EPI BRIEFING PAPER

ECONOMIC POLICY INSTITUTE • APRIL 20, 2011 • BRIEFING PAPER #306

THE CLASS OF 2011

Young workers face a dire labor market without a safety net

BY HEIDI SHIERHOLZ AND KATHRYN ANNE EDWARDS

The Great Recession left a crater in the labor market that has been devastating for unemployed Americans of all ages. After more than two years of unemployment at well over 8%, we have a hole of more than 11 million jobs, with average spells of unemployment lasting nearly nine months. But the weak labor market has been particularly tough on young workers. In 2010, the unemployment rate for workers age 16-24 was 18.4%—the worst on record in the 60 years that this data has been tracked. Though the labor market has started to *slowly* recover, the prospects for young high school and college graduates remain grim. This briefing paper examines the dire labor market confronting young workers and concludes with ways that government policy could help. Specifically, our analyses found the following for calendar year 2010:

- The unemployment rate for 16- to 24-year-old workers averaged 18.4%, compared with 9.6% for U.S. workers overall.
- Young high school graduates have been hardest hit: The unemployment rate for high school graduates under age 25 who were not enrolled in school was 22.5%, compared with 9.3% for college graduates of the same age.
- Young high school graduates are not keeping pace with their older peers: Their 22.5% unemployment rate is more than double the 10.3% rate among high school graduates age 25 and older.
- While their degrees afford them more opportunities in the labor market than other young workers, young

TABLE OF CONTENTS

www.epi.org

college graduates still lag far behind older college-educated workers: 9.3% of them are unemployed, more than double the 4.7% unemployment rate for college graduates age 25 and older.

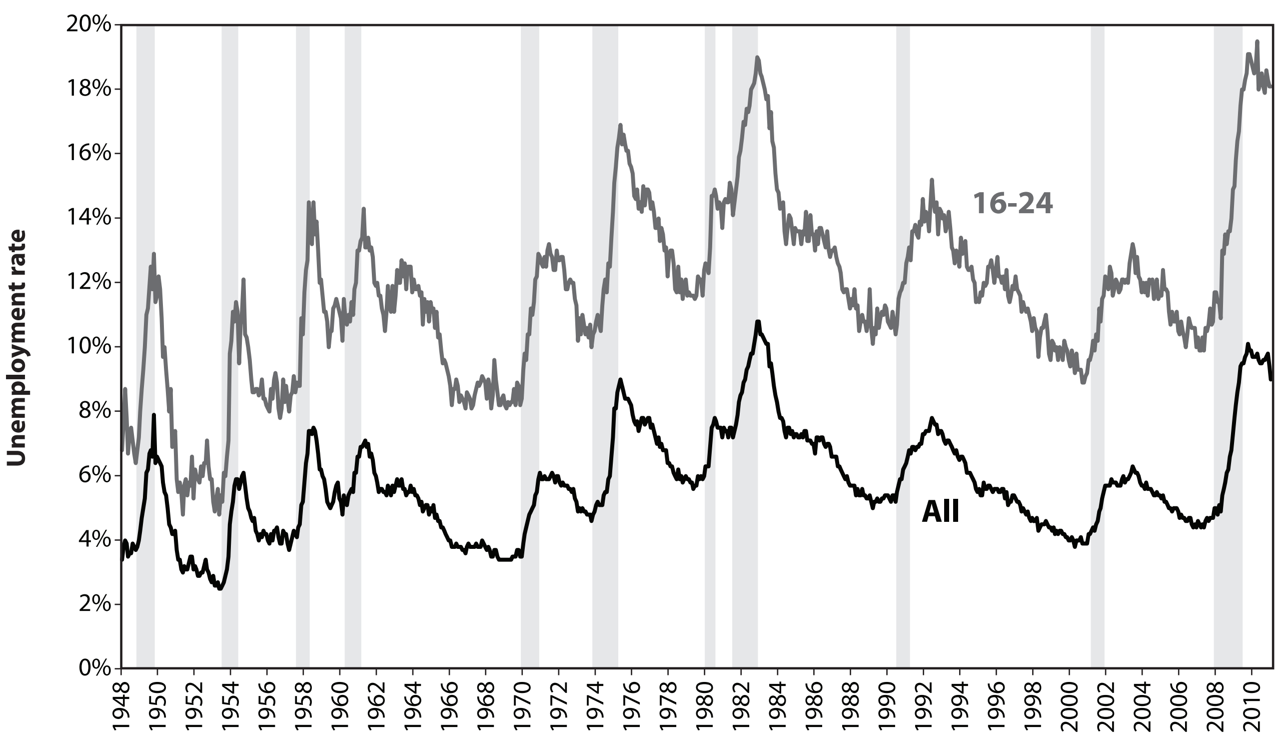
- Since unemployment among young college graduates still shows no improvement, the class of 2011 will likely face the highest unemployment rate for young college graduates since the Great Recession began.
- Young blacks and Hispanics are suffering disproportionately. The unemployment rate for black high school graduates under age 25 and not enrolled in school was 31.8%, compared with 22.8% for Hispanic high school graduates and 20.3% for white high school graduates. The unemployment rate for young black college graduates was 19.0%, compared with 13.8% for young Hispanic graduates and 8.4% for young white graduates.
- Young workers as a group have not been "sheltering in school" during this downturn. School enrollment rates since the start of the Great Recession have not increased by noticeably more than the long-term trend.

Introduction: Unemployment twice as high for young workers

In economic recessions as well as expansions, the unemployment rate for young workers tends to be about twice that of all workers (**Figure A**). With an *annual* average unemployment rate of 18.4%, 2010 was the worst year on record (going back to 1948) for young workers.

FIGURE A

Unemployment rate of workers age 16-24 and all workers, 1948-2011

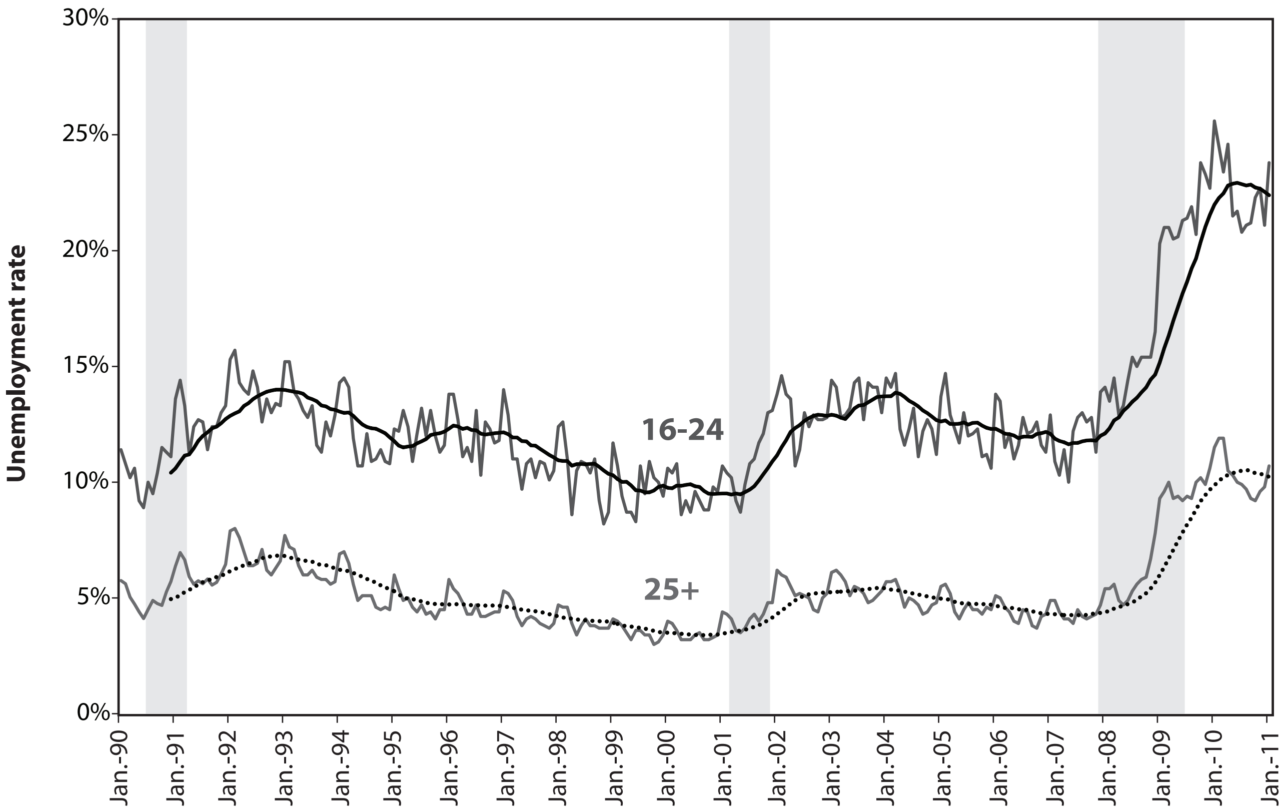


NOTE: Shaded areas denote recession.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

FIGURE B

Unemployment rate of high school graduates (not enrolled in school), age 16-24 compared with age 25 and older, 1990-2011



NOTE: Data are not seasonally adjusted. Trendline shows 12-month moving average. Shaded areas denote recession.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

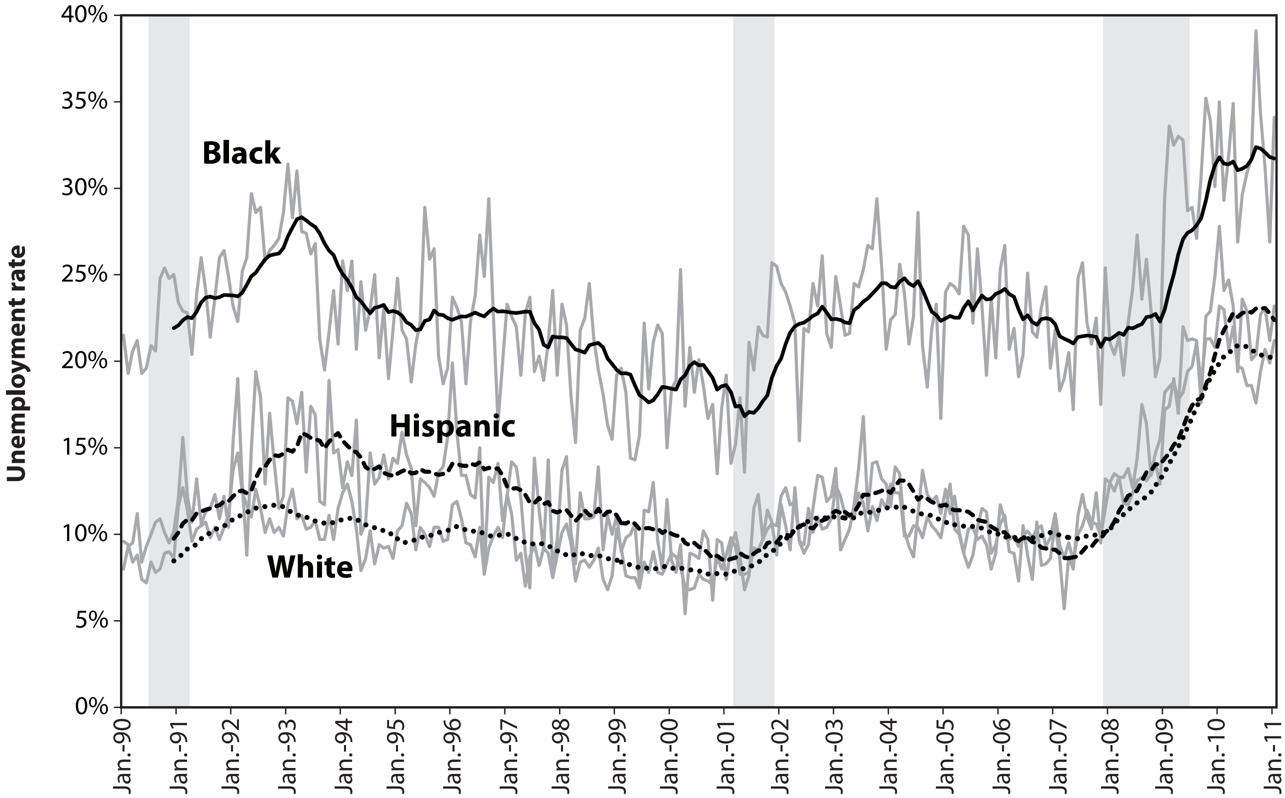
The group of 16- to 24-year-olds differs from the overall workforce in several ways. First, it is characterized by "churning," that is, these young workers are less likely to be tied for extended periods of time to employers, jobs, careers, or even cities. Second, its members have less experience and are often looking for their first or second job. Both of these factors contribute to higher unemployment rates. A third key difference for this group is school enrollment: More than half of 16- to 24-year-olds attend either high school or college. This paper examines young workers who are not enrolled in school by level of educational attainment and race, and looks separately at enrolled students to see if educational enrollment is the safety net that many presume it to be.

Employment of young high school graduates plummets

The unemployment rate for high school graduates under age 25 who were not enrolled in school jumped from 12.0% in 2007 to 22.5% in 2010.[1] This 10.5 percentage-point increase dwarfs the two prior recessions. In neither the 1990 nor 2001 recession did the 12-month moving-average unemployment rate for this group ever exceed 14.0%. **Figure B** shows the unemployment rate for high school graduates.

FIGURE C

Unemployment rate of high school graduates (not enrolled in school), age 16-24, by race, 1990-2011



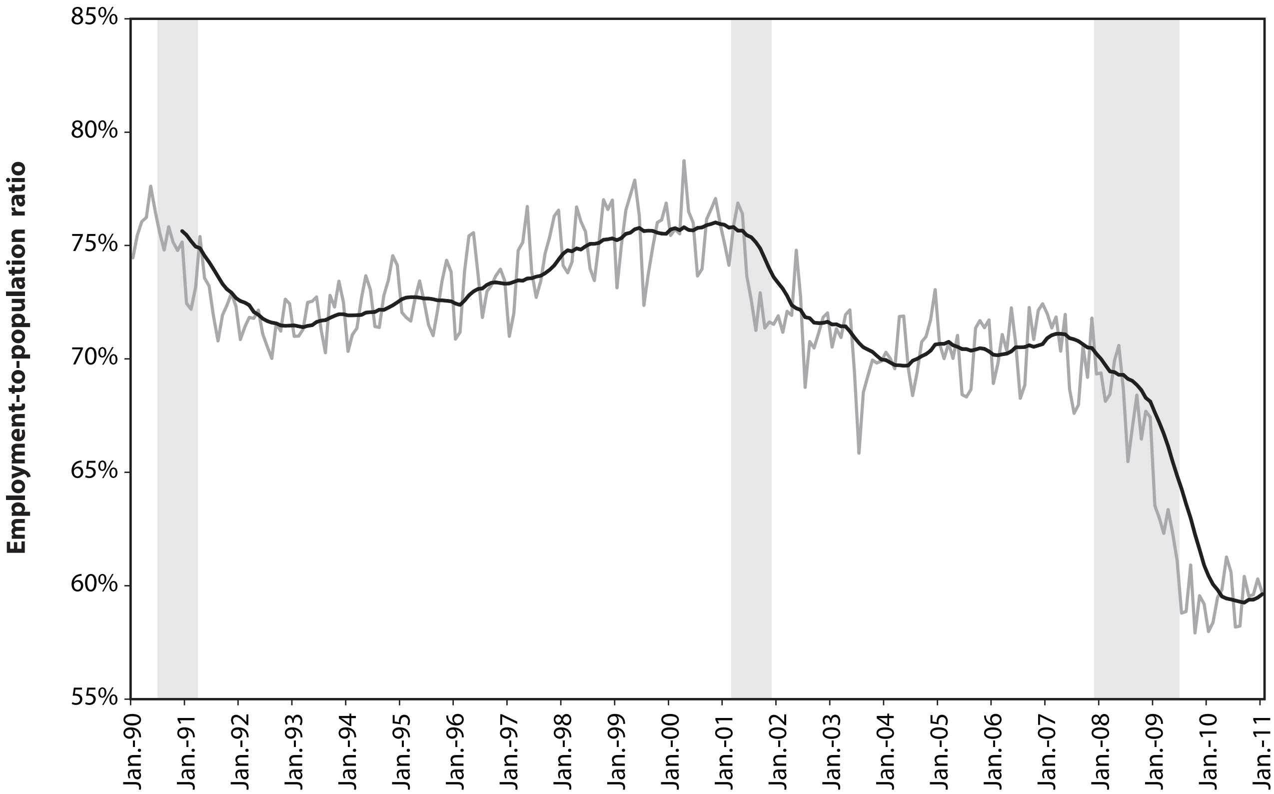
NOTE: Data are not seasonally adjusted. Trendline shows 12-month moving average. Shaded areas denote recession.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

As rates of unemployment increase, inequality within the labor market between races and ethnicities becomes more apparent. As reflected in **Figure C**, the average unemployment rate for white high school graduates in 2010 was 20.3% (up from 10.2% in 2007); for Hispanics the rate was 22.8% (up from 10.1%); and for black graduates it was 31.8% (up from 21.3%). Although unemployment rates for young white and Hispanic high school graduates are similar, the rate for young black high school graduates is much worse, in good economic times and bad. Although this trend is consistent with past recessions, it is still alarming that white and black graduates with the same education levels fare so differently in the labor market.

FIGURE D

Employment-to-population ratio of high school graduates (not enrolled in school), age 16-24, 1990-2011



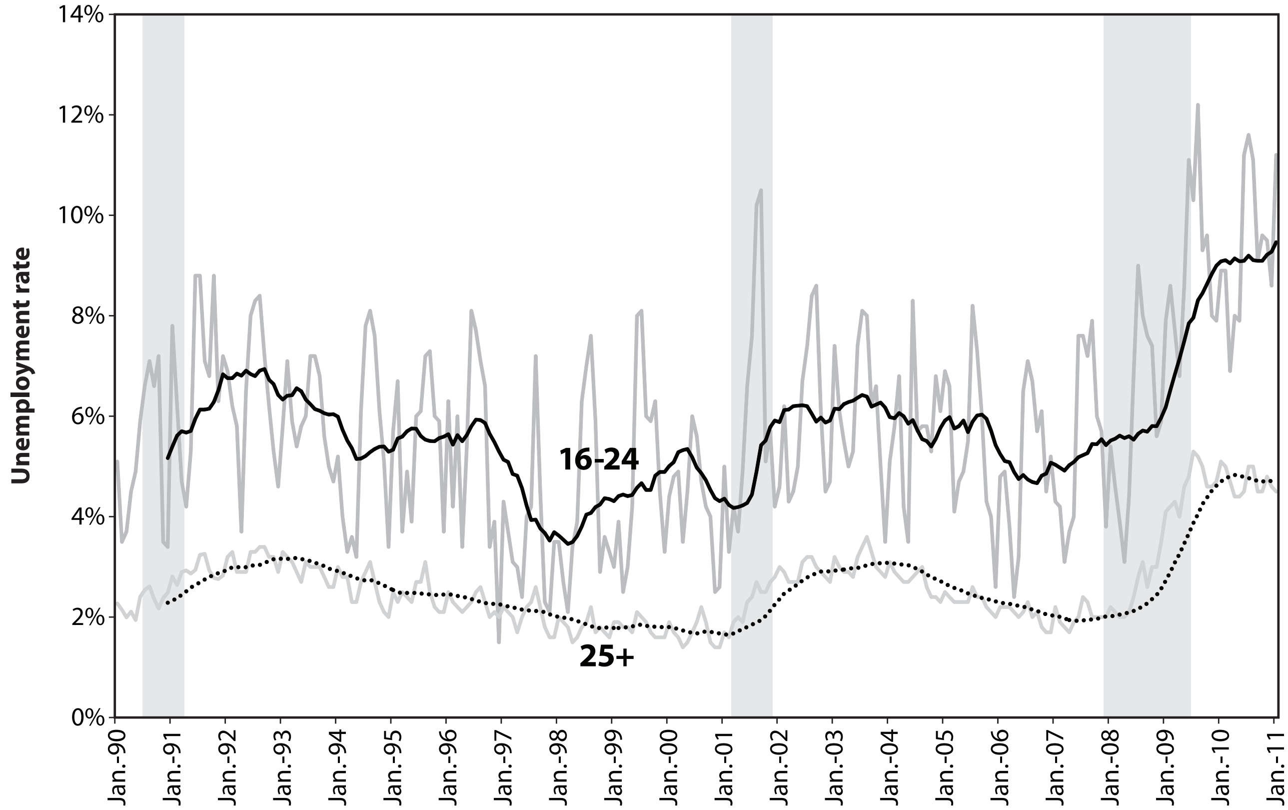
NOTE: Data are not seasonally adjusted. Trendline show 12-month moving average. Shaded areas denote recession.

SOURCE: EPI analysis of Bureau of Labor Statistics, Current Population Survey.

Between December 2007 and February 2010 (the Great Recession's employment trough), the U.S. labor market shed 8.7 million jobs, contracting by 6.3%. For young high school graduates who were not enrolled in college, this job loss translated into a steep decline in the employment-to-population ratio for this group (see **Figure D**). In 2007 70.2% of high school graduates who were not enrolled in school were employed; in 2010, only 59.5% of them were working. To put a decline that large in perspective, if the same employment decline had occurred in the U.S. labor market as a whole, an additional 14 million people would be without a job.

FIGURE E

Unemployment rate of college graduates (not enrolled in school), age 16-24 compared with age 25 and older, 1990-2011



NOTE: Data are not seasonally adjusted. Trendline shows 12-month moving average. Shaded areas denote recession.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

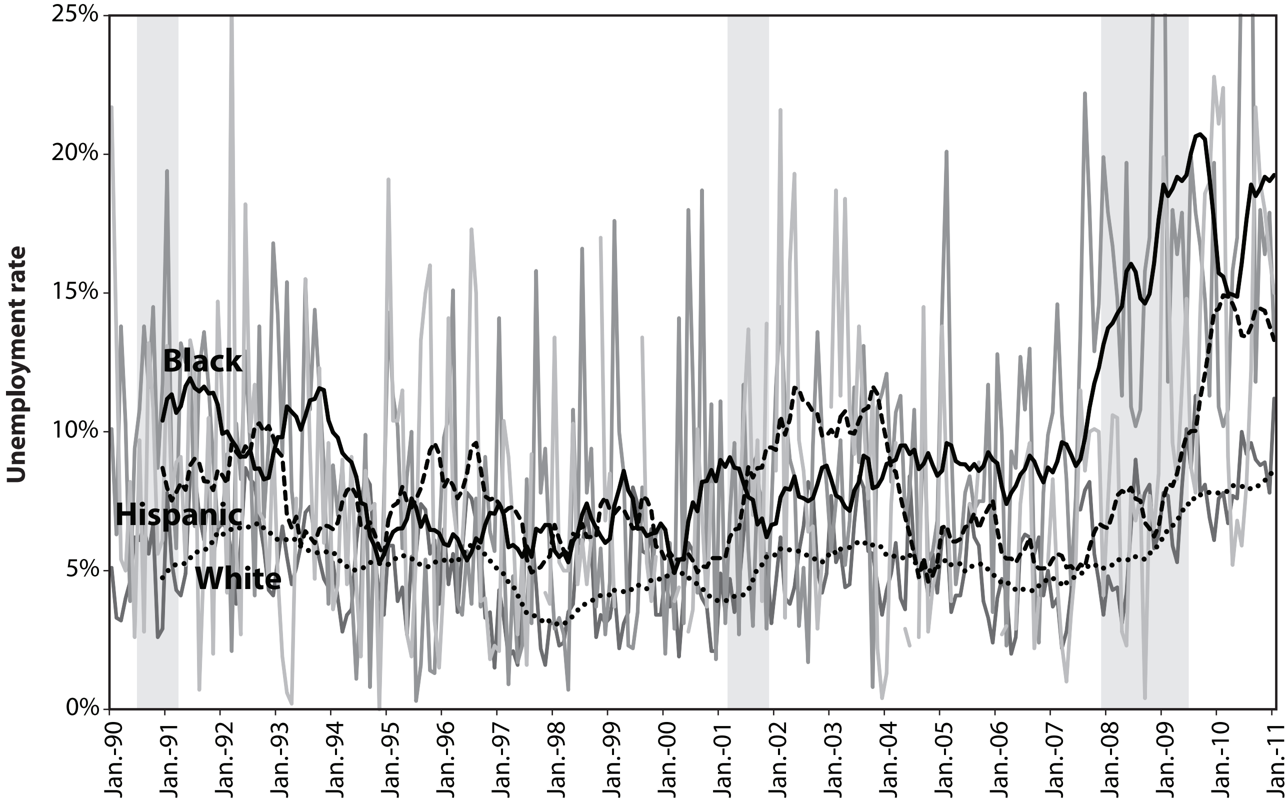
Young college graduates also struggle to find work

Because a college degree affords more opportunities in the labor market, unemployment among young workers with a bachelor's degree or equivalent is substantially lower than among other young workers. Young college-educated workers do, however, lag far behind older college-educated workers, as shown in **Figure E**. The unemployment rate of college graduates who are under 25 and not enrolled in school averaged 5.4% in 2007, jumped to 9.3% on average in 2010, and has yet to show any signs of improvement: Over the last 12 months (April 2010–March 2011), the unemployment rate for young college graduates has averaged 9.7%. This is much higher than the rate for this group at roughly the same point in the prior two recessions: The unemployment rate for young college graduates reached only 6.4% in the summer of 2003 and 6.9% in the summer of 1992.

Given that the unemployment crisis for young college graduates created by the economic downturn has yet to show signs of improvement, the class of 2011 will join the backlog of un- or underemployed graduates from the classes of 2010 and 2009 in an extremely difficult job market. In fact, it is likely that the class of 2011 will face the highest unemployment rate for young college graduates since the Great Recession began.

FIGURE F

Unemployment rate of college graduates (not enrolled in school), age 16-24, by race, 1990-2011



NOTE: Data are not seasonally adjusted. Trendline shows 12-month moving average. Shaded areas denote recession.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

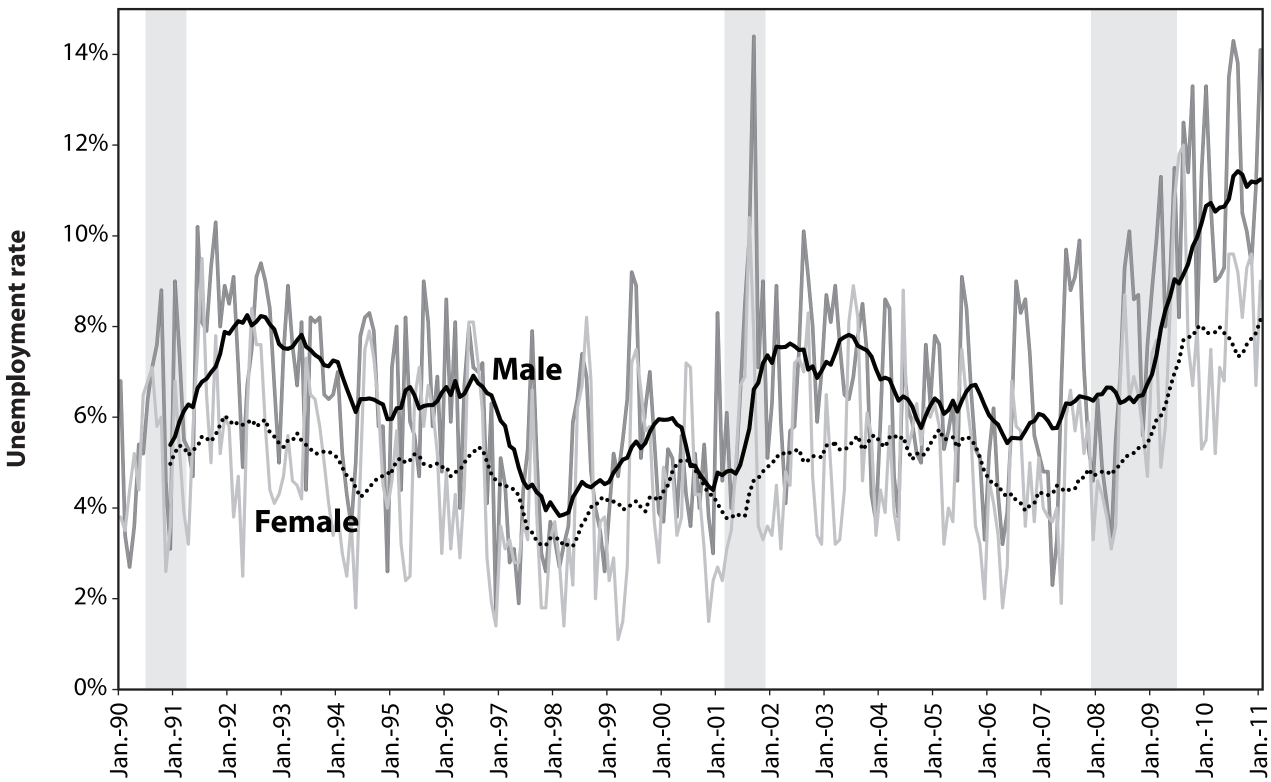
Furthermore, as discussed earlier, the high overall unemployment rate of young college graduates masks large differences among racial and ethnic subgroups. Black and Hispanic college graduates experience significantly higher unemployment rates during economic downturns than do white college graduates, as shown in **Figure F.**

The large gap between unemployment rates of white college graduates and their black or Hispanic counterparts raises troubling questions about the nature of the labor market and the relationship between education and mobility. In 2007, the unemployment rate for young college graduates was 5.1% for white workers, 6.6% for Hispanic workers, and 13.1% for black workers. In 2010, the disparities increased dramatically, as unemployment rose 3.3 percentage points for white graduates (to 8.4%), 7.2 points for Hispanic graduates (to 13.8%), and 5.9 points for black graduates (to 19.0%).

Indeed, Figure F indicates that, while the unemployment gap between races can decrease during economic expansions (as seen in the late 1990s), those gaps widen during and immediately following recessions. For graduates of color, the 2007 recession and its aftermath has been marked by regrettable milestones. Hispanic graduates saw an unemployment-rate increase that was twice as large as that for white graduates. Young black graduates—three years after the recession started—have a nearly one-in-five chance of being unemployed.

FIGURE G

Unemployment rate of college graduates (not enrolled in school), age16-24, by gender, 1990-2011



NOTE: Data are not seasonally adjusted. Trendline shows 12-month moving average. Shaded areas denote recession.

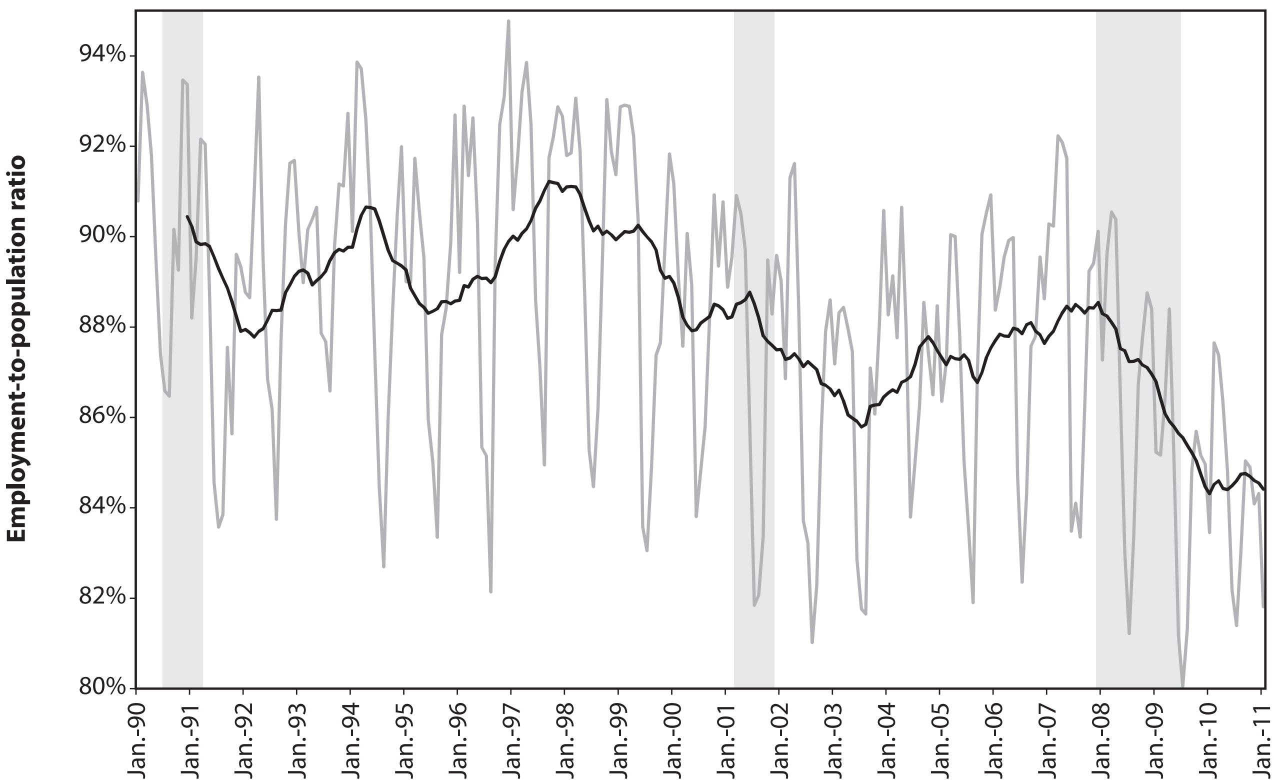
SOURCE: Bureau of Labor Statistics, Current Population Survey.

While it is true that even in the broader labor market, unemployment rates for blacks and Hispanics are higher, there arguably should be little disparity in the unemployment rates of young college graduates. Not only do they have the same basic degree, but they also are in the same labor market position (i.e., college graduates under age 25 who are not enrolled in school and are actively looking for a job). This begs the question: If higher education and a virtual blank slate of prior work experience do not create parity in unemployment among races, then what will?

Disparity in unemployment also persists by gender. Again, during robust expansions, such as occurred during the late 1980s and late 1990s, the unemployment gap between genders decreased. But during economic downturns, this gap increases, largely due to industry concentrations by gender. For example, college-educated women may experience less-severe unemployment increases than their male counterparts because they are more likely to work in industries that are buffered from cyclical downturns, such as health or education. **Figure G** shows the unemployment rate of male and female college graduates who have not gone back to school. In 2010, the unemployment rate for males in this group was 11.2%, compared with 7.9% for females.

FIGURE H

Employment-to-population ratio of college graduates (not enrolled in school), age 16-24, 1990-2011



NOTE: Data are not seasonally adjusted. Trendline shows 12-month moving average. Shaded areas denote recession.

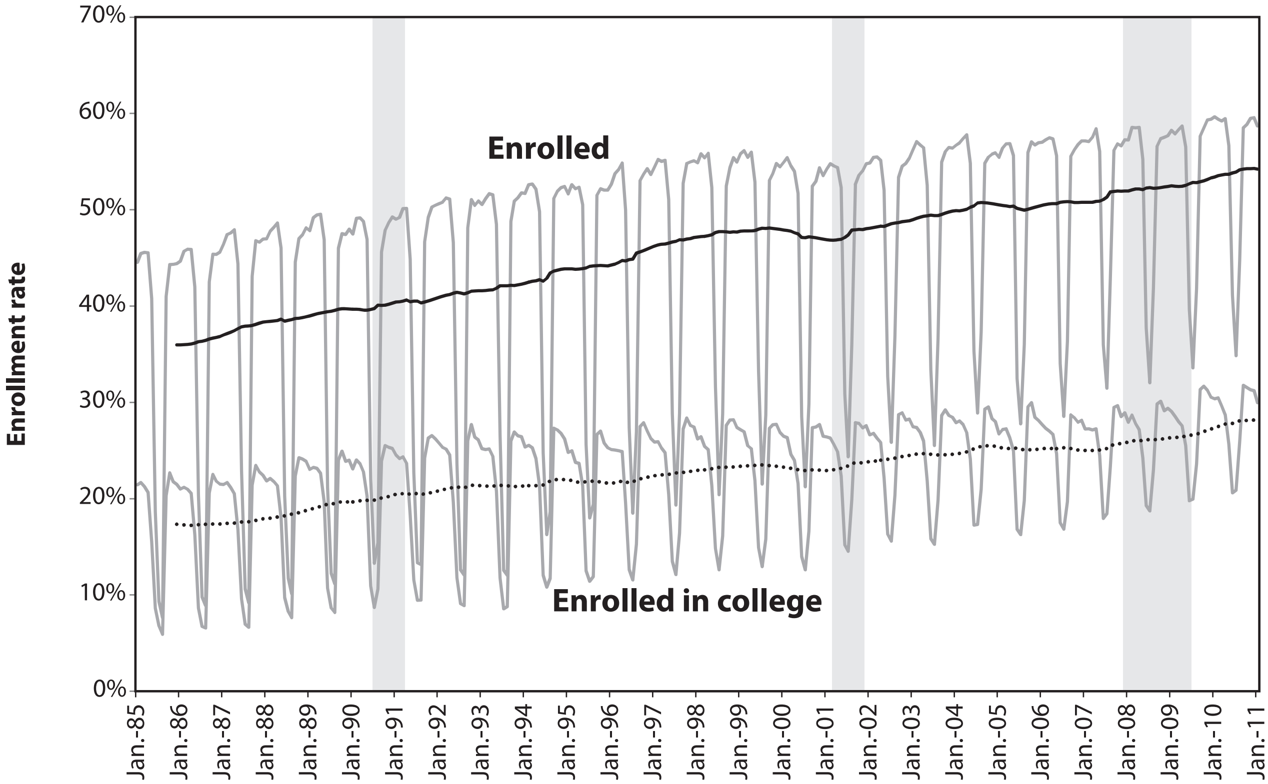
SOURCE: EPI analysis of Bureau of Labor Statistics, Current Population Survey.

As with high school graduates, the high unemployment rates of college graduates can be traced back to the huge loss of jobs in the Great Recession. **Figure H** shows the employment-to-population ratio of college graduates under age 25, which fell four full percentage points from 88.5% in 2007 to 84.5% in 2010.

This drop in employment among college graduates is not as large as that for high school graduates, but it is far worse than historical trends. Young college graduates typically have a very strong labor market attachment; by attending and graduating college, they have just made a significant downpayment on their career in terms of both time and money. At 84.5%, the employment-to-population ratio of young college graduates has significantly declined from the average of 89.3% over the 1990s business cycle and 87.4% over the 2000s business cycle. Due to poor labor market conditions since the Great Recession, more than 15% of non-school-enrolled college graduates under age 25 do not have a job.

FIGURE I

Share of 16- to 24-year-olds who are enrolled in school, 1985-2011



NOTE: Data are not seasonally adjusted. Trendline shows 12-month moving average. Shaded areas denote recession.

SOURCE: EPI analysis of Bureau of Labor Statistics, Current Population Survey.

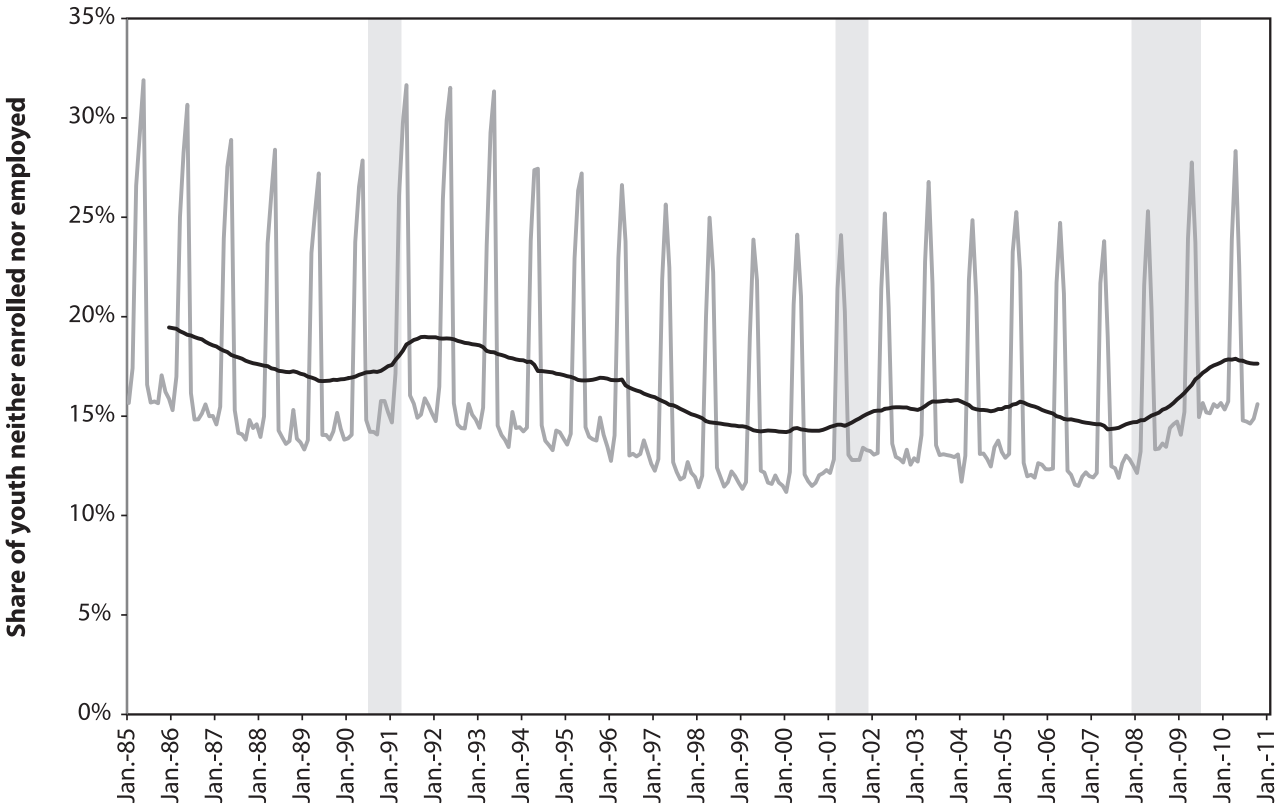
Young workers are not sheltering in school

A potential silver lining to the labor market deterioration confronting young graduates might exist if the lack of jobs propelled an increase in school enrollment and educational attainment, with young workers discouraged by the job market waiting out the downturn by getting additional schooling. While it is appealing to think that school can provide a safe haven from a desperate labor market, there is no evidence of a substantial uptick in enrollment due to the Great Recession.

The share of 16- to 24-year-olds who are enrolled in either high school or college generally has been increasing over time, and was at 54.3% in 2010, up from 51.9% in 2007 and 36.0% in 1985. However, the increase in the enrollment rate in 2008 (+0.5 percentage points), 2009 (+0.9), and 2010 (+1.0) is not a dramatic departure from the 0.7 annual percentage-point increase that enrollment has maintained since 1985. **Figure I** shows no notable cyclicality in enrollment rates from 1985 to the present. Enrollment has continued its upward trend, without any clear relationship to the business cycle or periods of high unemployment, now or in the past.

FIGURE J

Disconnected youth: Share of 16- to 24-year-olds who are neither enrolled nor employed, 1985-2011



NOTE: Data are not seasonally adjusted. Trendline shows 12-month moving average. Shaded areas denote recession.

SOURCE: EPI analysis of Bureau of Labor Statistics, Current Population Survey.

More importantly, seeing enrollment as a solution to a troubled labor market assumes that students and workers are two distinct, disparate groups. However, from 1985 to 2007, nearly half (47.8%) of *all* the students age 16-24 had a job or were actively looking for work. If looking at *colleg*e students only, the rate jumps up to 58.0%. The reasons for working during school vary—they can include paying for school, saving for additional education, or covering living expenses. Enrollment is not a broad answer for unemployment among young people because unemployment is a problem for enrolled students, too, who saw their unemployment rate increase from 9.7% in 2007 to 16.6% in 2010. If a student needs a job to afford to remain in school, and a poor labor market means they are unable to find such work, they will not be able to "shelter in school." In this downturn, certainly some students have the resources to take shelter in school, but the lack of a substantial increase in enrollment overall shows that this group has been offset by students who had to drop out of school because a lack of work meant they could not afford to attend.

Further evidence that school enrollment is not a viable alternative to unemployment for most students can be found in data on "disconnected youth," which looks at 16- to 24-year-olds who are neither employed nor enrolled in school of any kind. The rate averaged 14.5% in 2007, but has increased to an average of 17.6% in 2010, the highest annual rate since 1994. This means an additional 1.2 million 16- to 24-year-olds have become disconnected from the labor force since 2007, and unlike enrollment, the increase is clearly cyclical, as shown in **Figure J**.

No 'safety net' for young workers

Young workers across educational, racial, and ethnic categories have seen their unemployment rates roughly double. Without employment, what safety net exists for these new entrants to the labor market?

Here, again, enrollment is an issue. Often framed as a way for a young person discouraged with the job market to ride out the downturn, enrollment is therefore an *assumed* safety net for 16- to 24-year-olds. Yet as Figure I shows, enrollment rates in fact do not react to changes in the business cycle, and in particular they have not increased during the Great Recession beyond what would be expected given the long-term trend. That is, it is undoubtedly true that some 16- to 24-year-olds are able to seek additional education during a weak labor market, but the lack of a substantial increase in enrollment shows that this has not been a feasible option for the majority of young workers. In other words, school is not a viable safety net for most young workers.

A significant barrier to enrollment is the high cost associated with additional education. In the 2008-09 school year, the total cost of attendance for an on-campus student—including tuition, books, room and board, and transportation expenses—at a four-year public school averaged $18,539. For a four-year private school, it was $38,100.[2] In 2009, the median household income was $49,777. Enrolling in a public four-year college would consume over one-third of the typical family's before-tax income; a private university or college would claim over three-quarters.

Unsurprisingly, graduates typically find themselves strapped with debt: In 2009, 56% of public school students graduated with debt averaging $20,467, and 65% of private school students graduated with debt averaging $26,728.

High debt underscores why young workers need a safety net. Without significant prior work experience, there is little chance new entrants to the labor market have accrued savings, and young graduates in particular are likely to have substantial debt. In other words, it is very unlikely for young workers to have an *individual* safety net.

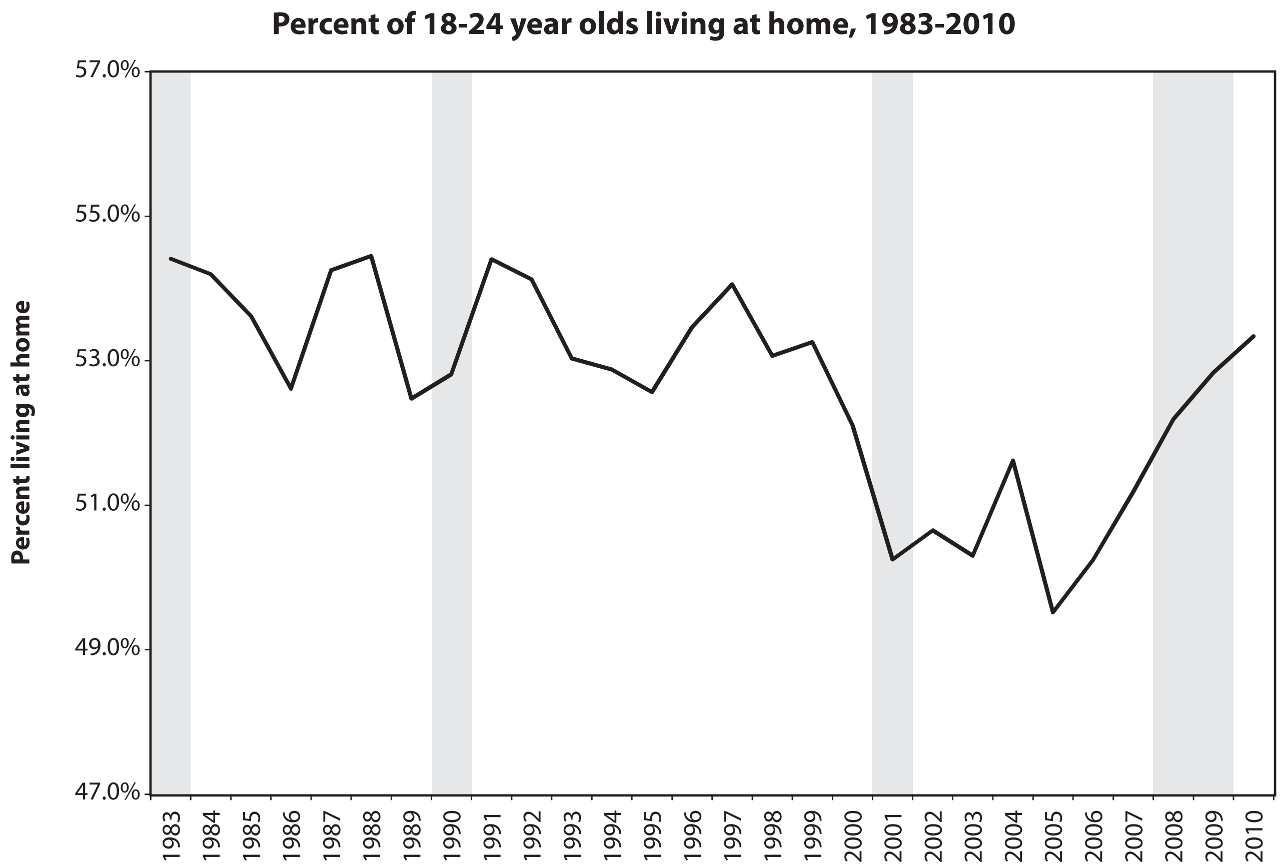
Compounding this vulnerability is the fact that there are scant public safety net programs for young workers. Unemployment insurance (UI), the traditional assistance program that offers cash benefits to partially replace lost wages when a worker is laid off through no fault of their own, has strict eligibility requirements. A new entrant to the labor market is simply not eligible, no matter how scarce jobs are. Even those who have been laid off from a job must meet state requirements for wages earned and/or time worked during an established reference period. Young workers often fail these eligibility requirements due to their more intermittent attachment to the labor market.

Furthermore, programs such as Temporary Assistance for Needy Families (TANF), also known as welfare, have work requirements and are only applicable to parents with children. The Supplemental Nutrition Assistance Program (SNAP), also known as food stamps, does allow for able-bodied adults without dependents to collect benefits, but only for three months in a 36-month time period. Also, programs such as the Earned Income Tax Credit (EITC) are one of the many "work support" systems in which eligibility requires employment.

The Patient Protection and Affordable Care Act enacted in 2010 made policy changes that make it easier for young adults without children to qualify for Medicaid, the state-administered program that provides health insurance to low-income individuals. Beginning in 2014, all low-income individuals, including young adults, will be eligible for Medicaid if they fall below 133% of the federal poverty line, which was about $14,800 for a single person under age 65 in 2009. Moreover, low-income individuals will receive subsidies to purchase health insurance in the new insurance exchanges, but again, this does not start until 2014.

A young graduate, therefore, is extremely unlikely to qualify for any public support programs in the event of unemployment. In a way, young workers highlight the frayed seams running through the U.S. safety net. While it is a matter of debate whether government support should be focused on children and their guardians, or should be more fully shifted to a system of work supports, it is problematic that a group that has seen its unemployment rate nearly double has virtually no help from the government. In a very real sense, young workers do not have a public safety net to fall back on, even in times of persistent high unemployment.

FIGURE K



NOTE: Shaded areas denote recession.

SOURCE: EPI analysis of Current Population Survey, Annual Social and Economic Supplement.

Unable to find shelter in school enrollment, lacking savings (or, worse, saddled with student loan debt), and having no access to government safety net programs, most young workers must, if they are able, get support from their family. **Figure K** shows the percentage of 18- to 24-year-olds living at home, with a clear and dramatic spike as a result of the 2007 recession.

Needing family support makes young workers a burden. Not only are they not earning wages, and therefore not contributing financially to the family, but they require resources that could have been spent elsewhere, resources that in many cases come from parents, other family members, or friends who themselves may have directly felt the pain of the Great Recession through job loss, hours reductions, the loss of a home or home equity, or a loss of retirement savings through their 401(k). However, for most young workers, family and friends are the only safety net available.

Downturn affects young workers' futures

A downturn in the youth labor market is particularly worrisome because it comes at a crucial time for these workers, regardless of whether they are still in school or have graduated and are looking for their first full-time position. For teens not yet finished with high school, their work experience is characterized as being path-dependent—work status in one period is sensitive to work status in the time period prior (Sum 2008). Individuals with more work experience are more likely to work; the teen who got the after-school job during high school is more likely to get a full-time position after high school. This makes perfect sense: Those with more work experience have shown both basic job skills and benefited from human capital investment (e.g., training) that make them more attractive for further work. With a dramatic downturn in the labor market, fewer young workers are being prepared for this path.

For graduates, the problem is two-fold. First, even if young graduates are employed, they likely may be more compelled to accept positions below their skill levels (e.g., a college graduate who waits tables). For many young labor market entrants, taking a job for which they are overqualified is a decision motivated by financial need—they cannot afford to wait out the economy's downturn. However, the loss of human capital (and/or the delay in human capital growth) that occurs when a young graduate must take a job that does not utilize his or her acquired skills contributes to the long-run negative effect of recessions on the wages of young workers (Kahn 2009).

Appropriate skills-based job placement is only one problem for graduates, however: The second is job mobility. Again, the labor market experience of young workers (of any education level) is characterized by more churning than other age groups, as workers try out different fields, employers, and cities (Elwood 1979; Gardecki and Neumark 1998). Some see this churning as positive because job mobility can be associated in part with the search for higher wages (Topel and Ward 1992). This logic is simple enough—each new job typically brings higher wages, therefore promoting greater mobility, and thus greater wage potential. With higher unemployment, however, that mobility is curtailed as available jobs become scarce.

Conclusion: Strong job growth is key

Although the recession started over three years ago and officially has been over since the summer of 2009, the class of 2011 faces an extremely difficult job market, with long-lasting effects for these graduates. High unemployment among new college graduates in particular underscores the fact that today's unemployment problem did not arise because workers don't have the right skills. Nor is high unemployment for well-educated young workers the result of a mass shift among undergraduates toward the wrong major, a lack of motivation or work ethic, or even a lack of skills in finding jobs. The class of 2011 is one of the many casualties of a lack of *demand for workers* in the overall economy. When recovery comes to the broader labor market, it will come to the youth labor market as well. Unfortunately, most economic indicators suggest that such a recovery will be excruciatingly slow.

Young workers' position in the labor market is unique, and hence so are the repercussions, but that does not mean that they require a unique solution. They need the strong job growth that characterizes a strong recovery. The fact that the unemployment rate for 16- to 24-year-olds has been well over 16% for two years straight underscores how premature is a deficit debate that fixates on deep cuts in federal spending. To give a fighting chance to young people who through no fault of their own are entering the labor market during the aftermath of the Great Recession, we should focus the discussion on substantial additional stimulus spending to create jobs.

Endnotes

1. The monthly unemployment data for young workers by education, race, and enrollment status are not seasonally adjusted. Because of the small sample size and the lack of controls for seasonal fluctuations in the data in the summer months, a month-to-month comparison of the numbers is not possible. For this reason, all data used are 12-month averages for the year given, unless the text specifically refers to the 12 prior months.

2. From The Institute for College Access & Success and the U.S. Department of Education Common Data Set (CDS).

References

Ellwood, D. 1979. "Teenage Unemployment: Permanent Scars or Temporary Blemishes?" Working Paper no. 399. Cambridge, Mass.: National Bureau of Economic Research.

Gardecki, R., and D. Neumark. 1998. "Order from chaos? The effects of early labor market experiences on adult labor market outcomes." *Industrial and Labor Relations Review*, vol. 51, no. 2, pp. 299-322.

Kahn, L. 2009. *The Long-Term Labor Market Consequences of Graduating From College in a Bad Economy.* Princeton, N.J.: Yale School of Management

Sum, A. et al. 2008. *The Continued Collapse of the Nation's Teen Job Market and the Dismal Outlook for the 2008 Summer Labor Market for Teens: Does Anybody Care?* Boston, Mass.: Center for Labor Market Studies.

Topel, Robert and Michael P. Ward. 1992. "Job Mobility and the Careers of Young Men." *Quarterly Journal of Economics,* vol. 107, no. 2, pp. 439-479.