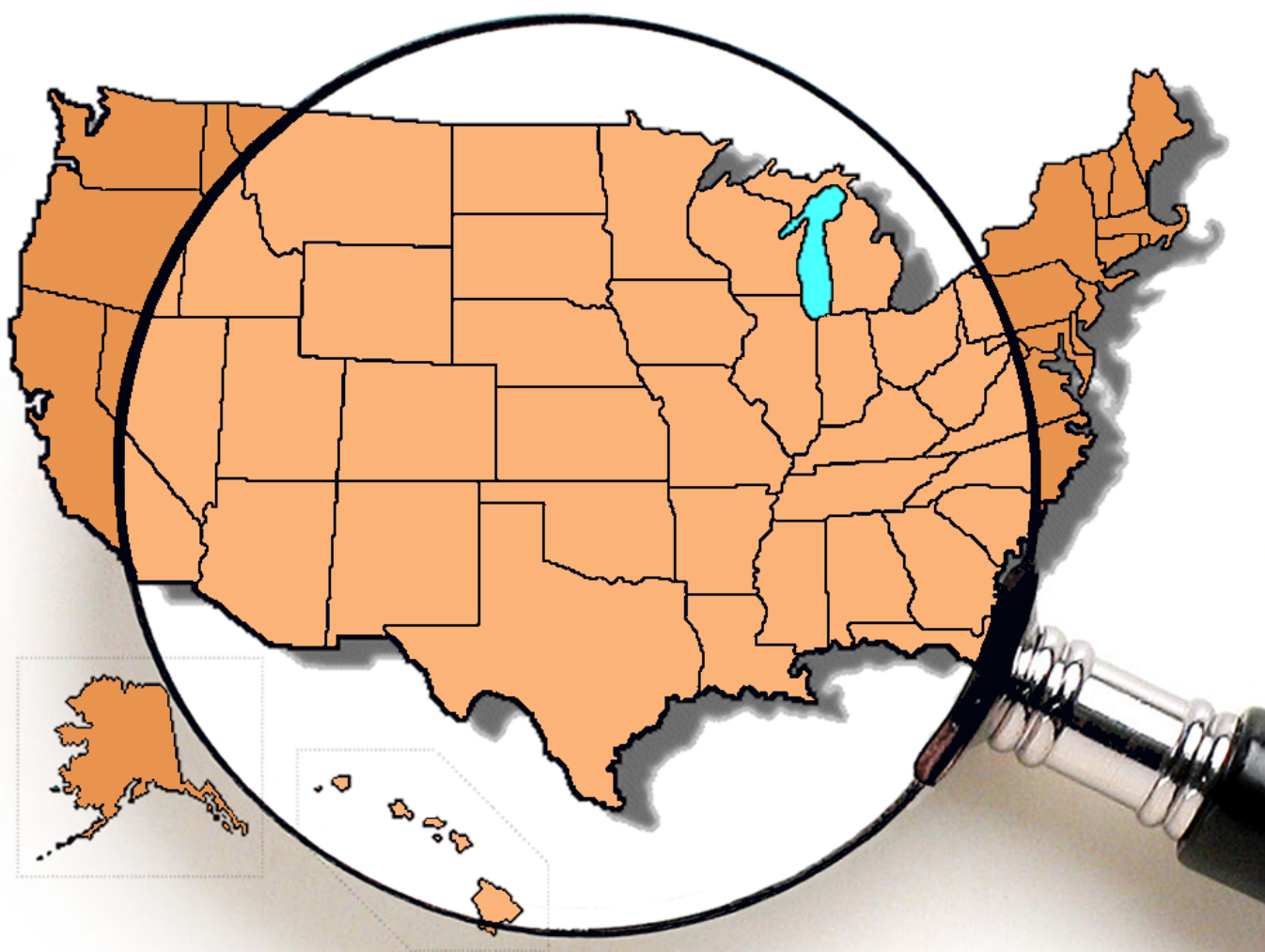


May 2010

UNDERSTANDING
THE ECONOMY •

UNEMPLOYMENT AMONG
YOUNG WORKERS



A REPORT BY THE U.S. CONGRESS JOINT ECONOMIC COMMITTEE
REPRESENTATIVE CAROLYN B. MALONEY, CHAIR

Executive Summary

Although the economy has gained strength and overall labor market conditions have improved in recent months, younger workers have continued to struggle finding work. Employers added over half a million jobs in the last four months, yet the unemployment rate for young workers reached a record 19.6 percent in April 2010, the highest level for this age group since the Bureau of Labor Statistics began tracking unemployment in 1947.

Historically, young workers (ages 16 to 24) face considerably higher unemployment rates than prime-age workers (ages 25 to 54). Even before the recession began, one out of every eight young workers was unemployed, a rate of unemployment more than two and a half times that of prime-age workers. While the gap narrowed during the recession, young workers saw their unemployment rate climb steadily and still have a significantly higher unemployment rate than prime-age and older workers.

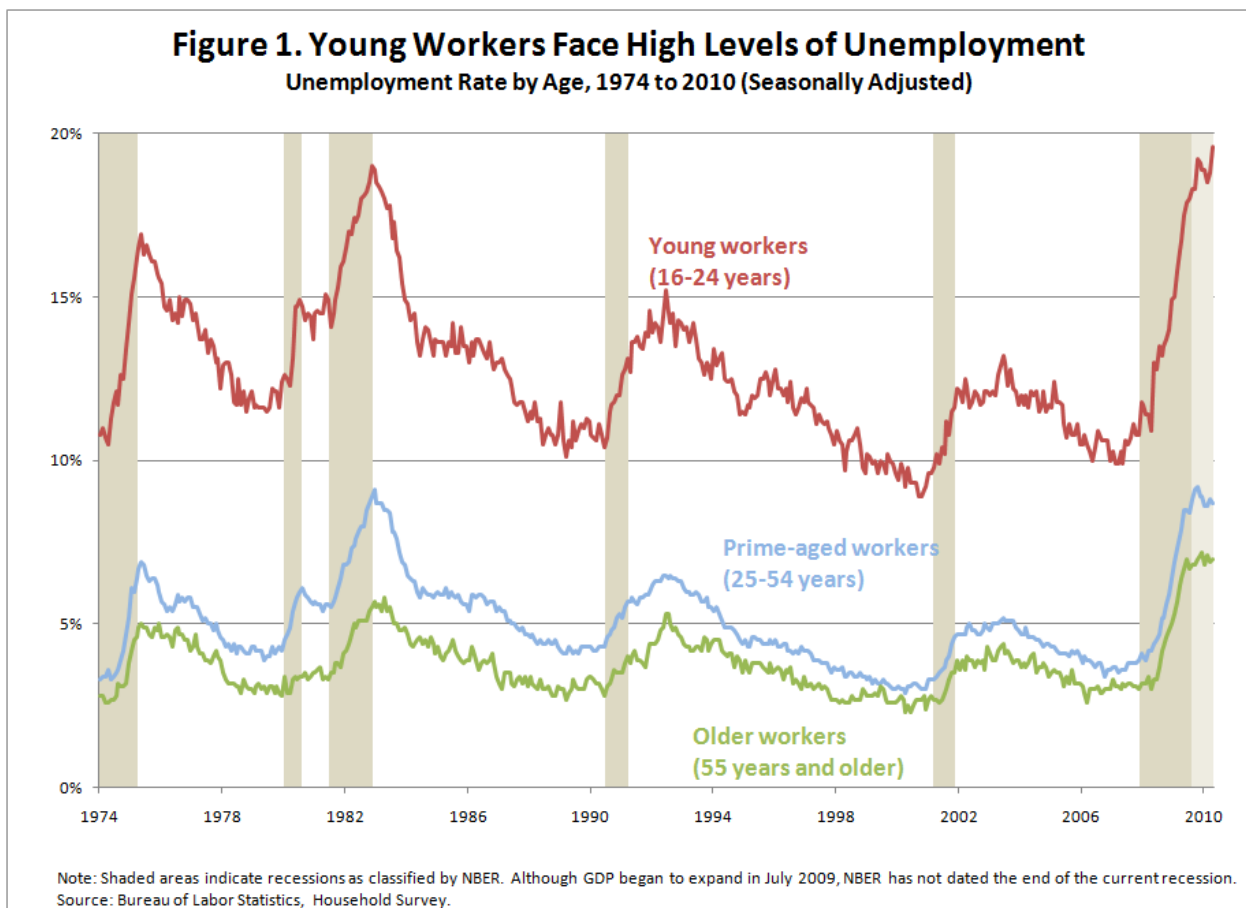
Specifically, the report shows:

- One-in-five young workers is unemployed – the highest rate of unemployment ever recorded for this age group.
- Young workers make up a disproportionate share of the unemployed. They comprise 13 percent of the labor force, but make up 26 percent of the unemployed.
- The youngest workers (16 to 17 years) experience the highest rates of unemployment. The unemployment rate for 16 to 17 year olds was 29 percent in April.
- Greater educational attainment reduces the likelihood of being unemployed. College graduates experience the lowest unemployment rate (8.0 percent in April), while those without a high school diploma have the highest unemployment rate (33.0 percent).
- The benefits of a college degree are not uniform among 16 to 24 year olds. The unemployment rate for young black college graduates was 15.8 percent in April, nearly double the 8.0 percent unemployment rate for all young college graduates.
- While young workers face higher unemployment rates than prime-aged workers, young workers typically have shorter unemployment spells. The median duration of unemployment for teens (12.1 weeks) in April was less than half of the median duration among all workers (25.8 weeks). The shorter duration of unemployment may indicate that unemployed younger workers find new jobs more quickly than other unemployed workers, but may also indicate that young workers are stopping their search for work and dropping out of the labor force.
- Young workers are concentrated in sectors of the economy that are particularly sensitive to business cycle fluctuations, such as retail trade and leisure and hospitality. These sectors fared badly during the recession.

Unemployment spells early in a young person's work life can have lasting negative effects on future earnings, productivity, and employment opportunities. It is important, therefore, that policymakers better understand the causes of youth unemployment so that they can act to reduce unemployment among young workers and help them build the skills necessary to regain their footing in the labor market.

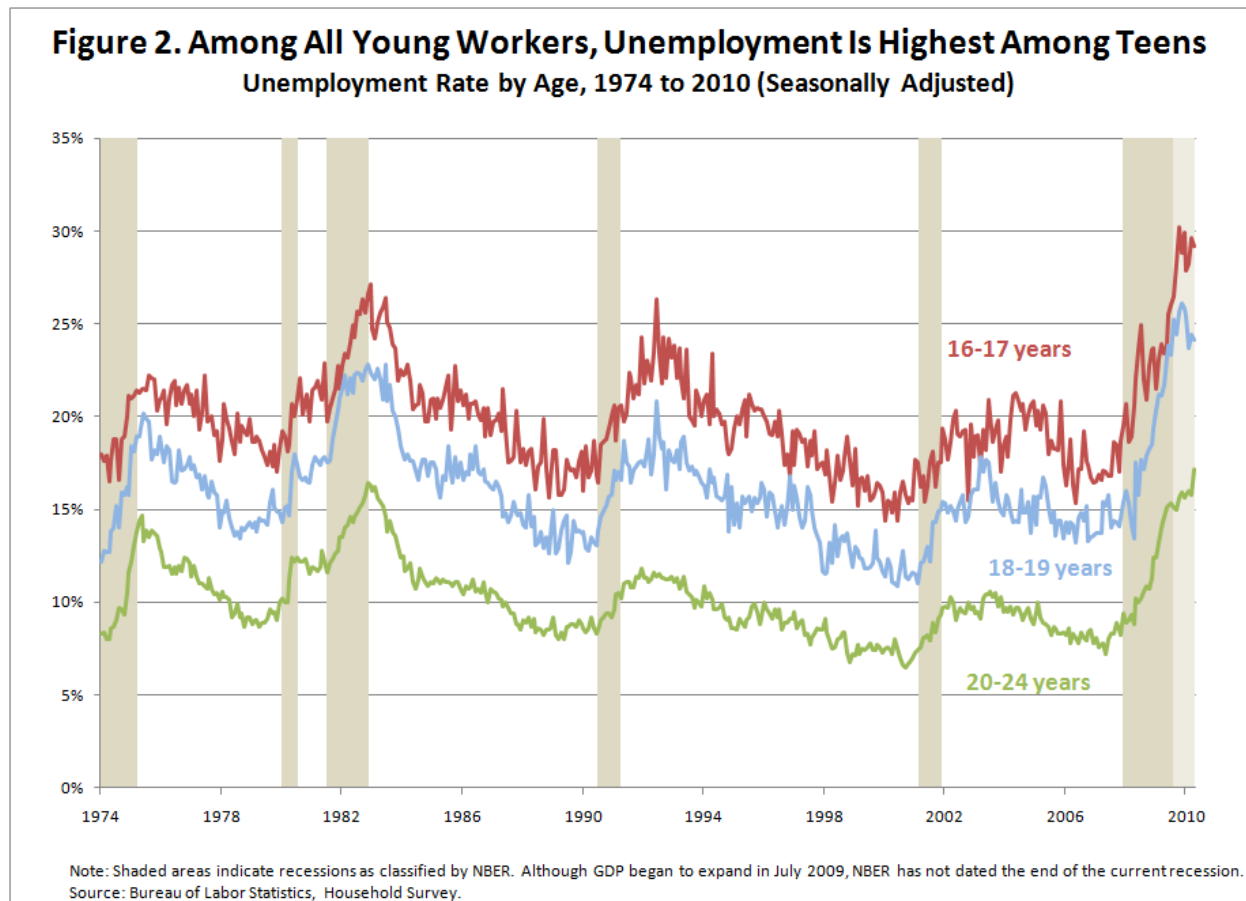
Background

Historically, unemployment rates have been higher for young workers than for prime-age workers and older workers (55 years and older) [see Figure 1]. Unemployment rates for young workers are more likely to vary counter-cyclically with the business cycle than unemployment rates for other workers because of the nature of their employment – younger workers tend to be employed in temporary positions, are often among the newest employees on the payroll, and are more likely to be employed in “cyclically-sensitive” industries.¹ In the twenty years leading up to the start of the Great Recession, the unemployment rate for 16 to 24 year olds was typically 2.6 times greater than that of the rate for 25 to 54 year olds. In December 2007, the unemployment rate for young workers was 11.8 percent, more than two and a half times the unemployment rate for prime-age workers. Most recently, in April 2010, the unemployment rate for young workers reached 19.6 percent – the highest since the Bureau of Labor Statistics began tracking unemployment in 1947. Although the gap between the prime-age and youth unemployment rates has narrowed during the Great Recession, the large number of experienced prime-age workers looking for work may have worsened the employment prospects of younger workers. For example, the *New York Times* reported that many college graduates have found employment in jobs that do not require a college degree—jobs that are typically held by younger workers.² Currently, five workers are unemployed for every one job opening, which means that competition for work is stiff.³



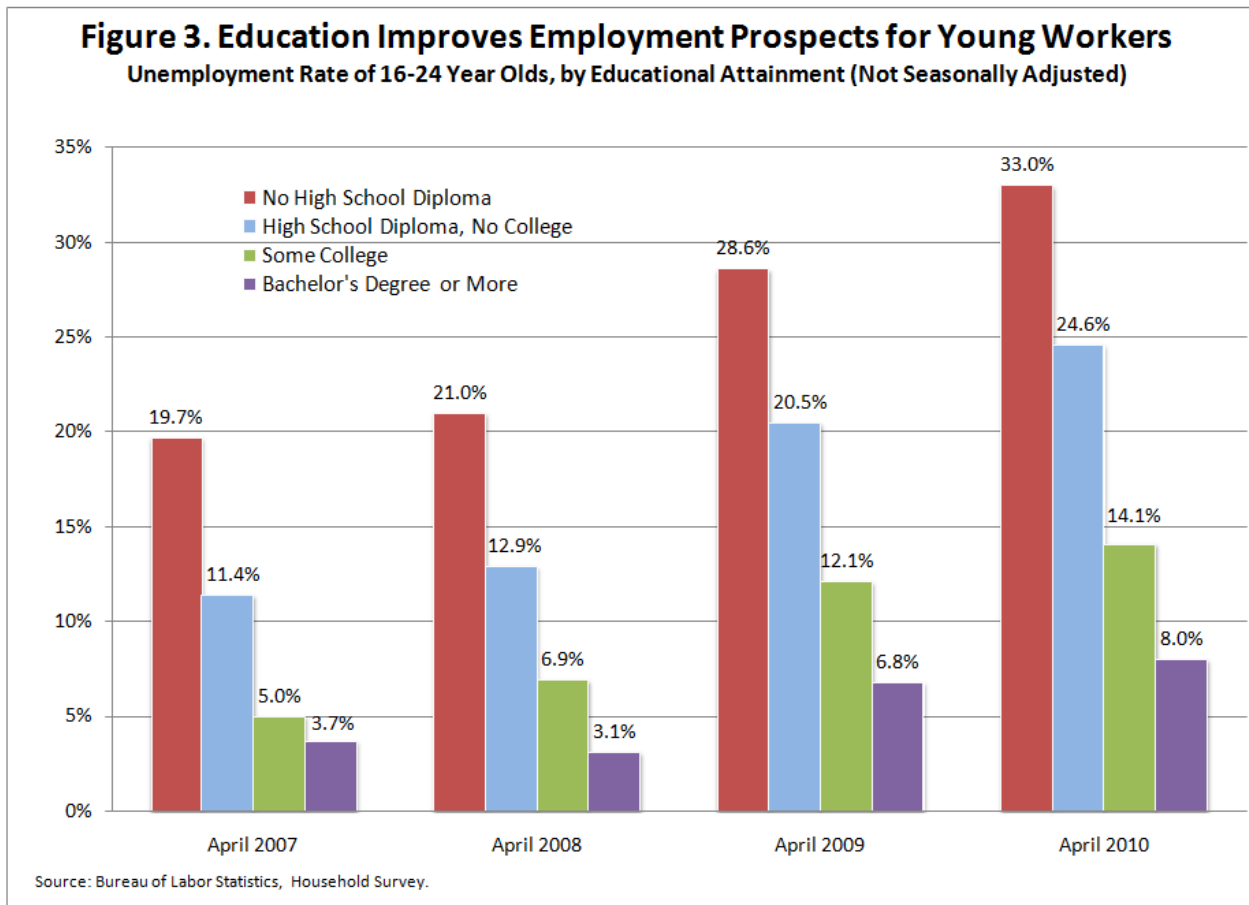
Unemployment Is Highest Among Teens

The unemployment rate of young workers decreases with age and educational attainment [see Figure 2]. In general, younger teen workers (16 and 17 year olds) experience the highest rate of unemployment. Their unemployment rate was over 29 percent in April, with nearly one-in-three searching for work. Young teens make up only 1.2 percent of the labor force. The vast majority (93 percent) has no high school diploma, and includes teens that are looking for employment to support themselves or their families. Older teens (18 to 19 year olds) in the labor force are divided among those having no high school diploma (38 percent), a high school diploma with no college (32 percent), and some college (29 percent). The unemployment rate for older teens was 24.1 percent; and they make up 2.6 percent of the labor force. Not surprisingly, young adults (20 to 24 year olds) in the labor market tend to be more educated than teens, with 90 percent having at least a high school diploma, and 15 percent having a 4-year college degree. Young adults constitute almost 10 percent of the labor force (9.8 percent); their unemployment rate was 17.2 percent in April.



Education Improves Employment Prospects for Young Workers

Among young workers, greater educational attainment—a high school diploma or some college coursework—can greatly reduce the probability of being unemployed [see Figure 3]. Between April 2007 and April 2010, the unemployment rate for young workers (16 to 24 year olds) with no high school diploma, and not currently enrolled in school, increased from 19.7 percent to 33.0 percent. For young workers with a high school diploma but no college coursework, the unemployment rate increased from 11.4 percent to 24.6 percent over the same period. For young workers with some college but no degree, the unemployment rate rose from 5.0 percent to 14.1 percent. But for those with at least a bachelor’s degree, the unemployment rate started out at 3.7 percent before rising to 8.0 percent—1.5 percentage points below the national unemployment rate (9.5 percent in April 2010, not seasonally adjusted). Even for young workers with no college coursework, earning a high school diploma reduced the likelihood of being unemployed from one in three to one in four. Earning a four-year college degree reduced the probability even further, to one in twelve.



Unemployment Is High Among Young Minority Workers, Despite Education

Greater educational attainment alone cannot solve the youth unemployment crisis. Even with high levels of education, young minority workers not enrolled in school have distressingly high rates of unemployment. In April, the unemployment rate for young black high school graduates (16 to 24 years old) not enrolled in school was 34.9 percent, compared to 24.6 percent for all young high school graduates not in school. For young black college graduates, the unemployment rate of 15.8 percent was almost double the overall unemployment rate for all young college graduates. While lower than the unemployment rate of 60.0 percent for young black workers with no high school diploma, unemployment rates of 34.9 percent and 15.8 percent are unacceptably high.

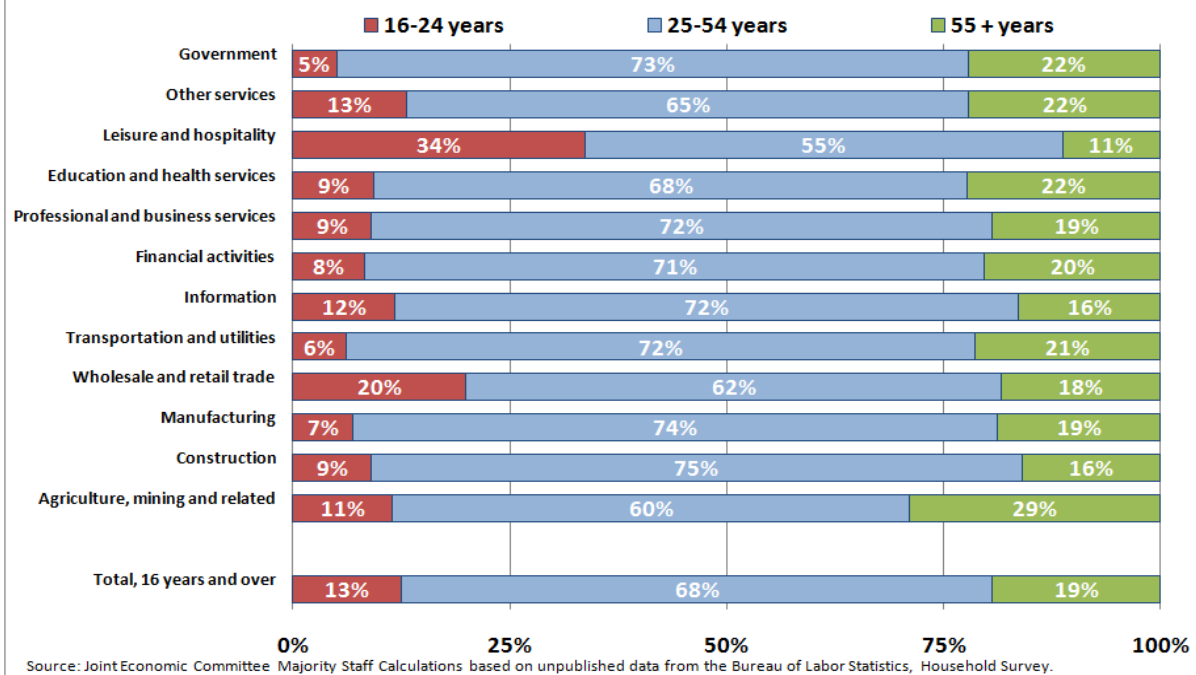
Among young Hispanic workers, the unemployment rate for young high school graduates not enrolled in school was 23.2 percent, not statistically different from the overall rate of 24.6 percent. For those with some college, the unemployment rate was 18.9 percent, slightly higher than the overall rate for young workers with some college.⁴

Young Workers Are Disproportionately Concentrated in Industries Hard-Hit by Recession

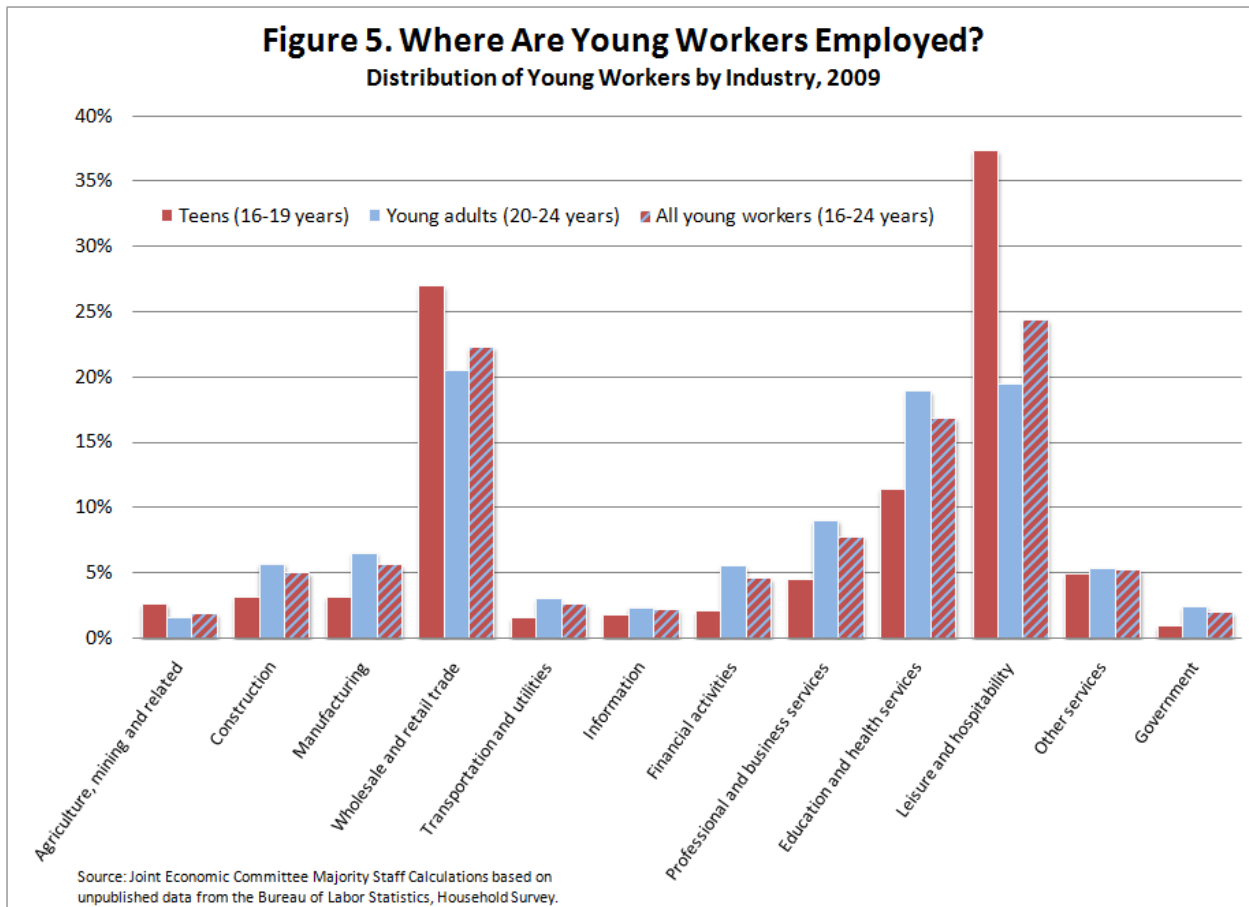
Young workers comprise 13 percent of all employees, but they are not evenly distributed across industries [see Figure 4]. Young workers are over-represented in leisure and hospitality, where they make up 34 percent of the total workforce, and in wholesale and retail trade, where they make up 20 percent of the total workforce. Both of these sectors have been hard-hit by the recession. Wholesale and retail trade lost 1.68 million jobs since the recession began in December 2007, while leisure and hospitality lost 544,000 over that period.⁵ Young workers’ disproportionate representation in these fields is likely responsible for some of the difficulties these workers have faced during the slack labor market.⁶

Figure 4. Young Workers Are 13 Percent of All Employees But 20% of Wholesale and Retail Trade Employees, and 34% of Leisure and Hospitality Employees

Distribution of Employees by Industry and Age, 2009



Not only are young workers disproportionately represented in a small group of hard-hit industries, the fact that their employment is so heavily concentrated in those industries may make finding new work difficult. Examining the distribution of young workers employed across all industries shows that wholesale and retail trade and leisure and hospitality are the primary employers of teens. In fact, two out of every three (64 percent) employed teens (ages 16 to 19) work in one of those two sectors. Young adults (ages 20 to 24) with a job are somewhat more evenly distributed across the different sectors of the economy, with 60 percent of employed young adults working in one of three sectors — leisure and hospitality, education and health services, and wholesale and retail trade. These young adults may be able to move across industries and find new work with greater ease than teenage workers [see Figure 5].

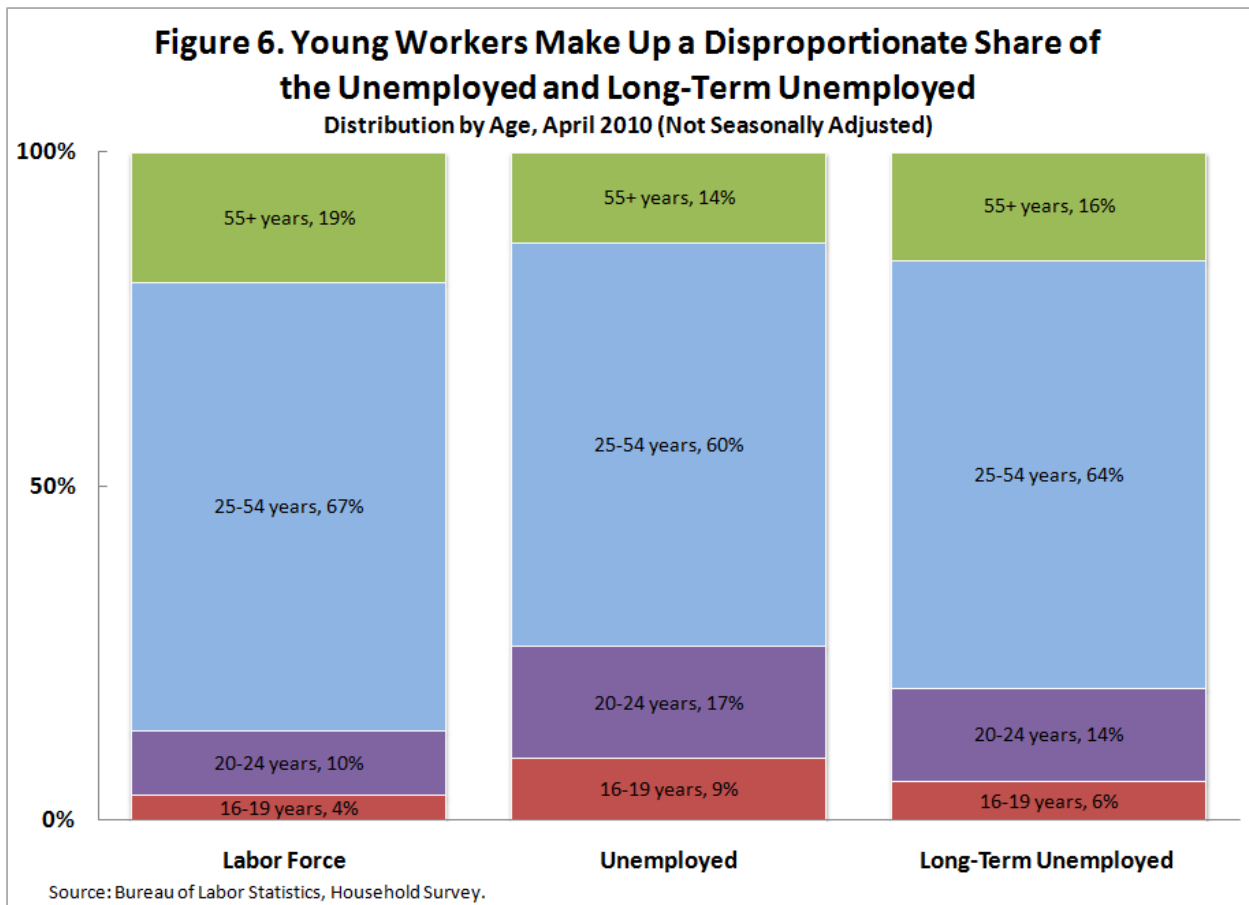


In recent months, leisure and hospitality has been among the sectors showing signs of strong growth. Other expanding sectors include manufacturing, professional and business services, health care employment, and construction. It remains to be seen whether employers in these sectors will hire (or re-hire) unemployed youth. On the one hand, young workers’ limited experience may mean that they are less desirable to employers who have begun to hire, especially given the large pool of job seekers that includes many workers with more experience and skills. On the other hand, young workers’ limited experience may mean they are less-expensive hires for growing industries, making them “bargain” hires.

Young Workers Make Up a Disproportionate Share of the Unemployed

While young workers make up 13 percent of the labor force, they account for 26 percent of the unemployed (not seasonally adjusted) [see Figure 6]. In other words, one-in-four unemployed persons are between 16 and 24 years old. The greatest disparity is among teens (ages 16 to 19). While teens are only 4 percent of the overall labor force, they make up more than twice as much (9 percent) of the unemployed and 6 percent of the long-term unemployed.

Young workers typically have shorter unemployment spells than prime-aged workers. The median duration of unemployment in April 2010 was 12.1 weeks among teens (ages 16 to 19) and 19.6 weeks among young adults (ages 20 to 24). Among all workers, the median duration was 25.8 weeks. Consequently, young workers make up a smaller share of the long-term unemployed (those out of work for at least 27 weeks) than of the total unemployed population. Twenty percent of the long-term unemployed are between 16 and 24 years old versus 26 percent of the total unemployed.



To be counted as unemployed and in the labor force, a person must actively search for work each month. The shorter unemployment spells of younger workers may be indicative of younger workers finding employment. However it may also be the case that younger workers stop searching for work and drop out of the labor force more quickly than older workers. Leaving the labor force to enroll in school can improve a young adult’s prospect of finding work later on. However, young workers dropping out of the labor force without enrolling in school is cause for concern.

The labor force participation rate of young workers dropped 3.2 percentage points to 54.2, between April 2007 and April 2010 (not seasonally adjusted). The labor force of young workers shrank by 875,000. However, during the same period, the number of 16 to 24 year olds enrolled in either high school or college increased by 755,000. That increase was greater than the overall increase in the population for that age group, which grew by 602,000 over the same period, suggesting a movement towards enrollment among the younger population. Furthermore, the number of 16 to 24 year olds enrolled in school but not in the labor force increased by more than 1.3 million over the same period, and the increase is more than just working students dropping out of the labor force. Subtracting out the change in the number of 16 to 24 year olds in the labor force and enrolled in school (-585,000) and the growth in the overall population of 16 to 24 year olds (+602,000), there were still 153,000 additional enrolled students over the past 3 years.

Data from the Bureau of Labor Statistics confirms that 70 percent of 2009 high school graduates were enrolled in college, up from 68.6 in 2008, and 67.2 percent in 2007. The 2009 level is the highest since BLS began tracking the data in 1959.

While enrollment is clearly up, there remains a group of young workers who have exited the labor force in the past three years. Keeping these young workers attached to the labor market is critical. Young people who give up on searching for work may face significant barriers to entry back into the labor market. As a result, lifetime employment and earnings of these individuals is likely to be significantly depressed.⁷ Furthermore, a lack of attachment to the labor market may correlate with a lack of attachment to mainstream values and behaviors, which can in turn lead to problematic behaviors such as crime and delinquency.⁸

High Unemployment Can Have Lasting Consequences

The high rates of unemployment among young workers are cause for concern, and the effects can last long after the recession has ended. The “scarring effects” of prolonged unemployment can be devastating over a worker’s career. Productivity, earnings and well-being can all suffer. In addition, unemployment can lead to a deterioration of skills and make securing future employment more difficult.⁹

Research shows that young workers entering the labor market during a recession earn less than those who join the labor force during times of economic expansion. Professor Till von Wachter recently testified before the Joint Economic Committee that it may be 10 to 15 years before such a college graduate’s earnings catch up to other graduates.¹⁰ For these graduates, the lack of employment opportunities makes paying off student loans a struggle. Graduates in 2008 finished college with an average of roughly \$23,000 in student loan debt.

With the economy in recession in 2008 and 2009, student loans increased dramatically. Default rates on student loans also spiked. Demand for student loans has reached record levels, as the recession has forced more college students to take out loans and encouraged more students to stay in school rather than competing for a job in the weak labor market. Outstanding student loans have increased approximately 50 percent since 2007, according to data from the credit bureau Equifax Inc. Student loan defaults have also increased; in 2008, the default rate reached 7.2 percent, the highest level since 1999, and up from 6.7 percent in 2007 and 5.2 percent in 2006, according to the Department of Education.

Action Now Can Mitigate the Harmful Effects of Unemployment

The high unemployment rates faced by teens and younger workers during the recession may call for targeted policies to help these workers find employment and regain their footing in the labor market. Acting now to implement policies that address youth unemployment will minimize the scarring effects for young workers, while benefitting society and the economy as a whole.

In the past four months, the economy has added 573,000 jobs, about the level needed to keep pace with population growth. While this marks significant progress from a year ago, stronger growth will be needed to significantly increase employment among teens and younger workers and to ultimately bring down their unemployment rates.

New graduates will benefit from training programs to ease the transition from school to employment and provide them with skills necessary to succeed in expanding sectors. For youth who have left the education system, programs are needed to keep them attached to the labor force while helping them acquire the skills needed to become, and remain, gainfully employed. Expanding financial aid programs can help young workers ease the financial burden of furthering their education, making higher education more accessible to all young people.

The significant investment in student aid made this spring is particularly timely. The Health Care and Education Affordability Reconciliation Act of 2010, which President Obama signed into law on March 30, 2010, includes the largest investment in student aid in our nation's history. It increases the maximum annual Pell Grant to \$5,550 in 2010 and, beginning in 2013, indexes the Pell scholarship to the Consumer Price Index, so that it keeps pace with inflation; channels all new federal lending to the Direct Loan program, saving taxpayers money; invests more than \$2.5 billion in historically black colleges and universities and; invests \$2 billion in community colleges through a competitive grant program that will help strengthen career training programs.

Beyond investing in financial aid for students, Congress passed the College Cost Reduction and Access Act (H.R. 2669) in 2007 which allowed for income-based repayment of student loans for borrowers experiencing "partial financial hardship."¹¹ Beginning July 1, 2009, loan repayment for eligible borrowers is capped at 15 percent of their discretionary income, which is reassessed each year. Any outstanding balance would be forgiven after 25 years. As part of the newly-signed health care legislation, Congress and the Obama administration lowered the threshold and maximum payments to 10 percent of a borrower's discretionary income, and shortened the period of repayment before any outstanding balance is forgiven to 20 years. Those changes will apply to new borrowers after July 1, 2014. Additionally, borrowers facing unemployment or other extreme economic hardship can also qualify for a deferment for up to three consecutive years.¹²

In addition, there are several policy actions that could help address the employment challenges facing younger workers.

Job Training – As the labor market strengthens, expanded and improved job training programs may help young workers – workers who have had few prior work experiences – build and rebuild their skills. Better connecting job training to actual placement in a job is an area for potential innovation as is pairing unemployed individuals with corporations for training and employment. Paid internships that expose young people to new occupations and opportunities also offer promise.

Sectoral Employment Programs – Relatively new to the workforce development landscape, these programs work with local employers to build skills necessary for employment in sectors of the local economy where there will be vacancies. Described by Dr. Lawrence Katz in an April 29 JEC hearing, these programs have gotten excellent returns by equipping unemployed workers with skills in demand in their communities. As more communities pursue this approach, particular attention should be paid to ensuring strong participation among younger workers.

Encouraging Mobility Among Young Workers – To recover skills and wages lost during the recession, younger workers will need to be highly mobile across occupation and region. While younger workers are less likely to have mortgages and family obligations that can interfere with moves from one region to the next, they need to be aware of the importance of mobility to getting their careers back on track. Incentives that encourage young people to change occupations, when necessary, and to move to new, faster growing parts of the country could help young workers find jobs and boost their long-term earnings prospects.

Summer Jobs – At the time of publication, Congress was considering the American Jobs and Closing Tax Loopholes Act which would add 300,000 summer jobs for young people. These jobs offer not just wages, but also provide valuable work experience to young people which can lay the groundwork for future employment.

Policymakers must be diligent in examining, understanding and offering innovative solutions to youth unemployment. In doing so, they can avoid a lost generation and instead create the next generation of productive American workers.

¹ Stefano Scarpetta, Anne Sonnet and Thomas Manfredi, “Rising Youth Unemployment During the Crisis: How to Prevent Negative Long-Term Consequences on a Generation?” OECD Social, Employment and Migration Papers, No. 106, April 14, 2010 available at [http://www.oalis.oecd.org/olis/2010doc.nsf/LinkTo/NT000028DE/\\$FILE/JT03281808.PDF](http://www.oalis.oecd.org/olis/2010doc.nsf/LinkTo/NT000028DE/$FILE/JT03281808.PDF)

² *New York Times*, “Teenage Jobless Rate Reaches Record High” September 4, 2009.

³ JOLTS data and number of unemployed persons

⁴ The unemployment rate of young Hispanic workers with a 4-year college degree and not enrolled in school is highly influenced by seasonal factors, ranging from a low of 5.2 (April 2010) to a high of 22.8 (December 2009) in the past twelve months.

⁵ Employment losses are from start of recession to employment trough. Table B-1. Employees on Nonfarm payrolls by Industry Subsectors and Selected Detail, Bureau of Labor Statistics, Payroll Survey as of April 2010.

⁶ Bureau of Labor Statistics, Payroll Survey as of April 2010.

⁷ Till von Wachter, Testimony before the Joint Economic Committee, April 29, 2010.

⁸ Wilson, William Julius. 1987. *The Truly Disadvantaged*. Chicago: University of Chicago Press; Wilson, William Julius. 1996. *When Work Disappears*. New York: Alfred Knopf.

⁹ OECD page 16

¹⁰ Till von Wachter, Testimony before the Joint Economic Committee, April 29, 2010.

¹¹ Partial financial hardship is defined as having total annual payments on eligible Federal Family Education Loan (FFEL) Program and the William D. Ford Federal Direct Loan (DL) Program loans exceeding 15 percent of their “discretionary” income (adjusted gross income less 150 percent of the applicable poverty line).

¹² See Congressional Research Service Report R41022 by David P. Smole “Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers” April 21, 2010.