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THE KIDS AREN'T ALRIGHT A Labor Market Analysis of Young Workers

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Unemployment does not equally affect all workers. Different segments of the population often have different rates of unemployment, whether the distinction is made by race, gender, education, or age. While the national unemployment rate has yet to meet the dismal 10.8% benchmark set in 1982, certain subgroups have, since the start of the recession in December 2007, reached post-War unemployment highs. One of these groups is workers age 16-24, whose unemployment rate peaked at 19.2%. Though young adults represent only 13.5% of the workforce, they now account for 26.4% of unemployed workers. This Briefing Paper will discuss the severity of the unemployment crisis facing young adults, its historical context, and the implications for their future wages and skills.

Young adults in the labor market

Even during periods of economic expansion, younger workers experience higher unemployment. **Figure A** shows the relationship between unemployment among workers aged 16-24 and the total population.

The unemployment rate for young workers at any time averages around twice the rate for all workers. The cause for this is typically attributed to young adults' unique position in the labor market—they are not as settled into an employer or career as older workers are. Indeed, the youth labor market is characterized by more “churning” than other age groups as workers try out new fields, different employers, and different cities (Elwood 1982; Gardecki and Neumark 1998). Some see this churning as positive because job mobility can be associated in part with the search for higher wages (Neumark 2002). Topel and Ward (1992) found that a typical worker will hold seven jobs in her first 10 years in the labor market, often motivated by an opportunity for higher pay.

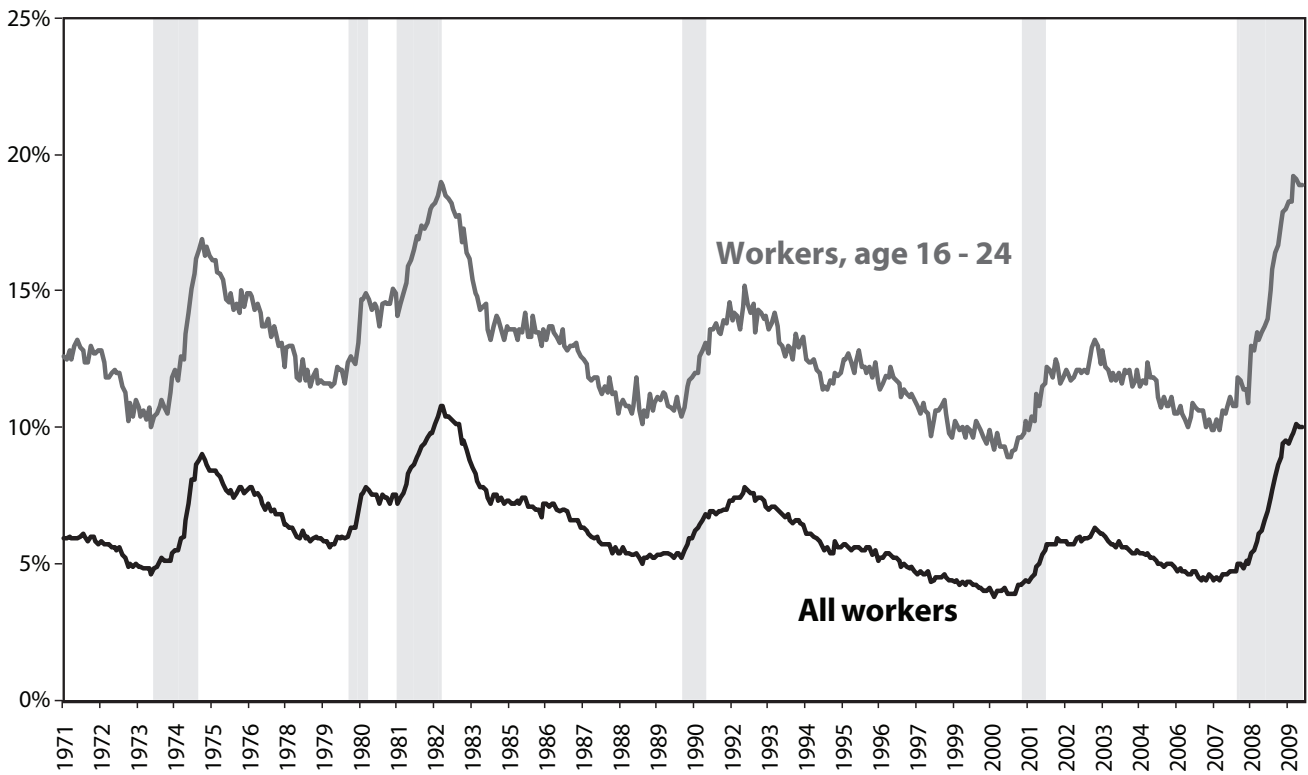
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FIGURE A

Unemployment rates of young adults and the total population, 1971-present



NOTE: Shaded areas denote recession.

SOURCE: Bureau of Labor Statistics.

Unemployment
Current rates

Since the start of the recession in December 2007, young adults have attained the highest unemployment rate on record (since 1948). The unemployment rate for 16-24-year-old workers peaked in September 2009 at 19.2%—passing the peak rate of 19.0% from November 1982—and started 2010 at 18.9%. Between December 2007 and January 2010, the unemployment rate for young workers increased 7.1 percentage points (Table 1).

Moreover, as overall rates of unemployment increase, inequalities between genders and races often become more apparent. The difference between male and female unemployment rates for 16-24 year olds started 2010 at 7.5 percentage points; young men have a rate for 22.5% and young women 15.0%. This is the largest gap between men

and women in any age group—the difference for 25-54 year olds is 1.7 points, and for workers 55 and older it is 1.4 points. The disparities between the unemployment rates of white, black, and Hispanic young workers are also stark. Black 16-24 year-old workers had the highest rate, starting 2010 at 32.5%, followed by Hispanics (24.2%), and then whites (15.2%). However, it is 16-24 year-old Hispanics workers who saw the largest increase in unemployment (13.2 percentage points), compared to their black (10.7 percentage points) or white (8.2 percentage points) counterparts.

To look closer at the effects on race, we split young workers into two groups, teenagers (16-19 year olds) and young adults(20-24 year olds). Figure B looks at unemployment rates for teenagers from December 2007 to January 2010. Teenagers as a whole attained the highest

TABLE 1

Unemployment rates for 16-24-year-old workers by sex and race

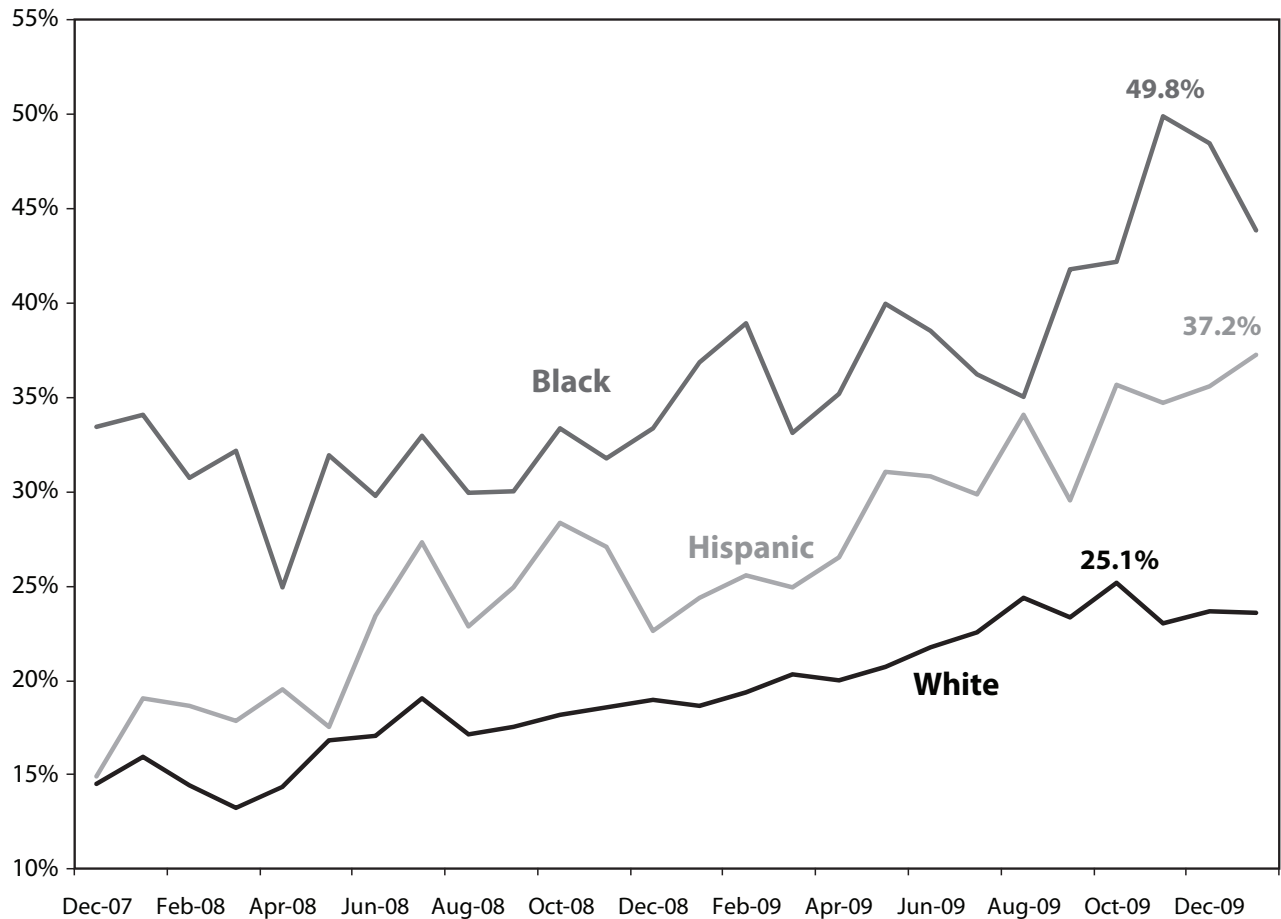
	Dec. 2007	Jan. 2010	Difference
<i>Workers 16 - 24</i>	11.8%	18.9%	7.1
<i>Men</i>	12.7	22.5	9.8
<i>Women</i>	10.7	15.0	4.3
<i>White</i>	7.0	15.2	8.2
<i>Black</i>	21.8	32.5	10.7
<i>Hispanic</i>	11.0	24.2	13.2

NOTE: Rates by race not seasonally adjusted.

SOURCE: Bureau of Labor Statistics.

FIGURE B

**Unemployment rates for teenager (16-19) workers by race,
Dec. 2007-Jan. 2010**



SOURCE: Bureau of Labor Statistics.

unemployment rate on record (since 1948), peaking in October 2009 at 27.6%, and within that, record highs for whites (25.1%) and Hispanics (37.2%). In fact, the only group that did not experience record highs was black teenage workers, but with a peak unemployment rate of 49.8%, this is hardly an accomplishment.

Because rates of unemployment for minorities have risen faster than for whites, the recession has exacerbated existing racial disparities among young adult workers. Hispanic teenage workers started the recession with less than half a percentage point higher unemployment rate than white teenagers but two years of an economic downturn has greatly widened the gap.

Although they are faring better than their teenage counterparts, young adult workers (age 20-24) are experiencing the same problem of disparity between the races, as seen in **Figure C**. Once again, the difference in unemployment rates for white versus Hispanic and black workers is striking, with peak rates of 14.9%, 28.7%, and 19.6%, respectively, and increases of 7.8, 9.7, and 10.1 percentage points, respectively.

Comparison with past downturns

Another way to gauge the experience of young workers in the ongoing downturn is to compare their current performance with prior recessions. This captures both

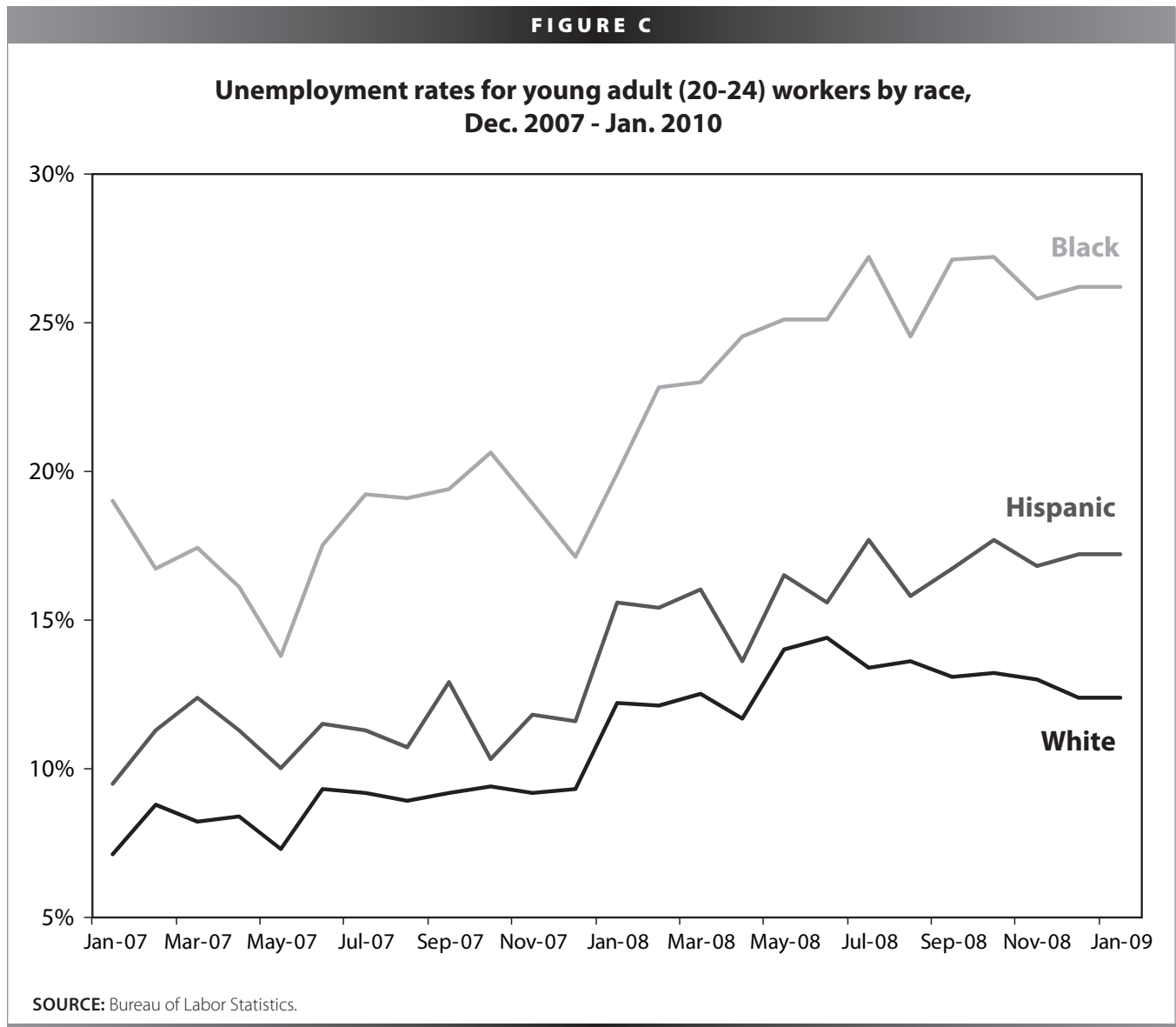
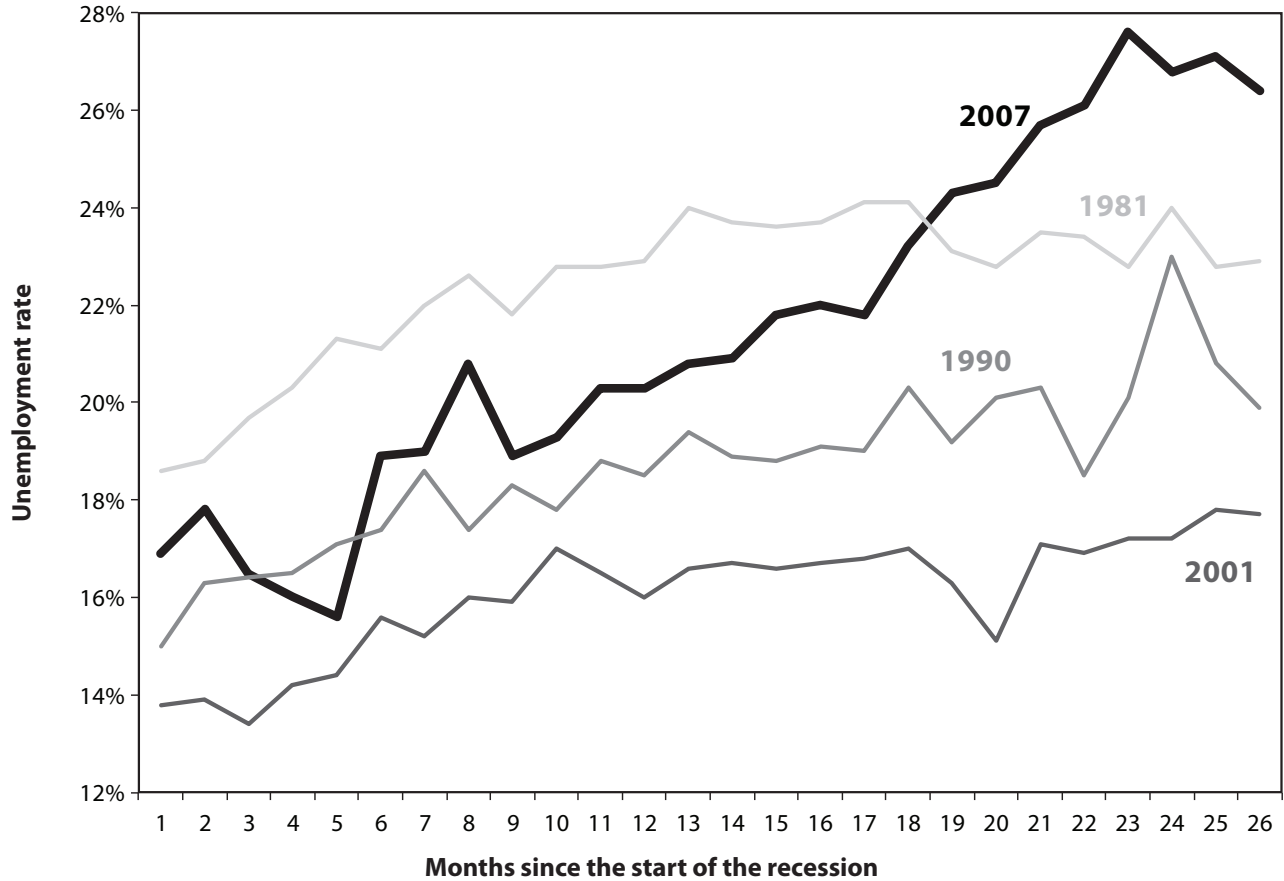


FIGURE D

Unemployment rate for 16-24 year olds in past four recessions



SOURCE: Authors' analysis of Bureau of Labor Statistics data.

the unemployment rates attained and the *magnitude* of increases in a historic context. **Figure D** shows that workers 16-24 saw the largest increase in unemployment during the current downturn. This downturn has seen a peak increase in unemployment of 7.4 percentage points, compared to peak increases of 2.7 percentage points in 2001, 4.5 in 1990, and 4.9 in 1981.

Share of the unemployed

In addition to measuring the unemployment rate of a specific population, it is also useful to consider whether or not that population is under- or over-represented given their total share of the labor force. Young workers comprise a relatively small share of the total labor force—13.5% of all workers are 16-24 years old. However, young workers account for 26.4% of *unemployed* workers. In other words,

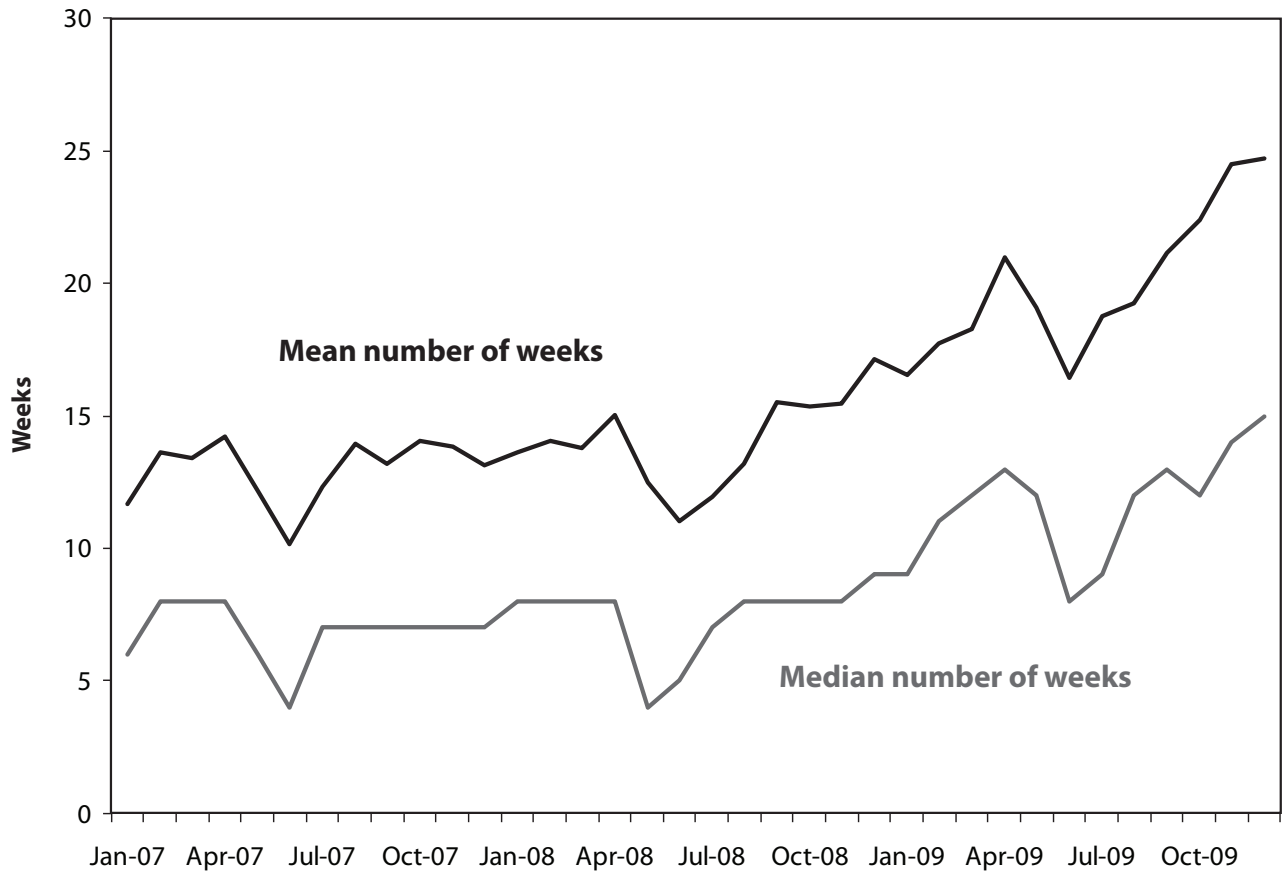
one in every four unemployed persons in America is under the age of 25. This is especially shocking compared to workers 55 and older, who make up 19.1% of the labor force but 13.4% of the unemployed. In fact, Sum et al. (2008b) estimate that workers under age 30 account for 70% of the net reduction in employment, and that they are 2.5 times as likely to be affected by job loss than any other age group, a finding that Greenberg and Keating (2009) confirms. In this recession, young workers are disproportionately represented in the ranks of the unemployed.

Duration of unemployment

Young workers are getting stuck in unemployment for longer periods. Since January 2007 to December 2009, the median length of unemployment has increased from 6 weeks to 15 weeks, meaning that half of unemployed

FIGURE E

Mean and median duration of unemployment of 16-24 year olds, January 2007 - December 2009



SOURCE: Authors' analysis of Current Population Survey.

young workers have been unemployed for more than 15 weeks. The mean length of unemployment for young workers has more than doubled, from 11 weeks to 25 weeks. On average, it took workers age 16-24 a little less than six months to find a job in December 2009, as shown in **Figure E**. This was slightly lower than the average for all workers (30 weeks); younger workers have a shorter duration of unemployment even in periods of economic expansion.

Labor force
Dramatic decline for young workers

Every population subgroup has experienced a dramatic increase in unemployment since the start of the recession, which begs the question: what makes young workers so

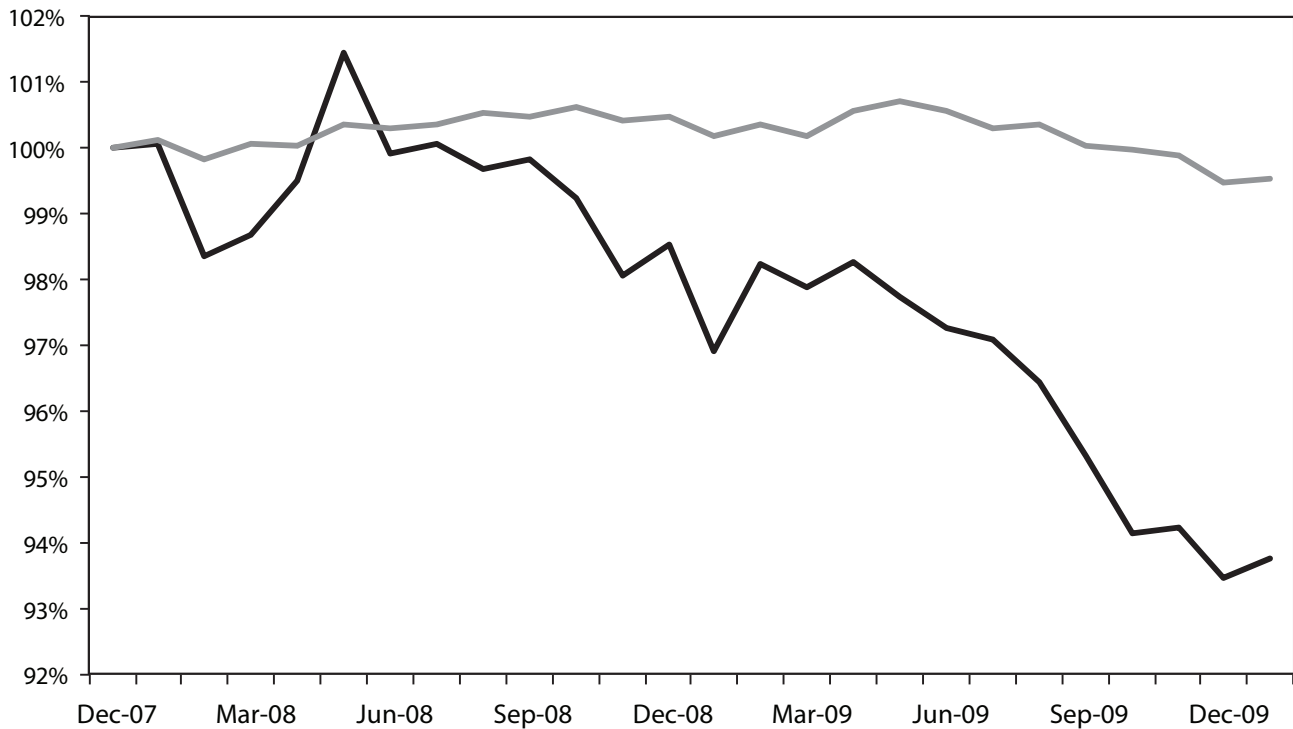
special? If there is no part of the population that remains untouched by the current downturn, why are young workers more adversely affected than others?

What sets young workers apart is their dramatic decline in labor force participation. The labor force consists of two groups: those employed and those actively looking for employment. Workers who have stopped looking are not part of the labor force, and are therefore not counted as unemployed. This means that during periods of weakness in the labor market, the unemployment rates understate labor market slack; it is a reflection of those *seeking* work and not of those *wanting* to work.

The labor force, then, is a reflection of both the size of the working-age population *and* participation in the labor market. The former is constantly growing—since the start

FIGURE F

**Size of labor force, workers 16-24 versus workers of all ages,
Jan. 2007 - Dec. 2009**



SOURCE: Author's analysis of Bureau of Labor Statistics data.

of the recession, the total working-age population grew by 4.4 million. The latter is subject to strength and weakness in the job market.

Figure F compares the labor force levels of young adults and all workers. Since December 2007, the labor force for all workers has remained essentially flat, rising and then falling slightly to -0.5%, not only failing to keep up with population growth, but indicating discouragement in the labor market. The size of the labor force age 16 to 24, on the other hand, declined by 1.5 million by the end of 2009, or 6.5% of the youth labor force.

Even when compared to prior recessions, this downturn has seen the largest and steepest decline in young workers. **Figure G** shows how much the labor force age 16 to 24 declined from the start of each of the last four recessions. The current recession stands out as being especially severe. If all those young workers who left the labor market (and have stopped looking for work) were

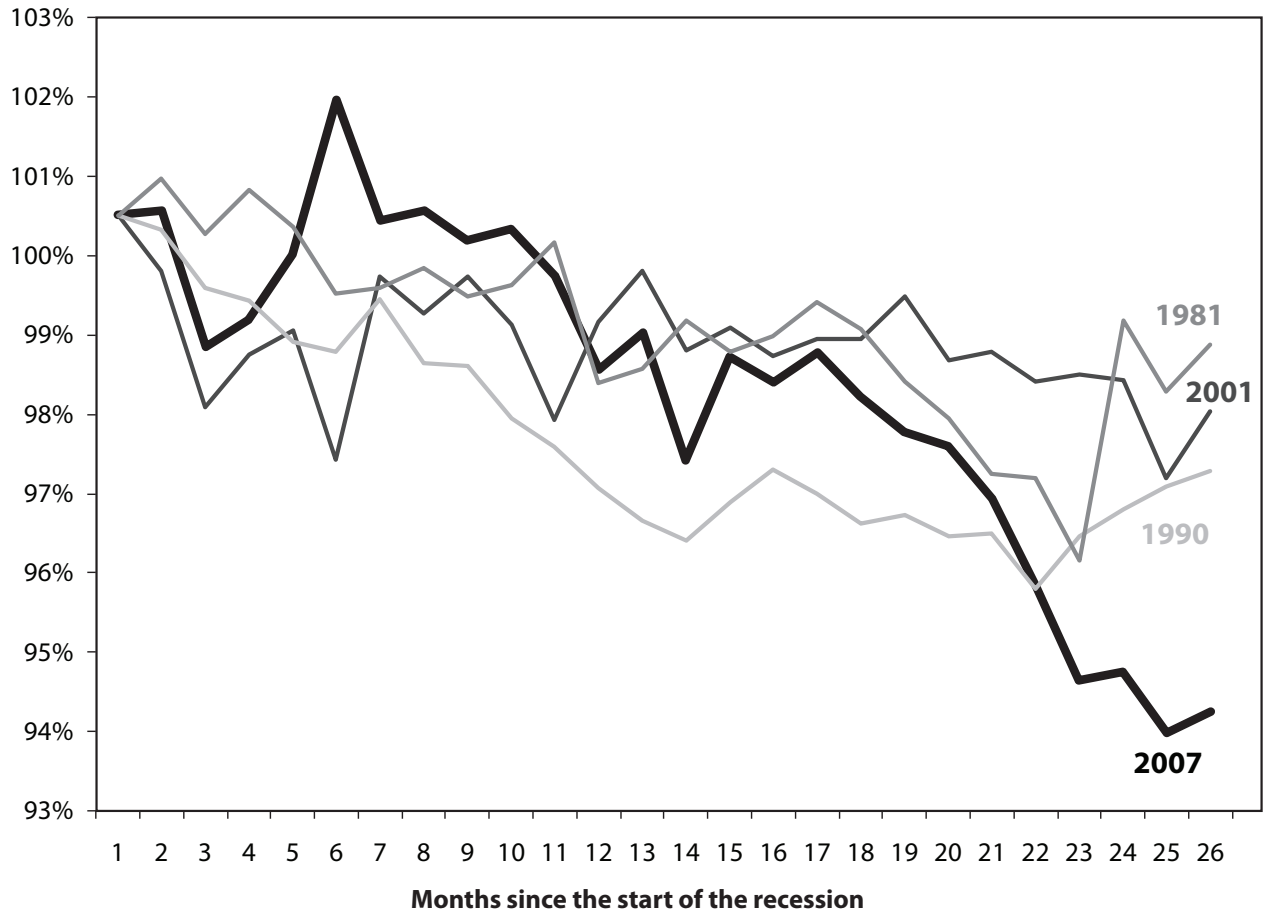
counted as unemployed, the unemployment rate for 16-24-year-old workers would be 23.9%.

Labor force decline not explained by school enrollment

There could be a silver lining to the labor market deterioration if labor force declines among young adults were explained by increased school enrollment. There are, however, several problems with this explanation. First, enrolled students can and do participate in the labor force. While it is easier to think of students and workers as two distinct groups, that is not the case. At the start of the recession, 45% of 16 to 24 year olds that were enrolled in high school or college either had a job or were actively looking for work. Although the reasons vary—such as the need to finance education, save for additional education, or to cover living expenses—a large portion of students need employment in addition to school. We can and should not

FIGURE G

Change in labor force size for young workers (16-24) in past four recessions



SOURCE: Authors' analysis of Bureau of Labor Statistics data.

see enrollment as solving the unemployment problem for young workers; it is a problem for enrolled students, too.

In the first 24 months of the recession, enrollment among 16 to 24 year-olds in high school or college increased by 861,000, while over the same period, the labor force of 16-24-year-old workers declined by 1.5 million. Even if there was no overlap, enrollment would not provide sufficient answers.

Implications

In light of the disproportionate impact of the current downturn on young adults, the following question arises: why is unemployment so high for young workers?

The job market for young adults, particularly teens, has always been highly cyclical, but the severity of the

current downturn is a key part of the answer. The recession that began in December 2007 was marked by severe job loss. The number and share of jobs lost during the current downturn is truly remarkable—it eclipses recent prior recessions, and has created a deep hole in the labor market of more than 11 million jobs.¹ As previously stated, younger workers are more vulnerable than other age groups. With less experience comes less job protection, an idea often captured by the phrase, “Last one hired, first one fired.”

But this recession has specific qualities that reinforce this problem for young workers. Most important, the bursting of the housing bubble resulted in the loss of around \$5 trillion in residential wealth. With plummeting home values and shrinking 401(k)s, many people lost

a significant portion of their planned retirement. For example, the median household with a person between the ages of 55 and 64 saw their wealth fall by almost 38% between 2004 and 2009 (Baker 2009). In the face of such a loss, many older workers chose to delay retirement and either continue working or go back to work because they could not afford to retire. The size of the labor force declined by 6.3% for young workers, but it increased 8.5% for workers 55 and older. Not only are there fewer jobs in the economy, but also fewer workers retiring and opening up positions.

This is a troubling development—young adults are less prepared to deal with unemployment than other age groups. They have not had many years of employment, or probably have not qualified for the highest paying positions, so their ability to save is curtailed. Hence, they are not likely to have accumulated much savings, or an individual safety net. However, without significant prior full-time work experience, many may not qualify for unemployment insurance, or the social safety net. It is not surprising then, that young adults are also more likely to be indebted. A study by Greenberg Quinlan Rosner Research (Greenberg and Keating 2009) found that 37% of young adults 29 and under had more than \$5,000 in non-mortgage and non-student loan debt, primarily in the form of credit cards. Indeed, according to the Survey of Consumer Finances, the highest leverage ratio for any age group is for those 35 and under, with a ratio of 44% of debts to assets.

Moreover, a downturn in the youth labor market is particularly worrisome because it comes at a critical time for workers. Work during teen years is characterized as being highly path-dependent—work status in one period is very sensitive to work status in the time period before. Individuals with more work experience are more likely to work. Sum et al. (2008) have shown the importance of high school employment on post-high school employment and

concluded that those who do not work in high school were more likely to be completely disconnected from the labor market. This is an intuitive conclusion, as those with work experience have both shown basic jobs skills and benefited from human capital investment, such as training, that make them more attractive for further work. With a dramatic downturn in the young adult labor market, fewer young workers are being incorporated into this path.

However, even if young workers are employed, they may be more likely now to be in a job below their skill level, such as a college graduate who waits tables. With such little financial security, as explained above, young workers have less freedom to wait out a downturn and so they frequently take whatever job is available, even if it pays less than a job that matches their skill level. The loss of human capital that occurs when taking jobs in lower-level occupations is one of the principle contributors to the long-run negative effect recessions have on the wages of young workers (Kahn 2009). Indeed, there is a permanent effect of lost work experience on wages as it delays the start of a young worker's climb (Elwood 1982). This is a serious drain on labor market potential—lower earnings, lower output, lower productivity, and the displacement of less-educated workers. Low wages also jeopardize the return to higher education.

Conclusion

The 2007 recession has produced an unemployment crisis for young workers—one that has increased labor market inequalities on a level not seen by any other age group. Whether they are one of the many who have left the labor market discouraged or one of the many that have taken low-skilled work, the recession will have a significant scarring effect on their human capital and therefore on their earnings. It is not enough for the economy to recover; young adults need robust growth in the labor market to minimize the effects of the current recession.

Endnotes

1. For further explanation of the size of the jobs hole, see Shierholz (2010).

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