING INCENTIVES

BEST CASE

Firms underinvest in training because they can't capture the full return—AI could make this worse. A subsidy realigns private incentives with the social return; firms may be best placed to teach fast-moving skills.

RISKS

Might pay for training that would have happened anyway. Job-specific skills can become obsolete; quality control vs. fraud tradeoff; many grants flow to incumbents rather than new entrants.

PAST EXAMPLES

Apprenticeship reform (France). France's 2018 apprenticeship reform expanded the model beyond vocational education, letting apprentices earn academic and higher-education qualifications in new occupations. It also shifted control from regional governments to industry groups and created a per-apprentice subsidy (€5,000–8,000). Apprentices more than doubled, passing 1 million by end-2023. The cost nearly tripled (€15bn), prompting the government to retarget toward lower-educated youth.⁸⁸

SkillsFuture (Singapore). Funded by a mandatory payroll tax, Singapore incentivizes companies to train through automatic credits and grants for new hires and upskilling. It reimburses employers directly through digital wallets rather than via tax returns. A recent evaluation found a 9 percent wage premium for new graduates compared to similar groups.⁸⁹

Federal Work-Study (US). Since the 1960s, the U.S. has subsidized part-time jobs for low-income college students through a ~\$1B pool disbursed to colleges. A 2019 experiment tried to move more of these jobs to private and small-business employers, to improve access to career-relevant roles, but was ultimately aborted.⁹⁰

POSTSECONDARY, VOCATIONAL EDUCATION (VET) AND JOB TRAINING REFORMS

BEST CASE

Builds real work experience into education programs. Aligns schooling with labor-market demand and improves school-to-work transitions.

RISKS

Slow to implement—not a rapid-response tool; employers may not value the resulting credentials; some programs report growing difficulty recruiting employer partners, so may require additional incentives.

PAST EXAMPLES

“Meister” High Schools (South Korea). Following the 2008 financial crisis and facing high levels of college-graduate unemployment, South Korea launched a major initiative in 2010 to redesign its vocational education system. Marketed by the government under a “Job-first, Diploma-later” strategy, the state converted select vocational tracks into “Meister” schools—elite academies meant to break the cultural stigma around technical training. Key features: industry co-design and direct partnerships with firms like Samsung, Hyundai, and Kia. The first graduating cohort in 2013 had an employment rate above 90 percent, and recent evaluations have shown continued promising results.⁹¹

VET reform (Spain). A 2022 reform made Spain's vocational training “dual.”⁹² Students split time between classroom and workplace from year one, rather than doing a brief end-of-program internship. Coupled with broader 2021 labor reforms, youth unemployment in Spain has decreased from ~38 percent to 25 percent since 2020.⁹³

Co-operative education (US). Title VIII of the Higher Education Act (1976) gave colleges grants to build “co-op” programs that alternate classroom terms with paid work placements. Northeastern University is the best-known adopter; federal funding wound down in the 1990s, though some programs persisted.⁹⁴



STAY-IN-SCHOOL INCENTIVES

BEST CASE

Countercyclical schooling as a productive holding pattern against scarring—best when the downturn is temporary and the time builds relevant human capital.

RISKS

Value depends on whether credentials are ones employers recognize; challenging fit given declining trust in higher ed; can have adverse effects on dropouts.⁹⁵

PAST EXAMPLES

Sweden’s 1990s education reforms. When the Swedish economy experienced a major downturn in the early 1990s (youth unemployment went from 3.5 percent to nearly 20 percent), the government incentivized more people to enter or stay in the education system: a 60 percent expansion in university seats achieved by establishing new regional colleges, the extension of all two-year vocational high school tracks to three years to delay youth entry into the labor market, and the rollout of new subsidized training programs for youth.⁹⁶

Short-term credentials (US). U.S. universities and community colleges are increasingly offering shorter programs that “stack” to help with job placement, including industry-recognized credentials. A recent study in Virginia found wide disparities across credential type, though positive earnings effects overall.⁹⁷





DEMAND SHORTFALL

Response:
Stimulate demand

These policies assume there are too few entry-level jobs and the market has low demand for young workers. If AI reduces demand, government could try to directly “buy slack,” directly creating roles to give young people income, structure, and work experience.

NATIONAL AND CIVIC SERVICE (CORPS PROGRAMS)

BEST CASE

Countercyclical paid service that can address societal needs. Cohort structure can provide mentorship and network that improves future employability.⁹⁸

RISKS

Unclear transferability to private-sector employability; could substitute for regular paid staff or become low-wage labor for gov’t/nonprofits without “additionality” rules.

PAST EXAMPLES

Service Civique (France). Launched in 2010, just after the Great Recession, as paid public service for young people in nonprofits and public-interest organizations. Found to improve civic skills, confidence, and work routines; positive employment impacts limited.⁹⁹

AmeriCorps (US). Federal national service program placing members in schools, conservation, disaster response, public health, and community nonprofits. Large scale-up authorized in 2009 but never funded to meet ambitious expansion goals. Evidence shows stronger gains in civic engagement and public-service orientation than in earnings or private-sector employment.¹⁰⁰

PUBLIC INTERNSHIPS AND SUMMER JOBS

BEST CASE

Unemployed youth gain work experience and income support. Government lowers entry friction (e.g., rigid civil service exams) to make it easier for young people to get into their hiring funnel.

RISKS

Effects skew short-run—evidence finds these programs improve school outcomes and reduce criminal-justice involvement but little effect on long-run employment/earnings. Public-sector skills may not transfer well to private hiring.

PAST EXAMPLES

Summer Youth Employment Programs (US). Lottery-based allocation of paid summer placements in public and nonprofit agencies for low-income youth.¹⁰¹ During Great Recession, the US funded an expansion of these programs, including raising the maximum age from 18 to 24. More than 325,000 were placed in Summer 2009.¹⁰²

“Choose Public Service” (France). To attract young talent and address an aging government workforce, France launched a 2023 initiative to scale public-sector internships. Reforms include a centralized portal for government internships and apprenticeships, plus expanded work-study programs offering direct entry into the civil service.¹⁰³



PUBLIC JOB CREATION

BEST CASE

Directly absorbs young workers until demand recovers; can help the hardest-to-employ segments.¹⁰⁴

RISKS

Crowds out private hiring if jobs aren't additional; can create "lock-out effect" where young people spend time doing menial tasks instead of searching for private-sector jobs or getting useful training.^{105,106} Additional stigma in some cases.

PAST EXAMPLES

"One-Euro-Jobs" (Germany). Germany's employer-of-last resort program during the Great Recession. Unemployed workers on public assistance placed in temporary "public interest" roles (e.g., park maintenance, social care). Jobs had to be strictly "additional," meaning they could not replace or compete with regular, unsubsidized private-sector jobs. In addition to welfare benefits, participants received a small supplementary allowance to cover expenses like food and transportation. Not youth-targeted, but young people comprised a significant portion of participants. Evaluations found program largely ineffective or even negative for youth.¹⁰⁷



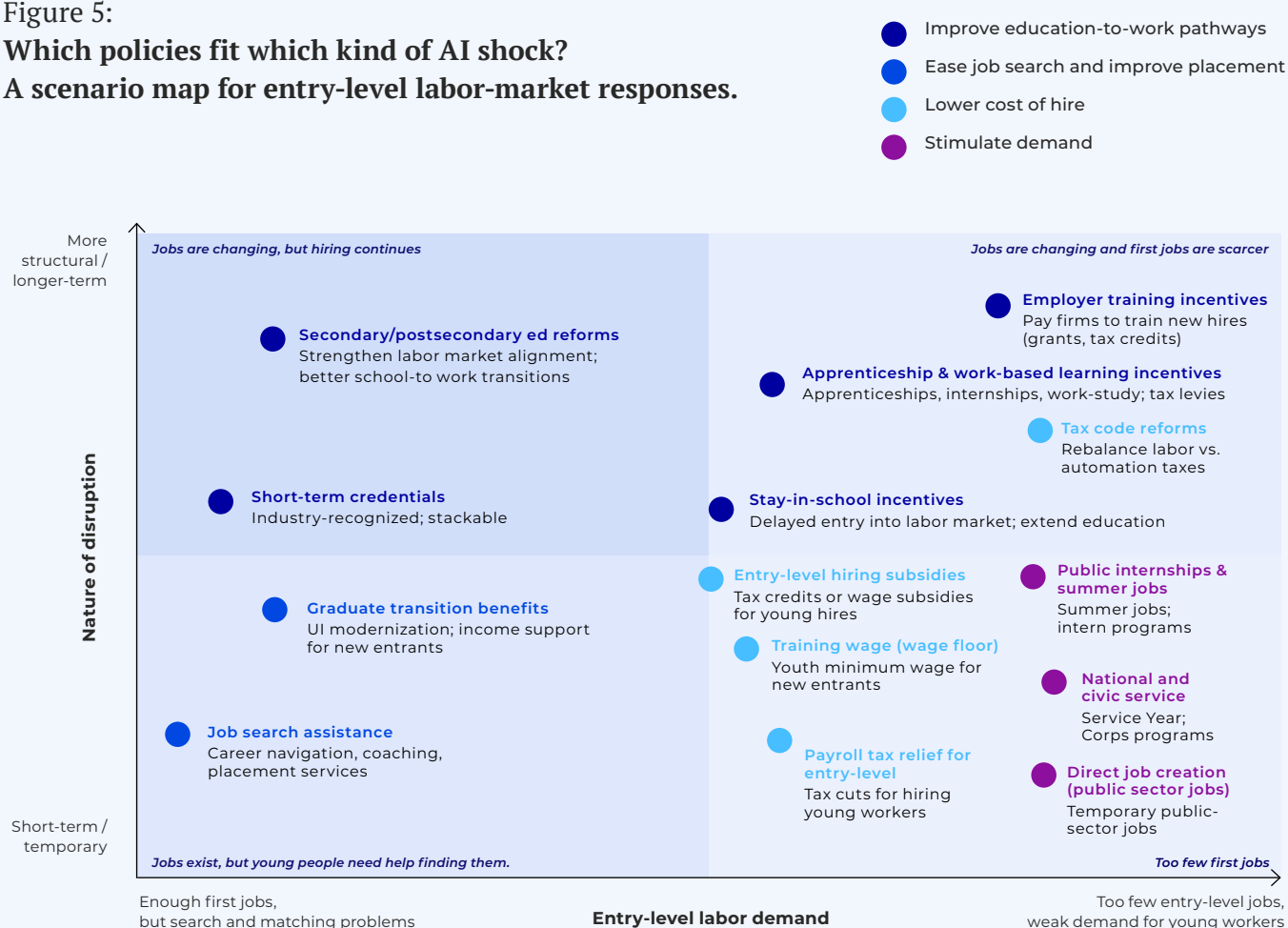
4.2. A POLICY THAT MAKES SENSE IN ONE AI SCENARIO MIGHT BE A BAD MATCH FOR ANOTHER

To help make sense of which tools fit which scenarios, **Figure 5** organizes the same policies along two dimensions: temporary vs. structural, and whether the problem is weak matching vs. too little demand for jobs. Looking at the policies this way can help inform decisions about what to prioritize.

For instance, job search assistance can be useful when openings exist but matching is poor; however, it is

unlikely to solve a true shortage of first jobs. Hiring subsidies may help during a temporary hiring freeze, but they need a clearer theory of change if firms are permanently redesigning work around fewer junior roles. Education-to-work reforms may be too slow for an acute downturn, but they are among the most important long-term investments if AI changes the tasks, skills, and experience young workers need.

Figure 5:
Which policies fit which kind of AI shock?
A scenario map for entry-level labor-market responses.



The background is a dark blue/black field filled with a complex, overlapping network of thin, glowing blue lines that form a wireframe mesh. Superimposed on this are several translucent, blue, geometric shapes, including a large square in the upper center and various triangles and polygons scattered throughout, creating a sense of depth and digital complexity.

PART 5

APPLYING THE EVIDENCE TO THE AI ERA

5.1. FIVE CAVEATS ON THE HISTORICAL RECORD

While the past provides a valuable menu of options, applying these interventions to a modern, structural AI shift requires navigating a few realities:

- **Cyclical vs. Structural Shifts:** The historical record provides far more examples of interventions designed for cyclical downturns than for long-term structural transformations (as reflected in the bottom-heavy distribution of **Figure 5**). Managing a major structural shift will likely require a fundamental rethinking of workforce preparation, akin to the rapid expansion of universal high school education in the early twentieth century.¹⁰⁸
- **Targeting and Generalizability:** Much of the evidence, especially in the U.S., focuses on the highest-need or most disadvantaged populations. For example, while Card, Kluve, and Weber (2018) found that active labor market policies were generally less successful for youth than for adults, many of the programs studied primarily targeted individuals facing significant, pre-existing barriers to employment.¹⁰⁹ Those findings may not translate neatly to a broader population of young people. For instance, employers might prove more responsive to hiring and training incentives for college-educated cohorts than they were for groups that carried more stigma and were perceived as riskier hires.
- **Bundled Interventions:** For the sake of simplicity, this paper analyzes policies as individual levers. However, in reality, they were commonly deployed in tandem or as part of a package. Many of the Great Recession responses in Europe combined job search coaching, hiring subsidies, and training. Apprenticeships often include provision of a “training wage” that also reduces cost to hire. This makes it more difficult to isolate and evaluate the efficacy of any single intervention, but AI shock responses are likely to take a similar multi-pronged form.
- **Entry Policies vs. Mid-Career Policies:** Because this paper focuses on youth, most of these interventions target labor force entry, rather than mid-career transition policies, like wage insurance or work-sharing. Still, it’s worth considering how youth-focused efforts could serve as potential test cases for bigger plays. For instance, early-career workers might be the tip of the spear, if AI disruption later spreads to older workers. If so, the policies piloted for the young could yield important lessons for the broader labor market.
- **Narrow vs. Broad Application:** While these policies vary in scope, the economic literature generally advocates for stringent targeting to maximize fiscal efficiency and direct resources to the highest-need populations.¹¹⁰ Given the worsening fiscal outlook across many OECD countries, these constraints remain highly relevant. Yet, narrowly targeting an AI response poses some serious downsides. One relevant precedent to consider is the U.S. experience with Trade Adjustment Assistance, designed to help workers impacted by trade shocks. The program, which was unusual across the world in trying to identify the cause of job loss, became very hard to administer, creating a complex bureaucracy that often made seemingly arbitrary decisions about eligibility.¹¹¹ For the AI moment, I think this should be a cautionary tale. A better approach may be to reform the underlying structures that help all workers, rather than building new compliance regimes to prove that AI is the primary reason someone lost their job.

Caveats aside, the evaluation record of these interventions points to several clear principles for navigating an AI transition.

5.2. KEY TAKEAWAYS FOR POLICYMAKERS



The Limits of Supply-Side Training in a Demand-Constrained Market

Improving the quality of training is among the most important public policy priorities because, in a best-case scenario, it builds human capital that did not exist before. That may be more valuable than interventions like job-search coaching that, in some cases, mainly change who gets hired. But training has limits. Supply-side training on its own cannot compensate for an AI-linked drop in entry-level hiring. We see limited effects in the past of educational interventions when there is no demand-side pull, meaning no employers willing to hire on the other end. Quality also matters. For instance, when the United States significantly expanded for-profit higher education during the Great Recession, the returns were poor for the workers it was meant to help.¹¹²



The Pitfalls of Public Job Creation and the Need for Private-Sector Links

If training alone cannot solve the challenge, governments may be tempted to create jobs directly. But the record of public jobs programs is disappointing. Most meta-analyses rank this set of policies as the least effective intervention, often yielding zero or even negative long-term employment impacts.¹¹³

Part of this is that people stop looking for other jobs once they enter a program. There is also some evidence of negative stigmatization. One of the most substantial critiques is that these programs fail to establish direct contact with private-sector firms, so they frequently fail to act as a stepping-stone into stable, regular employment. Efforts to subsidize jobs in the private sector look more compelling for this reason, because they avoid this problem (though these programs must navigate a tough balance between fraud prevention and flexibility). In addition, governments that consider new Corps-type programs should also focus on building connection points to private-sector employers.

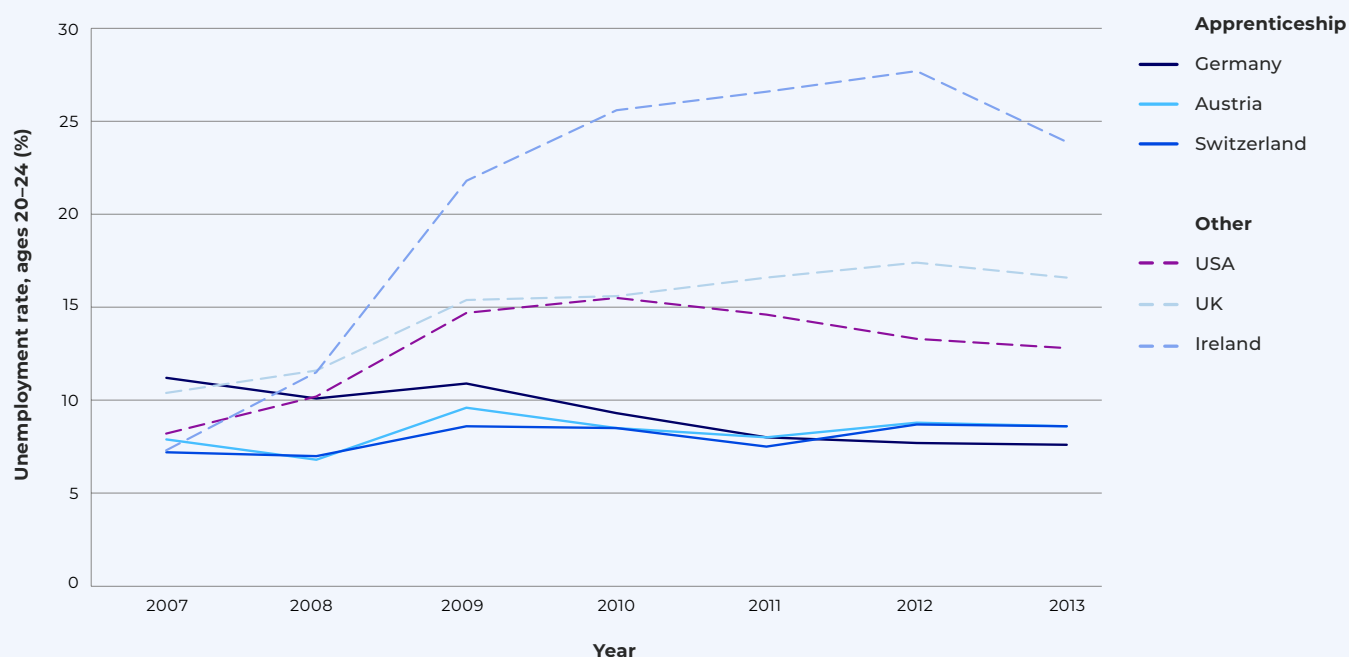
Improving the quality of training is among the most important public policy priorities because, in a best-case scenario, it builds human capital that did not exist before.



The Apprenticeship Advantage: Bypassing Job-Search Frictions

The limits of public job creation may help explain the current enthusiasm for apprenticeship and other work-based approaches that put young people inside a firm. Because their first job is structurally built into their schooling, these young workers bypass the frictional job-search phase that got so many college graduates stuck during the financial crisis. **Figure 6** shows that during the Great Recession, dual apprenticeship countries tended to keep youth unemployment lower.¹¹⁴ Germany had the lowest youth unemployment rate in the OECD during this period, largely attributed to an apprenticeship system that insulated young workers from the worst of the aggregate demand shock.¹¹⁵

Figure 6:
**Apprenticeship countries performed better during the Great Recession:
early-career unemployment in dual-apprenticeship vs. other OECD economies**



Source: OECD.

CONCLUSION: THE “NO REGRETS” PLAYBOOK

The entry-level debate right now seems to swing between two extremes: apocalyptic warnings about the dire futures of indebted young college graduates, and economists arguing that the labor market is basically fine and young people may ultimately be best-positioned for AI.

I suspect the actual trajectory of the entry-level market will land in what Molly Kinder has aptly termed the “messy middle.”¹¹⁶ However, when labor market data is slow or sending mixed signals, the natural inclination for policymakers is to wait and see.

But there are good reasons to think that if things turn out badly—specifically, if young workers suffer long-term “scarring” from being locked out of the market today—we may deeply regret not acting early. And if we act early and the shock proves limited, we have spent modestly on reforms worth making anyway. Thus, a strong case exists for every government to have an entry-level strategy ready in their pocket.

6.1. WHAT HELPS OLDER WORKERS MAY NOT HELP THE YOUNG

There is an uncomfortable tension inherent in economic transitions. Not only might policies designed to protect mid-career workers not help young workers, they may actually be counter to young workers’ interests.

If governments view the AI shock primarily as a threat to existing jobs, their instinct is to focus on job preservation: subsidizing retention, restricting layoffs, and retraining incumbent employees. These interventions protect people who already have jobs,

but they don’t help recent graduates trying to enter the labor market for the first time. They may even depress the natural turnover that would create new openings for them.

During the Great Recession, for instance, many European governments leaned heavily on strict employment protections and short-time compensation programs that subsidized employers to cut workers’ hours rather than lay them off.¹¹⁷ These programs also could be a helpful tool to encourage companies to retrain and retain today’s workers. The incentive to keep incumbent workers, however, may slow down external hiring, which young people need to enter.

Today, many policymakers are looking to **wage insurance**, which “tops up” a displaced worker’s earnings when they take a lower-paying job. This policy is explicitly designed for older workers—it closes the gap between their old job and a new, lower-paid one. Depending on its design, though, it could disadvantage young workers. By increasing the pay of eligible older workers without increasing their cost to the employer, it could actually tilt competition towards the more experienced applicants or drive down wages overall. This could exacerbate the phenomenon that when there is a bad labor market and employers have lots of options to choose from, they also tend to raise the experience and education requirements on entry-level postings.¹¹⁸

I raise this consideration not to suggest these are unsound policy proposals. In contrast, they represent important tools to help older workers navigate a structural shock. However, we should acknowledge that neither is likely to help a young person who has never held a full-time job and consider the potential trade-offs in slowing net-new hiring.

6.2. THE SHORT-RUN VS. LONG-RUN PICTURE FOR YOUNG WORKERS MAY DIVERGE

The pace of the AI transition adds another generational dimension. Most people tell pollsters the AI transition is moving too fast, but Grigsby and Zorzi (2026) argue that faster economic transitions ultimately benefit young workers.

In the short-run, young workers may feel effects first. But the speed and severity of the shock could serve as important market signals. Grigsby and Zorzi argue the rapid change is what incentivizes young workers to switch quickly into growing sectors, allowing them to capture the long-term wage premiums generated by new industries.

Older workers, in contrast, face a shorter time horizon before retirement. They must absorb the immediate earnings shock but lack sufficient time remaining in the labor force to recoup the benefits of longer-term growth. Because older workers vote more reliably, policymakers may be inclined to favor their preferences, risking a scenario where the interests of the old are prioritized to the detriment of future generations.¹¹⁹



We risk a scenario where the interests of the old are prioritized to the detriment of future generations.

6.3. THE CASE FOR EARLY INTERVENTION

Japan’s experience with the “Lost Generation” in the 1990s should serve as a cautionary tale of what to avoid. During the “Lost Decade,” a prolonged slowdown of the Japanese economy, the youth unemployment rate doubled with even larger increases in the long-term rate. This was likely worsened by the fact that Japan’s labor market policies focused almost exclusively on middle-aged and older workers.¹²⁰ When the economy eventually recovered, employers did not go back and hire those who had been struggling; instead, they simply hired the next crop of fresh graduates.¹²¹ Left to navigate the job market alone and ineligible for traditional unemployment benefits, many became deeply discouraged and disconnected. Today, some of these individuals, now in their 50s (*hikikomori*) suffer from severe social withdrawal and remain dependent on their elderly parents.¹²²

Japan’s experience may represent an extreme. But in many countries, young people who can’t find work after graduation are totally missed by the public systems. Because they lack a work history, they are often ineligible for benefits, meaning they aren’t served by the public employment service.¹²³ They search for jobs on their own, and by the time they formally reach out for help, they may have already become deeply discouraged.

The Netherlands’ model provides an alternative worth considering. Rather than waiting for graduates to fail, their system tracks and connects young people to a support infrastructure before they even leave school. In addition, Dutch municipalities are mandated to provide any young person between the ages of 18 and 27 with an offer of work, training, or a combination of both. This proactive, “no dead ends” approach is often credited with maintaining some of the world’s lowest youth unemployment rates.¹²⁴

6.4. THE “NO REGRETS” PATHS FORWARD: STRENGTHENING THE EDUCATION-TO-WORK BRIDGE

One major risk ahead for society is collective discouragement with the job search. With AI enabling hundreds or thousands of applications to every job, the odds of getting demoralized and disconnecting may rise. We should do what we can to avoid that outcome for a generation.

That’s why I hope one takeaway from this paper is to push forward “no regrets” consensus reforms to education and workforce systems—that is, policies that would yield strong economic and social returns, regardless of what scenario we ultimately land in.

I think strengthening the connection between education and work is the clearest example. Bringing employers closer to the classroom can narrow the gap between what students learn and what new work requires. Making education more responsive to the pace of change can only help as the economy shifts. Ultimately, the more we build direct, hands-on bridges from training into a job, the more we give young people a real pathway to opportunity, rather than leaving them to send applications off into a void. Countries that use the AI moment to tackle long-standing weaknesses in their education-to-work infrastructure will not regret it.

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