

## Testimony Before the Joint Economic Committee of the U.S. Congress

### Avoiding a Lost Generation: How to Minimize the Impact of the Great Recession on Young Workers

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Good morning. I would like to make four points today regarding the status of youth in the labor market, both in the “Great Recession” in which we find ourselves and beyond.

- *Even in the best of times, disadvantaged and less-educated youth suffer from low levels of education and academic achievement as well as low rates of employment and earnings, with many “disconnecting” from both school and the labor market altogether.*

American youth continue to drop out of high school at high rates, and many fail to obtain any postsecondary education. For instance, our best estimates are that about 25 percent of all American youth still drop out of high school and that another 25 percent (or a third of high school graduates) obtain no postsecondary education. Of those who attend college (2-year or 4-year), a majority fail to obtain any credential – even an occupational certificate – within six years. And all of these numbers are considerably worse among minorities and low-income youth.<sup>1</sup>

Employment outcomes for less-educated youth, especially high school dropouts, are very weak. In a typical month, fewer than half of adult high school dropouts are employed at all, and large percentages do not participate in the labor market. Employment rates among teens have also declined dramatically since 2000, though their school enrollment rates have not improved so much in that time period. When they do work, the earnings of high school graduates and dropouts with no postsecondary credential are quite low and have stagnated over time.

And outcomes for young African Americans, especially young men, are very discouraging. Their high school dropout rates remain well over 30 percent. Of those who drop out, employment rates and earnings are very low, unwed fatherhood is very high, and most become incarcerated before they reach age 30.<sup>2</sup>

- *Employment outcomes for youth have substantially worsened during this recession, and will likely remain very weak for the next 3-5 years.*

Employment and unemployment rates among teens in 2009 and 2010 have been among the worst ever recorded. Monthly employment reports from the Bureau of Labor Statistics now show teen unemployment rates average about 25 percent most months, with only about 35 percent of the population in the labor force and about 25 percent of

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<sup>1</sup> See Heckman and LaFontaine (2007) and Bailey et al. (2005).

<sup>2</sup> See Hill et al. (2009) and Raphael (2010).

the population employed. Among black teens, these numbers are substantially worse - with unemployment at about 40 percent, labor force participation at 25 percent, and just 15 percent of the population employed.

Employment rates for those aged 20-24 and 25-29 are also substantially lower than in 2007, though the declines for these groups are not quite as severe as for teens.<sup>3</sup>

And these unemployment rates will likely remain elevated for some time. Economists project high unemployment rates for years to come.<sup>4</sup> Long-term unemployment is already very high, with nearly half of the unemployed having been out of work for six months or longer, and this percentage will likely rise over the next several years.

- *The high unemployment of youth over the next several years will cause not only short-term losses of income but also long-term “scarring,” in terms of lost earnings capacity.*

Long-term unemployment tends to cause some erosion in worker skills, especially if their old jobs have been permanently eliminated and they need to transition to new sectors of the economy for employment.

Prof. Lisa Kahn of Yale has demonstrated that young people who graduated from college during the serious recession of the early 1980s suffered permanent earnings declines over time. While the evidence of long-term “scarring” for less-educated younger workers is not as clear, some evidence certainly exists for these groups as well.<sup>5</sup>

Some young people will no doubt take advantage of the recession and choose to enroll in school, understanding that the “opportunity cost” of reduced earnings while they study is lower in a recession. Indeed, graduate school applications and enrollments have a well-known countercyclical pattern. There also appears to be a large spike right now in community college enrollments, especially among unemployed adults who can return to school while they collect unemployment insurance (and maybe have Pell grants as well).

But whether this broader pattern will be observed among lower-income youth remains to be seen; and whether completion rates at both the high school and postsecondary levels will improve at all, even with rising enrollment, is unclear as well.

Finally, we have no evidence yet of higher crime rates among disconnected low-income men. Indeed, the drop in crime that has occurred nationally since the mid-1990s seems to have persisted so far. But we do have some evidence of mildly countercyclical crime rates; and, if both crime and incarceration rates begin to rise over the next several years, the “scarring” effects on victims and also on those youth who become incarcerated will be quite severe. With rising poverty rates that will also persist for many years,

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<sup>3</sup> See Sum et al. (2010).

<sup>4</sup> The Obama Administration forecasts annual unemployment rates of 10.0, 9.2, 8.2, 7.3, 6.5 and 5.9 percent over the years 2010-15 (Council of Economic Advisers, 2010).

<sup>5</sup> See Kahn (2009) and Gardecki and Neumark (1998).

neighborhoods of concentrated poverty may become increasingly difficult places for youth who are trying to transition to adulthood.<sup>6</sup>

- *Policy efforts should focus on some short-term job creation, but especially on enhancing education and training efforts (with work experience components) that will improve their labor market status over the longer-term.*

I strongly support enhanced efforts to spur additional job creation, in both the private and public sectors, with the latter heavily targeted to low-income youth.<sup>7</sup> I also support extensions of summer youth employment programs, but much prefer year-round programs linked to schooling or other skill-building components attached. And publicly paid “transitional jobs” for hard-to-employ groups should be expanded as well.

But high-quality education and training options for youth, and especially those who are disadvantaged, should also be enhanced. These options should be designed to address longer-term problems, but should be ramped up now while unemployment for young people is so high. And, wherever possible, these efforts should include opportunities for them to gain some type of paid work experience, at least partly subsidized by government.

For young people in high school, this means dropout prevention efforts, high-quality career and technical education options, and subsidized internships and apprenticeships. Programs that create pathways for high school students into postsecondary programs should be further developed.<sup>8</sup>

For young people in college – both at 2-year and 4-year institutions – a range of curricula improvements and support services could improve completion rates in both certificate and degree programs. More information and counseling about labor market opportunities need to be generated, so they wisely pick areas of concentration. In general, states need to better integrate their education and workforce development systems, and actively develop a wide range of “career pathways” based on data of which economic sectors are likely to generate strong employment demand over the coming years.<sup>9</sup>

Special efforts should also be made for out-of-school youth, especially those who have dropped out. These efforts might include more funding for: 1) Service employment, such as YouthBuild and the Youth Service and Conservation Corps; 2) Sectoral training efforts, like Year Up and other programs recently evaluated so positively by PPV; 3) Dropout recovery and reconnection efforts, like the National Guard ChalleNGe and the Gateways programs; and 4) Efforts to build local youth systems, like the Youth Opportunities program in low-income neighborhoods and some larger efforts like the Philadelphia Youth Network.<sup>10</sup>

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<sup>6</sup> See Raphael and Winter-Ebmer (2001) and Raphael, op. cit.

<sup>7</sup> See Bartik (2010) and Holzer and Lerman (2009).

<sup>8</sup> See Lerman (2007).

<sup>9</sup> See Holzer and Nightingale (2009).

<sup>10</sup> See Heinrich and Holzer (2010).

Several federal legislative vehicles already exist through which these efforts. President Obama's American Graduation Initiative provides grants to community colleges, which could be broadened (according to his original vision) with grants to states as well. The Elementary and Secondary Education Act (ESEA) and Perkins Act provide opportunities for programs that enhance graduation rates and labor market preparation for in-school youth, while the Workforce Investment Act could do more for those out of school.

And, while these efforts would cost some federal funds over time, the social and costs of *not* investing in our most vulnerable young people will be far greater over time. Sensible and cost-effective investments based on evidence of success, and with incentives for performance, should be made even in difficult fiscal environments. Given the state of the economy now and for the next several years, these efforts are quite urgently needed.

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