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U.S. Youth: A Lost Generation in the Making?

The Great Recession wreaked havoc on financial and labor markets across the globe. Officially dated December 2007 through June 2009, the U.S. recession, to various degrees, is still being played out. The focus of this piece is to look at trends in the U.S. youth labor market both during and in the aftermath of the Great Recession. As was the case in Europe, the unemployment rates of American youth increased dramatically over the downturn, and they remain high today. But were the increases in the U.S. outside of historical norms, and how do they compare to those experienced in Europe?

Trends in youth unemployment in the U.S. generally mirror trends in overall unemployment. Over the past three decades, the rate for youth aged 16 to 24 has averaged twice the overall unemployment rate. Just prior to the Great Recession at the peak of the economic cycle in 2007, the general unemployment rate in the U.S. was 4.6%, while the rate for youth was 10.5%. In 2012, the respective figures were 8.1% and 16.2%. The ratio of youth unemployment to the overall rate fluctuates depending on the economic cycle, decreasing during expansions and increasing during recessions due to the disproportionate effects that expansions and recessions have on youth employment levels. It should be noted that in the U.S. there are significant differences within the youth cohort itself. For instance, unemployment is significantly higher for teenagers (16-19) compared to young adults aged 20-24; in 2012, unemployment rates for these two groups were 24.0% and 13.3% respectively.

Given these general trends, were unemployment rates for young workers outside of recent historical norms during the Great Recession? One outcome from the recession was that unemployment breached modern day records for many groups of workers. For instance, workers with a college degree, who typically have the lowest unemployment rates among all educational cohorts, increased from just two percent in 2007 to five percent during the crisis – low in relation to overall unemployment but very high for this group. Post-recession research has generally shown that the rates of unemployment for young workers were not relatively aberrant, especially when compared to the deep recession of the early 1980s. Recessions do not uniformly affect everyone, and as in the past, the brunt of the Great Recession fell on those with less education, racial and ethnic minorities, and the young.

So, while youth did not fare well, neither did anyone else, and as the economy started slowly expanding and job growth followed, both the overall and youth unemployment rates gradually rebounded. These recent trends also push back against the notion often put forward in the U.S. that the current problems in the labor market are predominately structural and not cyclical. In reality, the ill-timed pursuit of austerity in the midst of a deep recession and jobs crisis delayed recovery.

In comparison to the European experience (I refer to the EU15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom), the story is mixed. Heading into the recession in 2007, the average unemployment rate for 15-24 year olds in the EU15 was 14.9% compared to 10.5% in the U.S., as reported by the OECD. The rate topped out at 18.4% in 2010 for the U.S., at which time it was 20.0% for the EU15. However, by 2012 the U.S. rate had decreased to 16.2%, while the EU15 rate continued to climb upward (22.2%). Looking more closely at individual countries, the high European averages are significantly driven by devastating rates in select countries. In 2012, youth unemploy-

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ment rates for Greece and Spain were 55% and 53%, respectively, and were predicted to climb further. Comparatively, the rate in Germany (8.1%) is low and falling.

One important detail to keep in mind when comparing unemployment across countries is the different labor force participation rates (LFPRs). In 2012, the youth LFPR was 47.2% in the EU15 compared to 54.9% in the U.S. There is also considerable cross-country variation in the EU15. Interestingly, since 2000 the youth LFPR in the U.S. has fallen from 65.5% to 54.9%, while it has been relatively flat on average for the EU15, decreasing by just 2.2 percentage points.

Notably, there has been a much longer downward trend in youth LFPRs in the U.S., especially for teenagers. Long-run changes and cross-country differences in participation rates depend on various factors, such as high school and college enrollment, the propensity of students to work, summer programs to employ youth, labor policies such as training programs, as well as customs and norms. The teen LFPR peaked in 1979 at 57.9%, and by 2012 it had dropped 23.6 percentage points to 34.3%. It is important to note that current conditions conform to this long-run development of youth LFPRs: rates declined significantly over each of the last four recessions but did not rebound. Instead, they stayed relatively flat in subsequent recoveries, resulting in an extended downward trend in youth labor force participation. Today, both the teenage and the young adult rates have leveled off from recessionary declines, but only time will tell if rates will recover or remain flat.

What is clear is that recent high school and college graduates who have entered or tried to enter the labor force over the last six years have certainly had a tough go of it. Research has shown that workers who start their working lives during a weak versus a strong economy will be affected not just in the short run but perhaps well into their working lives. These effects come from several channels. For example, workers' short-run earnings are depressed as they may not find employment or they take jobs less suitable given their education and skill levels and thus miss out on early career building. Or, if they are lucky enough to land a suitable job, the starting pay may be lower than it otherwise would have been, which affects their life-time earning potential. In the longer term, workers entering the labor market in a weak economy may experience reduced and more volatile earnings, along with a higher probability of unemployment spells. While these initial effects may diminish over time, forgone earnings can never be made up.

Today, the U.S. is well into its fifth year of official economic recovery, and the labor market remains nearly two million jobs short of where it was prior to the recession. Moreover, given growth in the labor force over this period, the U.S. needs approximately 9-10 million jobs to move the needle on unemployment below five percent. The shortfall in jobs and the fact that the economy is running far below capacity – estimated GDP is about six percent below potential – clearly indicate that the economy needs the boost provided by an additional fiscal stimulus. However, this will not be coming from our leaders in Washington, who remain misguidedly focused on debt, even though debt levels in the U.S. are currently not at crisis levels (see Dean Baker's Letter from America[1]).

1 D. Baker: The Fiscal Cliff Crisis and the Real Economic Crisis in the United States, in: Intereconomics, Vol. 48, No. 1, 2013, pp. 67-68.