

# Labor Market Outcomes and the Transition to Adulthood

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*Sheldon Danziger and David Ratner*

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## Summary

According to Sheldon Danziger and David Ratner, changes in the labor market over the past thirty-five years, such as labor-saving technological changes, increased globalization, declining unionization, and the failure of the minimum wage to keep up with inflation, have made it more difficult for young adults to attain the economic stability and self-sufficiency that are important markers of the transition to adulthood. Young men with no more than a high school degree have difficulty earning enough to support a family. Even though young women have achieved gains in earnings, employment, and schooling relative to men in recent decades, those without a college degree also struggle to achieve economic stability and self-sufficiency.

The authors begin by describing trends in labor market outcomes for young adults—median annual earnings, the extent of low-wage work, employment rates, job instability, and the returns to education. Then they examine how these outcomes may contribute to delays in other markers of the transition to adulthood—completing an education, establishing independent living arrangements, and marrying and having children. They conclude that adverse changes in labor market outcomes are related to those delays but have not been shown to be the primary cause.

Danziger and Ratner next consider several public policy reforms that might improve the economic outlook for young adults. They recommend policies that would increase the returns to work, especially for less-educated workers. They propose raising the federal minimum wage and adjusting it annually to maintain its value relative to the median wage. Expanding the Earned Income Tax Credit for childless low-wage workers, the authors say, could also raise the take-home pay of many young adult workers, with minimal adverse employment effects. New policies should also provide work opportunities for young adults who cannot find steady employment either because of poor economic conditions or because of physical and mental disabilities or criminal records that make it hard for them to work steadily even when the economy is strong. Finally, the authors recommend increasing federal Pell grants for college and improving access to credit for would-be college students to raise the educational attainment of young adults from low-income families.

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One key marker of the transition to adulthood is achieving success in the labor market—in particular, attaining economic stability and self-sufficiency.<sup>1</sup> Over the past thirty years, changes in the labor market have made it more difficult for young adults to achieve financial independence. The labor market prospects of young men have declined, and the gap between less- and more-educated young adults has widened. Young men, particularly those with no more than a high school degree, now find it more difficult to earn enough to support a family than they did during the mid-1970s. And although young women have made remarkable gains in earnings, employment, and educational attainment since the mid-1970s, those without a college degree now have, like their male counterparts, great difficulty achieving economic stability.

How have the labor market difficulties of today's less-educated young adults affected other milestones in the transition to adulthood? Certainly employment and earnings prospects can influence decisions about how much education to pursue, when to move out of the parental home, and when to marry and have children. Without a sufficient and steady income, a young adult might decide to delay marriage and might not be able to qualify for a home mortgage. The worsened economic prospects of young men with no more than a high school degree might lead young women to stay in school longer, to focus more on their own careers, and to delay family formation and childbearing. The empirical evidence assembled by researchers, however, does not support the view that young adults' delays in completing an education, in establishing independent living arrangements, and in marrying have been caused primarily by

the increased labor market difficulties of less-educated men.<sup>2</sup>

We begin by reviewing labor market changes since the end of World War II. Next we document how changes since the mid-1970s have affected the extent to which young adults have achieved economic stability and self-sufficiency. We then discuss how these changes may have contributed to delays in other markers of the transition to adulthood. We conclude that attaining economic self-sufficiency is necessary for a successful transition to adulthood even if it does not guarantee success on other markers of adulthood. Finally, we describe public policy reforms that might improve the labor market fortunes of young adults, especially those with no more than a high school degree, and facilitate the transition to economic stability and self-sufficiency.

### Overview of Labor Market Changes

The quarter-century following World War II was a "golden age" for most workers and their families. Employment and earnings grew rapidly for workers in all educational groups, even for men with a high school degree or less.<sup>3</sup> Recessions were relatively short and mild. Well-paying manufacturing jobs allowed many men to support a family on a single income. The share of men holding jobs that provided pensions and subsidized health insurance increased. The era of steady economic growth, rising real wage rates, and improved living standards for most workers ended by the mid-1970s. Lisa Bell and several colleagues document that the United States and other industrial countries—Canada, the United Kingdom, and Germany among them—saw a worsening of labor market prospects for young adults from the mid-1970s to the end of the twentieth century.<sup>4</sup> In most of these countries, the share of young adults, particularly men,

able to earn an income sufficient to support a family declined.

In that same period in the United States, inequality in earnings and family incomes grew, and some government safety net programs eroded. The share of jobless workers receiving unemployment insurance and the share of single mothers receiving cash welfare declined. A series of labor market changes—computerization and other forms of labor-saving technology that reduced employer demand for less-educated workers, declines in the inflation-adjusted minimum wage, declining shares of workers covered by union contracts, and increased globalization—created hardships for many workers, especially men with no more than a high school degree. Claudia Goldin and Lawrence Katz attribute almost two-thirds of the increased earnings inequality to technological innovation that favored skilled over unskilled workers.<sup>5</sup> Now, as a result, young men with no more than a high school degree have lower employment rates, lower real wages, and less access to private pensions and employer-subsidized health insurance than did similar young workers during the mid-1970s.

Most of the economic gains of the past several decades accrued to the wealthiest families and highest earners.<sup>6</sup> Figure 1 shows rising inequality in hourly wage rates from 1979 to 2007 among men and women aged twenty-five to thirty-four.<sup>7</sup> For both young men and women, wage growth at the 90th percentile of the distribution outpaced that at the median and the 20th percentile. Wages at the 90th percentile of female earners grew 35 percent, from \$21.29 to \$28.75 an hour, compared with 13.7 percent for the median female worker, from \$12.31 to \$14.00, and only 4 percent for the 20th percentile, from

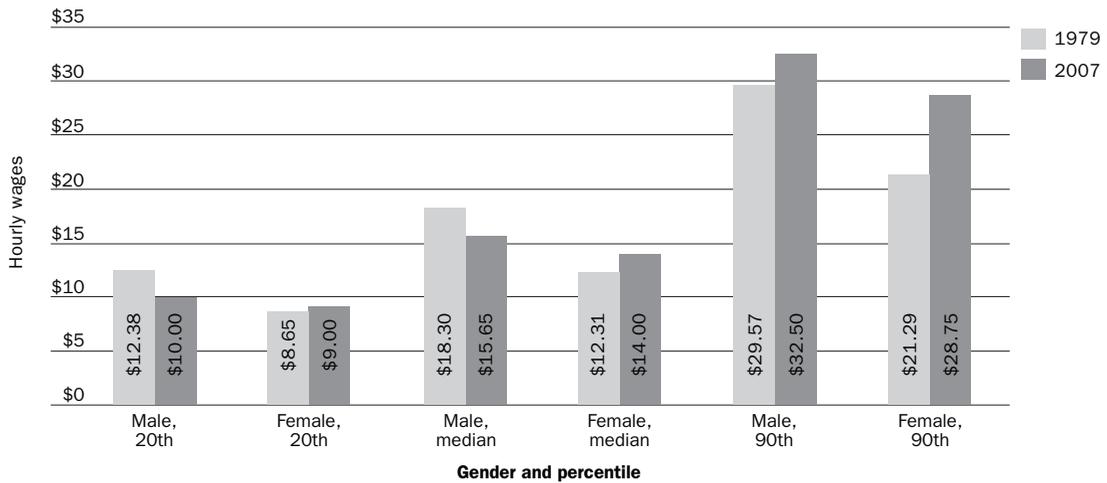
\$8.65 to \$9.00. Among men, wages grew 10 percent for the highest earners, from \$29.57 to \$32.50 an hour, but fell 14.5 percent for the median worker, from \$18.30 to \$15.65, and fell 19 percent, from \$12.38 to \$10.00, at the 20th percentile.

As figure 1 shows, the labor market prospects of young women aged twenty-five to thirty-four improved between 1973 and 2007. More young women are now working, and their earnings have increased both relative to inflation and relative to those of young men. But women continue to earn less than men. In 2007, the median hourly wage of a young female worker was 89 percent that of a young male (\$14.00 compared with \$15.65).

The improvements in economic well-being in the quarter-century leading up to the mid-1970s affected the transition to adulthood in similar ways for most workers. By contrast, the employment and earnings changes of the past three decades have affected that transition in ways that vary sharply by gender and education. Young male high school graduates take longer now than they did in the mid-1970s to become self-sufficient and to earn enough to support a family by working steadily in a job with good wages and benefits. Young women, however, are more likely to attain self-sufficiency now than they were in the mid-1970s.

The severe recession that started in December 2007 and the simultaneous large declines in the value of homes and the net worth of families imply that the economic prospects of young adults in the next several years will be worse than the data presented here suggest. As workers with the least labor force experience, young adults are likely to be disproportionately hurt during recessions (“last hired, first fired”). And some young

Figure 1. Hourly Wages of Workers Aged Twenty-Five to Thirty-Four, by Gender and Percentile of the Earnings Distribution, 1979 and 2007



Note: Data are adjusted to 2009 dollars using CPI-U-RS. CPS ORG data.

adults may find that their parents’ declining net worth will require them to rely more on their own earnings and less on parental support. Although the full negative labor market effects of this recession are not yet known, the employment rates and wage rates of young adults will likely be lower in 2010 than they were in 2007 (the last year of data available at this writing).

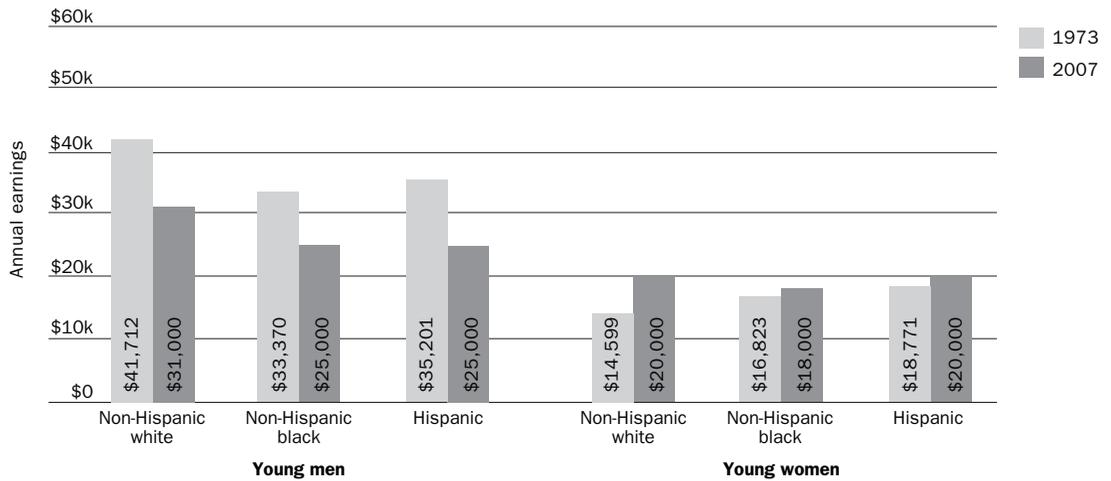
### Labor Market Outcome Trends for Young Adults

As noted, a young adult’s ability to work steadily and become economically self-sufficient is a primary, if not the most important, marker of a successful transition to adulthood. We next describe changes in young workers’ median earnings, in the extent of low-wage work, in employment rates and job stability, and in educational attainment and the returns to schooling. We note how many of these changes differ by education, gender, and race and ethnicity.<sup>8</sup> Over the past three decades, the two primary labor market trends for young adults have

been the declining economic status of those with at most a high school degree relative to those with a college degree or more and the increasing economic status of women relative to men.<sup>9</sup>

We focus on “older” young adults, those aged twenty-five to thirty-four, most of whom have completed their education and are intent on establishing themselves in the labor market. Peter Edelman, Harry Holzer, and Paul Offner note that younger male high school graduates and dropouts have fared even worse economically than the age group on which we focus.<sup>10</sup> Updating their analysis of young men aged sixteen to twenty-four who are neither enrolled in school nor employed<sup>11</sup> (men they define as “idle,” indicating extensive labor market problems), we find that the 2008 idleness rate for young men of that age group was 12 percent for whites, 21 percent for blacks, and 15 percent for Hispanics. Among women aged sixteen to twenty-four, that rate was 13 percent for whites, 21 percent for blacks, and 26 percent for Hispanics.

Figure 2. Median Annual Earnings of Employed High School Graduates, Aged Twenty-Five to Thirty-Four, by Race and Gender, 1973 and 2007



Note: Data are adjusted to 2007 dollars using the CPI-U-RS. Employed = worked at any time during year. March CPS.

As another indicator of labor market problems, Andrew Sum and several colleagues point out that teens have more trouble finding summer jobs now than they did three decades ago.<sup>12</sup> In July 1973, the summer employment rate for youth aged sixteen to nineteen was 52 percent for boys and 40 percent for girls.<sup>13</sup> By 2007, these rates had fallen to 34 percent and 36 percent. Thus, economic trends for younger workers are more negative than they are for twenty-five to thirty-four-year-olds, who are the focus here.

### Median Annual Earnings by Education, Gender, and Race and Ethnicity

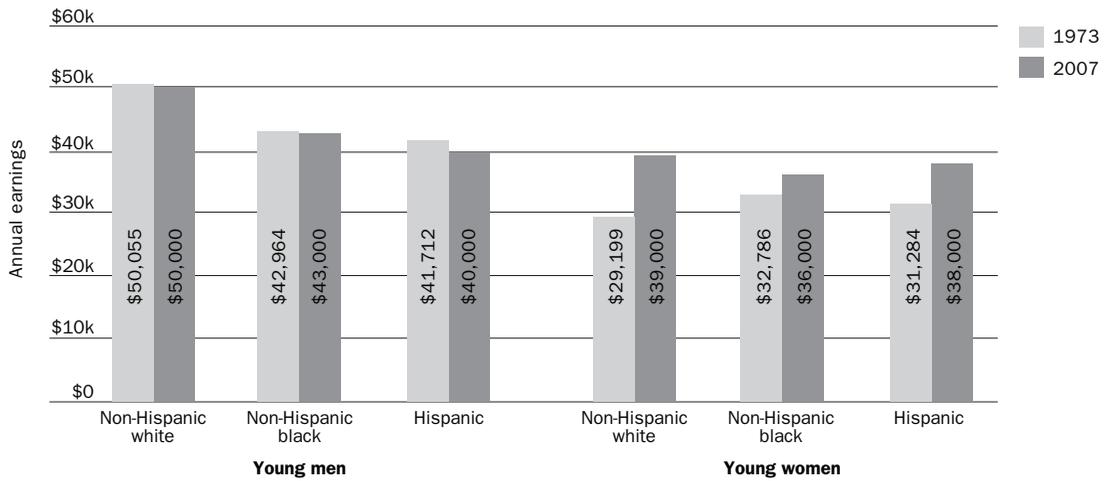
The median annual earnings (in constant 2007 dollars) of men aged twenty-five to thirty-four who worked at some time during the year fell by 21 percent between 1973 and 2007 (from \$41,712 to \$33,000); the median earnings of women workers of that age increased by 62 percent (from \$16,685 to \$27,000).<sup>14</sup> The large annual earnings increase for young women was attributable both to increased employment and to

increased real wages (the latter shown in figure 1).

Figure 2 compares median annual earnings of employed high school graduates aged twenty-five to thirty-four, by race and ethnicity and by gender, in 1973 and 2007. For white non-Hispanics, black non-Hispanics, and Hispanics, the inflation-adjusted median earnings of male high school graduates fell by 26, 25, and 29 percent, respectively (left side of figure 2).<sup>15</sup> For women (right side of figure 2), the median for whites, blacks, and Hispanics rose by 37, 7, and 7 percent, respectively. Thus, for each race and ethnic group, the earnings of young women increased relative to those of young men. Figure 3 shows a similar pattern among college graduates. The earnings of young women increased relative to those of young men for each of the three race and ethnic groups. Median earnings increased for women, but were mostly unchanged for men.

A comparison of the left sides of figures 2 and 3 shows the widening educational differential

Figure 3. Median Annual Earnings of Employed College Graduates, Aged Twenty-Five to Thirty-Four, by Race and Gender, 1973 and 2007



Note: Data are adjusted to 2007 dollars using the CPI-U-RS. Employed = worked at any time during year. March CPS.

for each race and ethnic group, holding gender constant. For example, in 1973, white male high school graduates earned 83 percent as much as white male college graduates (\$41,712 compared with \$50,055); by 2007, they earned only 62 percent as much (\$31,000 compared with \$50,000).

### The Extent of Low-Wage Work

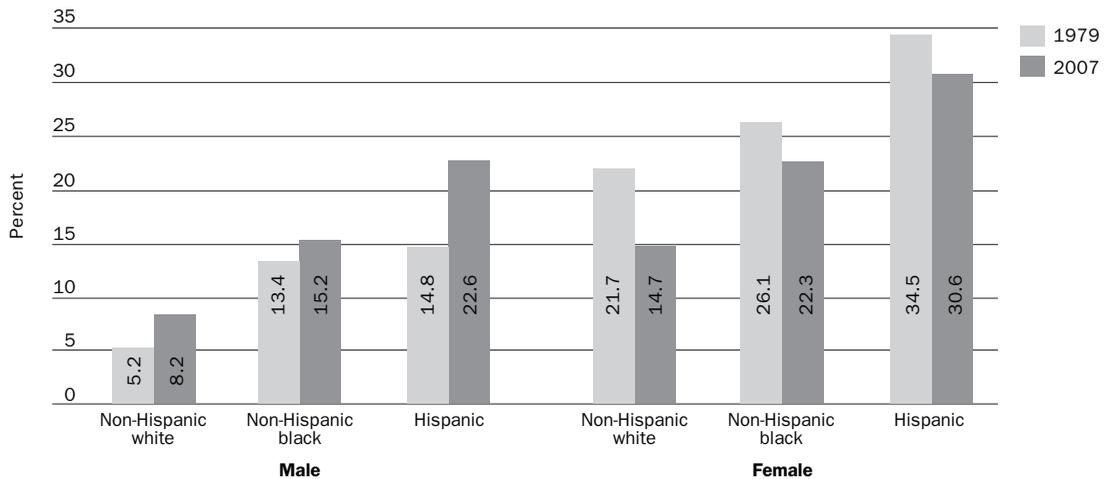
Trends in the median do not reveal how workers at other points in the wage distribution fared during a period of rising inequality. Thus, we examine changes in the share of young adults who are “low-wage workers,” which we define as those earning less than \$9 an hour in 2007 dollars. This wage exceeds the 2007 national minimum wage of \$5.85 and corresponds to the 15th percentile of the 2007 wage distribution for all young adult workers. Working full-time, full-year (forty hours, fifty-two weeks) at this wage yields annual earnings of \$18,720, which falls between the official poverty lines for a family of three persons and a family of four persons.<sup>16</sup>

Figure 4 shows that between 1979 and 2007, the percentage of young workers who earned less than \$9 an hour increased for men in each of the race and ethnic groups and declined for women across the board. White men were 3 percentage points more likely to have low wages in 2007 than in 1979, whereas white women were 7 points less likely. Young Hispanic men were much more likely than white and black men to be low earners in 2007, and had the largest increase since 1979. Among young women, the declines were greatest for whites. In 2007 young women, especially the mothers of young children, had more education and more labor force experience and thus earned higher wages than their counterparts in 1979.<sup>17</sup>

### Employment Rate Differences by Education, Race and Ethnicity, and Gender

The level and trends in the annual employment rate also differed by gender. Among all young men, the employment rate fell 6.6

Figure 4. Percentage of Workers, Aged Twenty-Five to Thirty-Four, Earning Less than \$9 an Hour, by Gender and Race, 1979 and 2007



Note: Data are adjusted to 2007 dollars using the CPI-U-RS. Employed = worked at any time during year. CPS ORG data.

percentage points between 1973 and 2007, whereas for young women, the rate rose 16.1 points. The gender gap in employment, therefore, fell from 35.4 to 12.7 points over this period.

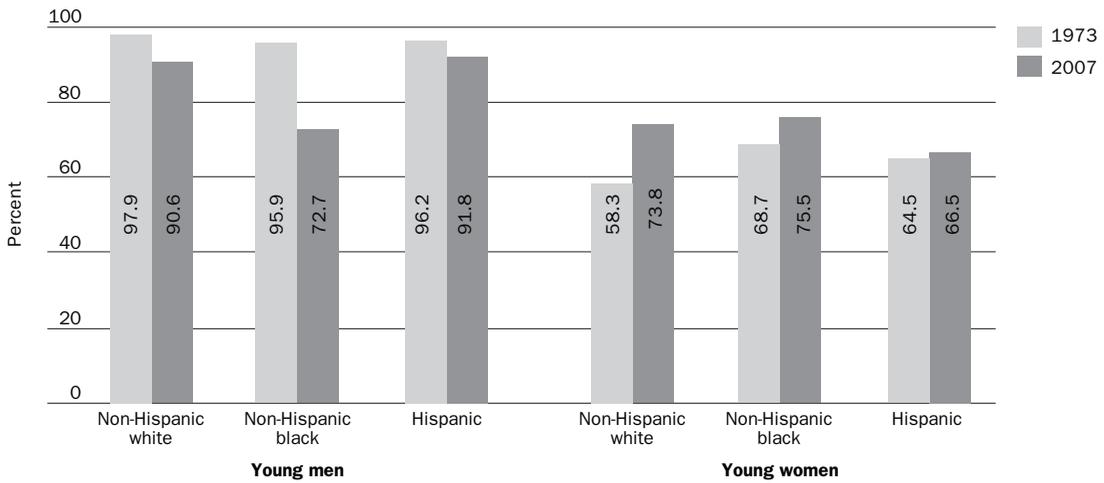
Chinhui Juhn, Kevin Murphy, and Robert Topel document an increase in the fraction of the year workers spend either unemployed or out of the labor force—the non-employment rate.<sup>18</sup> When we update their analysis for young adult men, the non-employment rate rose from 7.2 percent to 12.5 percent from 1973 to 2007. For women, the fraction of the year spent not working declined from 55 percent to 38 percent.<sup>19</sup> The rate increased the most for black male high school dropouts, who spent 49 percent of the year on average non-employed in 2007, up from 18 percent in 1973.<sup>20</sup>

Juhn, Murphy, and Topel attribute part of the rise in male non-employment to the lower real wages offered by employers who, in part because of labor-saving technological changes,

hired fewer less-educated men relative to more-educated ones. Michael Elsby and Matthew Shapiro suggest that choosing to work is analogous to getting on a “wage escalator,” whereby workers earn higher wages with each year of labor force experience.<sup>21</sup> Because the “wage escalator” for the less-educated flattened after the mid-1970s, the payoff to work over a lifetime has fallen substantially.

Figure 5 compares the annual employment rates in 1973 and 2007 for high school graduates aged twenty-four to thirty-five, by gender and race.<sup>22</sup> Among men, the employment rate fell 23 percentage points for blacks, 7.3 points for whites, and 4.4 points for Hispanics, with the result that male Hispanic high school graduates in 2007 worked more than their white and black counterparts. Employment rates increased for each of the three groups of female high school graduates. Between 1973 and 2007, the male-female employment gap shrank for whites from 39.6 percentage points to 16.8 percentage points and for Hispanics from 31.7 points to 25.3

Figure 5. Employment Rate of High School Graduates, Aged Twenty-Five to Thirty-Four, by Gender and Race, 1973 and 2007



Note: Employed = worked at any time during year. March CPS.

points. For black high school graduates, the gender gap in employment had been essentially eliminated by 2007; employment rates were 75.5 and 72.7 percent, respectively for women and men.

One reason why employment declined more for young black men than for young white men is the dramatic rise in incarceration rates for black men over the past three decades and the negative effect of a criminal record on an employer’s willingness to hire.<sup>23</sup> Steven Raphael reports that in 2001, among all adult men, 2.6 percent of non-Hispanic whites, 16.6 percent of non-Hispanic blacks, and 7.7 percent of Hispanics had served time in prison.<sup>24</sup> Among younger cohorts, incarceration rates are higher: more than two-thirds of black male high school dropouts, and one-third of those with less than a college education, had been incarcerated by the time they reached their early thirties.<sup>25</sup> Harry Holzer finds that increased incarceration accounts for an employment decline among black men of from 4 to 9 percentage points.<sup>26</sup>

William Julius Wilson offers several additional reasons for the more rapid decline in black employment—young black males’ lower educational attainment (a “skills mismatch”), their residential concentration in the inner city during an era when jobs were moving to the suburbs (a “spatial mismatch”), and persisting employer racial discrimination, often reflected in how firms advertise for and recruit entry-level workers.<sup>27</sup>

### Job Instability

Over the past thirty years the labor market has also seen increased “churning”—a term used by economists to refer to movements from employment to unemployment (involuntary job changes) as well as movements from one job to another (voluntary job changes), especially among younger workers.<sup>28</sup> Involuntary job changes tend to be associated with negative outcomes; voluntary changes, with positive outcomes.<sup>29</sup> Regardless of the subsequent wage changes associated with churning, job instability can lead young adults to postpone marriage or childbearing

decisions and can reduce the likelihood of independent living. By making future employment and earnings more uncertain, increased churning makes purchasing a home or having a child a riskier decision.

The greater the extent of churning, the less time a worker spends with a single employer. Henry Farber analyzes the evolution of job tenure with a given firm for recent cohorts and finds that between 1973 and 2006, average private-sector job tenure for men, controlling for age differences, fell almost 25 percent, whereas female job tenure remained constant.<sup>30</sup> The proportion of men aged thirty-five to sixty-four in long-term jobs, defined as tenure of at least ten years, fell from about 50 percent to 35 percent between 1973 and 2006. Farber concludes that the “company man” who spent a lifetime with the same employer in earlier generations is no longer a staple of the labor market.

Farber also documents substantial job churning among young workers.<sup>31</sup> Between 1973 and 2006, about 34 percent of workers aged twenty to twenty-nine in private-sector jobs had held those jobs less than one year. Older workers are less likely to have job tenure of less than one year, suggesting that job churning has mainly affected the young over the past thirty years.

Although employment instability can delay the transition to adulthood, job churning in young adulthood might lead to better outcomes in later years. For example, making voluntary job changes from one firm to another can raise wages in the long run. By contrast, making many involuntary job changes can slow the acquisition of labor market skills and experience, which can reduce wages in the long run.

David Neumark documents the negative effects of job churning on future employment and earnings.<sup>32</sup> An additional year of job tenure in the first five years after leaving school, he finds, leads to an increase, on average, in adult wages of about 7 to 13 percent for men and 12 to 24 percent for women. One additional job held in the first five years after leaving school reduces wages by 8 percent for men. Holzer and Robert LaLonde also find that shorter job tenure and job instability for young workers reduce wage growth and employment opportunities in later adulthood.<sup>33</sup> The empirical evidence, therefore, suggests that the uncertain economic prospects faced by young adults may have long-lasting effects on employment and earnings.

#### **Educational Attainment by Gender**

Women’s gains in relative earnings and employment over the past three decades are attributable in part to their increased access to jobs, particularly managerial and professional positions, and in part to their increased educational attainment, which in turn results in part from their improved labor market opportunities. Between 1973 and 2007, college completion rates more than doubled, from 16.4 percent to 35.9 percent, for women aged twenty-five to thirty-four, but increased only from 23.7 percent to 28.9 percent for men in the same age range. In 1973 young women were 7.3 percentage points less likely to have graduated from college than young men; by 2007, they were 7 points more likely to have graduated. College completion rates for women overtook those for men during the late 1980s.<sup>34</sup>

Some researchers have suggested that the improved economic status and educational attainment of young women relative to young men have contributed to delays in marriage and childbearing and to increases

in divorce rates and single motherhood.<sup>35</sup> Claudia Goldin uses the term “the quiet revolution” to describe changes since the late 1970s in the way that women view employment, education, and family.<sup>36</sup> She suggests that thirty years ago women were secondary earners who worked if their families needed extra money, but that now they work because employment defines their “fundamental identity and societal worth.”

Goldin notes that higher divorce rates and easier access to contraception have shortened the portion of their adulthood that women spend as wives. She contends that expectations of being married for fewer years have led women to invest more heavily in human capital, such as education in career-oriented subjects. Martha Bailey attributes women’s increased investment in education to better access to contraception, particularly the birth control pill.<sup>37</sup> Like Goldin and Bailey, Maria Fitzpatrick and Sarah Turner attribute women’s greater educational attainment both to economic changes and to shifting social norms about women’s roles and labor market opportunities.<sup>38</sup>

### **Increasing Returns to Higher Education**

Although college-educated young adults have always had more success in the labor market than those with high school degrees or less, differences between the two groups have grown in recent decades. In particular, the wage gap between high school and college graduates in their first seven years after entering the labor force has widened. In 1973, male college graduates in entry-level jobs earned 33 percent more than men with a high school degree or less; for women, the difference was 52 percent. By 2007, the educational premium had grown to 79 percent for men and 92 percent for women.<sup>39</sup> In addition, the gap in employment rates between

male college graduates and high school graduates widened from 0.2 to 5.8 percentage points between 1973 and 2007. College-educated workers are also less vulnerable to recessions, as they are not the marginal workers who are generally laid off.

James Heckman, Lance Lochner, and Petra Todd estimate that the rate of return to a college degree compared with a high school degree increased from 13 percent to 18 percent between 1970 and 2000 for all white workers and from 14 percent to 24 percent for all black workers.<sup>40</sup> David Card and Thomas Lemieux show that for workers aged twenty-six to thirty-five, college graduates earned 20 percent more than high school graduates in 1975, but 40 percent more in 1995.<sup>41</sup>

## **The Changing Labor Market and the Changing Transition to Adulthood**

The labor market changes reviewed above have made it more difficult to achieve economic stability and self-sufficiency. We now review the social science evidence on the effect of labor market changes on changes in other aspects of the transition to adulthood.

### **Why Haven’t the Growing Returns to College Led More Men to Complete College?**

Economic theory predicts that the growing payoff to a college education should induce more young adults (especially men) to seek a college degree. Yet several studies all document the post-1970s slowdown in the growth rate of college graduates.<sup>42</sup> Claudia Goldin and Lawrence Katz argue that until the 1950s increasing educational attainment caused the supply of skilled labor to outpace demand; the declining growth in educational attainment, particularly among men, reversed this trend from the 1970s onward, leading to the

widening wage gaps between less-educated and more-educated workers.<sup>43</sup>

Why haven't the widening wage and employment gaps led to a greater increase in male college graduation rates over the past three decades? Some analysts contend that rising tuition costs and reductions in grants have made college-going more difficult for young adults with parents of low socioeconomic status (SES). In 1988 the National Center for Education Statistics began tracking the educational attainment of a large sample of eighth graders; the study continued through 2000, by which time most youth in the sample were twenty-five and twenty-six years old.<sup>44</sup> Among those who scored in the bottom 25 percent on a mathematics test during high school, 30.3 percent from high-SES families completed a bachelor's degree or more, compared with only 2.9 percent from low-SES families.<sup>45</sup> Among the youth with the highest math scores, 28.8 percent from low-SES families completed college, compared with 74.1 percent from the most advantaged families.

Thomas Kane argues that increased tuition, smaller tuition subsidies, and lower borrowing limits for student loans explain why college attendance has not increased more in response to the increased returns to education.<sup>46</sup> He estimates that a \$1,000 increase in college costs leads to about a 5 percentage point decline in college enrollment.

Research findings on the effects of federal Pell grants on college-going are mixed, but evidence shows that other public tuition subsidies substantially increase enrollment. Susan Dynarski finds that college enrollment fell 6 percentage points after Congress eliminated a tuition subsidy for students who were receiving Social Security benefits after a parental

death.<sup>47</sup> David Deming and Dynarski find that broad-based programs that have simple application procedures raise enrollment the most.<sup>48</sup> Expanding access to Pell grants and making it easier to apply for financial aid could thus increase college enrollment.

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The most common source of college funding for students is their parents. But increasing inequality in parental income since the mid-1970s, particularly the declining real earnings of fathers with a high school education or less, has made it harder for some parents to afford college costs. Phillippe Belley and Lance Lochner highlight the increased link between family income and whether a young adult goes to college.<sup>49</sup> Test scores on the Armed Forces Qualification Test, the major correlate of educational attainment, remained equally important between 1979 and 1997. Family income, however, grew more important. In 1979 youth with family incomes in the highest quartile had a 9 percentage point higher rate of college enrollment than youth with family incomes in the lowest quartile, after

controlling for test scores. That difference grew to 16 points in 1997.

One explanation for the increasing link between family background and education is that low-income young adults face impediments to borrowing, known as “credit constraints,” meaning that some young adults who want to attend college either cannot find financing or are unwilling to borrow.<sup>50</sup> The evidence that more students are delaying college completion or continuing to work while they attend school, or both, is also consistent with binding credit constraints and may help to explain why enrollment has not increased more in response to the increased returns to education.

Maria Fitzpatrick and Sarah Turner conclude that credit constraints “prevent or delay students from earning degrees through a full-time, direct course of study.”<sup>51</sup> They show that the fraction of students who combine work and college classes has increased, as has enrollment of “older” undergraduates. Among undergraduates aged twenty-four and older, almost 70 percent now combine work and classes. Belley and Lochner also find that college students from higher-income families are less likely to combine work with college than those from lower-income families. They find mixed evidence, however, on the connection between family background and a delay in college education.

In two papers, Pedro Carneiro and James Heckman reject the credit constraints hypothesis and attribute most of the positive link between college enrollment and family income during high school to differences in the cognitive ability of students, which is correlated with parental income during childhood and which is evident in early childhood.<sup>52</sup> To the extent that credit

constraints operate, Heckman and Carneiro suggest that they mainly affect lower-ability students from low-income families who cannot secure financing for two-year colleges.

The American Council on Education reports that the proportion of college graduates who incurred college debt rose from 49 percent to 65 percent between 1993 and 2000, with much of the increase coming from students with high family incomes who now find it easier to borrow.<sup>53</sup> Although a larger proportion of college students now finance education through loans, Sandy Baum and Marie O’Malley find most graduates feel that the benefits of taking on the debt outweigh the debt burden.<sup>54</sup> If credit constraints do reduce educational investments with a high rate of return, then young adults should be willing to incur even greater college debt than is now the case if the constraints were removed. On the other hand, even if credit constraints are not binding, there may still be a role for public policy to encourage educational attainment through subsidized loans and grants, given the strong link between family SES and children’s educational attainment.

The increased importance of parental income for college completion has implications for policies regarding student loans and tuition waivers. Most high-ability students enroll in college, regardless of family income. Some academically qualified students from low-income families, however, postpone or forgo college even though it would increase their future employment and earnings.

### **Why Are Women Going to School Longer, Working More, and Having Fewer Children?**

Claudia Goldin suggests that women’s changing economic expectations, along with changing social norms, have led to their

increased educational attainment, increased their labor force participation, and delayed their age of first marriage and childbirth—all key changes associated with the lengthening transition to adulthood.<sup>55</sup> She does not consider these behavioral changes as being direct responses to the declining labor market prospects of young men, though the timing of both sets of changes is similar. Men's labor market prospects began declining during the mid-1970s. Goldin's "quiet revolution" in women's employment, education, and family behaviors began during the late 1970s.

According to Goldin, for the past three decades, young women have formed their adult identity before marriage, whereas previous generations of women married at an early age and formed their adult identity after marriage. Goldin argues that young women are now active economic actors "who bargain somewhat effectively in the household and labor market." Most are no longer passive actors who make their employment decisions after those of their husbands.

As more young women have come to expect that their own employment and earnings will be important in their own right, not secondary to those of their husbands, more have sought college and graduate degrees. According to Claudia Buchman, Thomas DiPrete, and Anne McDaniel, the share of all bachelor's degrees earned by women rose from 35 percent in 1960 to 58 percent in 2004.<sup>56</sup> During the late 1960s, women made up only 5 percent of entering law students; by the early 2000s, 50 percent. Women made similar gains in the field of medicine.<sup>57</sup>

Buchman and her colleagues suggest that higher educational attainment and declining gender discrimination in the labor market

allow some women to delay or forgo marriage both because they have more difficulty finding a similarly educated husband and because they can achieve economic independence on their own. That view is similar to Goldin's argument that women's higher expectations about their abilities and opportunities have led them to seek more education, which has in turn led to greater labor force attachment over the life course and to delays in marriage and childbearing.

### Have Declining Economic Prospects Reduced Young Men's Marriage Prospects?

As noted, the labor market prospects of less-educated men of all races and ethnic groups worsened between the mid-1970s and 2007. To what extent have these economic difficulties contributed to the family structure changes associated with the transition to adulthood? William Julius Wilson, in *The Truly Disadvantaged*, suggested that the decline in manufacturing jobs, the suburbanization of employment, and increased employer demand for educated workers reduced the probability that less-educated, inner-city males could find jobs that could support a family.<sup>58</sup> Wilson argued that their declining economic prospects made them less marriageable and contributed to reductions in marriage and increases in non-marital childbearing. But researchers investigating the correlation between increasing non-marital childbearing and male labor market problems have had a difficult time establishing a causal link.

David Ellwood and Christopher Jencks review the evidence and conclude that "no consensus has emerged about why American families changed or why the amount of change varied by race and education."<sup>59</sup> They conclude that though declines in men's

economic opportunities are associated with reduced or delayed marriage, the earnings declines have not been large enough to explain the long delay in marriage and substantial increase in nonmarital childbearing, even among the least-educated. They also note that “marriage patterns have changed nearly as much for advantaged and employed males as for others.”

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*The delay in marriage means that more young adults are living either with parents, with roommates, on their own, or with a partner, and that fewer are living with a spouse.*

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### **Do Labor Market Changes Affect the Living Arrangements of Young Adults?**

It seems reasonable to think that employment instability and low wages could influence young adults' decisions to move into or out of their parental homes, but evidence about this connection too is mixed. One reason for the difficulty in sorting out the causal effects of economic changes is that noneconomic factors also affect living arrangements.

Changes in social norms have made it more acceptable to marry later, to cohabit with a partner of the same or opposite sex, and to be a single parent. The delay in marriage means that more young adults are living either with parents, with roommates, on their own, or with a partner, and that fewer are living with a spouse.

Jordan Matsudaira examines changes in living arrangements of young adults and finds that

the share living at home with parents has increased since the 1960s.<sup>60</sup> But the share living with neither parents nor spouse has increased even more. Between 1960 and 2000, among men aged twenty-five to twenty-nine, the share living with parents grew 3 percentage points (from 15.1 to 18.2 percent), while the share living without a parent or spouse grew 26.3 points (from 13.6 to 39.6 percent). The decline in the share of men who were married (from 71.3 to 42.3 percent) resulted in a greater share cohabiting, living with roommates, or living on their own.

Matsudaira examines the correlation, by region, between two labor market measures—the employment rate of adults aged thirty-five to forty-four and average wages—and the probability of living with at least one parent. He finds that a 1 percentage point increase in a region's employment rate of adults decreases the likelihood that men aged nineteen to twenty-four and those twenty-five to twenty-nine live with their parents by 1.28 and 0.61 percentage points, respectively. For women, the estimated effects are similar but smaller, with those aged nineteen to twenty-four and twenty-five to twenty-nine being 0.61 and 0.26 percentage points less likely to live at home, respectively. Thus, in a growing economy, young adults are more likely to leave home.

Carolyn Hill and Harry Holzer compare two cohorts of youth aged twenty to twenty-two and find a weaker relationship between economic conditions and living arrangements than does Matsudaira.<sup>61</sup> For all race, gender, and educational groups, youth of this age were less likely to be married, more likely to live at home, and more likely to cohabit in 2002 than they were in 1984. In both 1984 and 2002, youth from higher-income families were more likely to live at home than those

from less-advantaged families, suggesting that living arrangement choices were not primarily determined by finances. Hill and Holzer conclude that declining male earnings and employment cannot explain the large declines in marriage rates and changes in living arrangements for young adults.

Greg Kaplan examines a sample of young adults who never attended college to determine the extent to which labor market fluctuations caused them to move into and out of their parental homes.<sup>62</sup> Less-educated young adults, he notes, have unstable labor market outcomes—the annual rate of employment separations is 30 percent, and earnings vary significantly from month to month. The young adults in his sample are 54 percent more likely to move back home if they are not working and 15 percent more likely to leave home if they are. Forty percent of those who move out of their parental home moved back in by the time they were twenty-two. In a period of increased labor market volatility, for the less-educated, the ability to live with parents offers some financial insurance against labor market risks.

## **Policies to Improve Labor Market Outcomes**

The severe recession that began in December 2007 makes it unlikely that the labor market prospects of young workers will improve substantially in the near future.<sup>63</sup> Public policy reforms, however, can raise employment and earnings for young adults, thus increasing their likelihood of making a successful transition to adulthood.

Frank Levy and Peter Temin make the case that changes in the nation's economic policies since the 1980s have fostered both slow growth in earnings and rising inequality.<sup>64</sup> They argue that policies emanating from

the New Deal and World War II, such as a relatively high minimum wage, support for strong unions, and progressive taxes, helped constrain earnings inequality and promote broadly shared productivity. By contrast, policies since the mid-1980s have discouraged unionization, permitted a low and falling real minimum wage, and emphasized inflation-fighting and budgetary discipline. In so doing, they argue, these policies fostered wage stagnation and rising inequality.

Several public policy reforms can improve the economic prospects of today's young adults by making work pay and by expanding employment; other reforms can increase the educational attainment, and hence the earnings, of the next generation of young workers. The American Recovery and Reinvestment Act (ARRA) of 2009 and President Obama's budget proposals for fiscal year 2010 include several reforms that would raise the employment and earnings prospects of young adults struggling to achieve labor market success.

## **Making Work Pay for Low-Wage Workers**

Making work pay requires changes in government regulations about wages and working conditions and increases in work-related income supplements for low-wage workers. Because the 1996 federal welfare reform greatly reduced access to cash welfare, new policies should provide work opportunities for those who are willing to work but cannot find steady employment either because of poor economic conditions or because of physical and mental disabilities or criminal records that make it hard for them to work steadily even when the economy is strong. Indeed, the experiences of young adults during the economic booms of the 1980s and 1990s showed that a growing economy on its own was necessary, but not sufficient, to raise the earnings of many less-educated workers.

One way to make work pay is to foster a labor market that rewards workers with the same skills equally, without regard to race, ethnicity, or gender. As noted, the labor market has seen substantial progress in reducing gender disparities in recent decades, as women's employment and earnings have increased relative to those of men. Racial and ethnic earnings disparities too have narrowed. Disparities in employment and wages between white non-Hispanics and racial and ethnic minorities remain large, however; some have even widened. Young black men face substantially worse labor market opportunities than similar white men, a gap that both reflects and contributes to high levels of incarceration.<sup>65</sup> Reducing labor market discrimination should become a higher priority for public policy than it has been in recent years.

Several other policy changes can raise the wages of less-educated workers. One involves the federal minimum wage. Between the early 1960s and early 1980s, the minimum wage (in 2009 dollars) ranged between about \$6.50 and \$8.00 an hour, roughly 40 to 50 percent of the average wage of non-supervisory workers.<sup>66</sup> Congress increased the minimum wage only a few times after the mid-1980s, and it ranged between \$5.15 and \$6.75 (in 2009 dollars) between the late 1980s and 2009. After holding the minimum wage constant in nominal terms at \$5.15 an hour from 1997 to 2007, Congress passed a three-part increase to \$5.85 in July 2007, to \$6.55 in July 2008, and to \$7.25 in July 2009. One study attributes between 30 and 60 percent of the increased inequality at the bottom of the wage distribution (and almost one-third of the total increase in male wage inequality) to the falling real value of the minimum wage.<sup>67</sup>

Despite a lack of consensus about the extent to which increasing the minimum wage reduces employment for low-skilled workers, the fact is that many young adults with no more than a high school degree will continue to struggle to attain self-sufficiency unless the minimum wage is raised more often during the next decade than it has been since the mid-1980s. A higher minimum wage would be an important step toward making work pay. One possibility is to set the minimum wage at 45 percent of the median wage of production workers and to adjust it annually as that median changes. In July 2009, such a minimum wage would have been about \$8.00.

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*One study attributes between 30 and 60 percent of the increased inequality at the bottom of the wage distribution to the falling real value of the minimum wage.*

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Setting the minimum wage too high would significantly reduce employment for low-skilled workers. But empirical evidence on how moderate increases in the minimum wage affect employment is mixed.<sup>68</sup> A meta-analysis by David Neumark and William Wascher reports that most studies find that the minimum wage reduces employment.<sup>69</sup> In contrast, even though the disemployment effects are negative, David Autor and colleagues conclude that they are small.<sup>70</sup>

Other policies too could make work pay. Expanding income supplements for low-wage workers without children would raise the take-home pay of young adults without

causing adverse employment effects. The Earned Income Tax Credit (EITC) provides substantial support for low-income families with children without reducing work incentives, but it provides only modest benefits to childless workers.<sup>71</sup> The maximum federal credit for a family with two or more children (in current dollars) was \$400 in 1975, \$550 in 1986, \$953 in 1991, and \$4,824 in 2008. For a single person or a married couple without children, however, the maximum EITC in 2008 was only \$438.

Because most young adults are neither married nor parents, they do not benefit much from the EITC. Adam Carasso and several colleagues analyze proposals to expand the EITC for childless workers and note that expanded credits for single individuals can increase marriage disincentives.<sup>72</sup> Some proposals reduce marriage penalties, for example, by taxing spouses separately, but at a higher cost.<sup>73</sup> Despite the costs, the declines in the employment and earnings of young men since the mid-1970s make it necessary to expand the EITC for childless workers to facilitate the transition to adulthood.

Public policy changes can also help raise private-sector wage rates. Average wages of unionized workers, for example, are 15 percent higher than those of comparable non-union workers. David Card's finding that the union wage premium especially benefits the lowest quintile of the wage distribution suggests that the large decline over the past thirty years in the share of the workforce covered by a union contract has contributed to the increased extent of low-wage work among young workers.<sup>74</sup>

The Employee Free Choice Act, considered by Congress in 2009, is designed to facilitate increased unionization and raise private-

sector wages. Arguing that the current adversarial model of labor relations reduces the flexibility of firms to adapt in today's dynamic labor market, Barry Hirsch proposes, instead, a less-adversarial governance model with a default form of collective voice for workers, but without full collective bargaining rights.<sup>75</sup> Unlike current labor law, the new model would involve management closely in a firm's labor relations procedures.

### **Expanding Employment for Less-Educated Workers**

The United States has not operated a large public-service employment program since the early 1980s, when the Comprehensive Employment and Training Act (CETA) was terminated. However, during recessions many less-skilled workers are willing to work, but unable to find steady employment. A transitional jobs-of-last-resort program could reduce their employment instability. Workers in last-resort jobs could perform socially beneficial tasks for which there is little effective labor demand, such as labor-intensive public services in disadvantaged communities—neighborhood maintenance, weatherizing homes, assisting the elderly. Jobs could be time-limited and offer wages just below the minimum wage, thereby giving workers an incentive to accept available private-sector jobs.

### **Investing over the Life Course to Increase Skills for Future Young Adults**

Investing more in education and training over the life course could raise the employment and earnings of the next generation of young adults. The President's Council of Economic Advisors projects that many jobs in growing industries over the next five to ten years will require "non-routine" skills, though they are still expected to pay low wages.<sup>76</sup> The Council endorses government policies that

promote lifelong participation in educational programs and supports increased funding to promote access to such programs, particularly for young people from disadvantaged backgrounds.

More effective early childhood and K–12 educational policies would result in fewer high school dropouts and more college graduates in the next generation. Educational policies remain appealing to the public, but in the short term they are more expensive than policies that make work pay for today's young adults. And the payoffs from successful programs—increased schooling, employment, and earnings, and lower rates of incarceration and non-marital births when the children reach adulthood—require many years to materialize.

The best way to improve the economic prospects of the next generation of young adults is to raise high school graduation rates and skills and ensure that more earn community college degrees and certificates and four-year college degrees. The nation's education system falls well short of providing low-income students with the skills they need to succeed in the twenty-first century labor market. Studies by Brian Jacob and Jens Ludwig and by Kathryn Magnuson and Elizabeth Votruba-Drzal document the importance of expanding the scope of early childhood education for low-income children.<sup>77</sup> The ARRA expanded funding for Early Head Start and Head Start, and the Obama administration has also proposed increased funding for early childhood education and services.<sup>78</sup>

“Second-chance” workforce development programs seek to raise the skills and wages of disadvantaged young adults. Harry Holzer shows that federal funding for education and training programs for adult workers, typically

young adults, has declined dramatically since the early 1980s, just as the labor market rewards for skills have been increasing. Holzer proposes additional workforce development spending to raise the employment and earnings of young adults.<sup>79</sup> Noting that the decline in federal funding is due in part to the weak effects on employment and earnings of many earlier such programs, Holzer argues that some programs have, in fact, produced modest, but cost-effective, results. And he cites promising new training programs that take into account the local labor market demand for certain types of workers, that coordinate worker training with employers or industries that offer well-paying jobs, and that provide work supports, such as subsidized child care or transportation.

Although the United States graduated a larger share of its young adults from college than any other country for most of the twentieth century, it has fallen behind a number of other countries in recent decades.<sup>80</sup> President Obama has proposed increased federal spending to make college more affordable. And as the article in this volume by Thomas Brock notes, the ARRA includes a new tax credit for college students and increases the annual amount of Pell grants. The fiscal year 2010 budget also proposes indexing Pell grants to inflation and making them an entitlement.

## Summary

Since the mid-1970s, the labor market prospects of young men in the United States have improved, on average, much less than they did for young men who entered the labor market in the quarter-century following World War II. And the employment rates and inflation-adjusted wage rates of men with no more than a high school degree are lower now than they were thirty years ago.

Meanwhile, the labor market outcomes of young women have increased relative to those of young men for all race and ethnic and education groups.

Policies to improve the labor market prospects of young adults are necessary to facilitate successful transitions to adulthood, even if

labor market success, on its own, is not sufficient to achieve the other markers of adulthood (living independently, marrying, and having children). Numerous public policy reforms can raise the employment and incomes of today's young adults and increase the educational attainment, and hence the labor market success, of the next generation.

## Endnotes

1. Gordon Berlin, Mary Corcoran, Susan Dynarski, Harry Holzer, Bridget Lavelle, and Future of Children conference participants provided helpful comments on a prior draft; Bridget Lavelle provided excellent research assistance. This paper was supported, in part, by a grant from the Research Network on Transitions to Adulthood to the National Poverty Center and by funds provided to the National Poverty Center by the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, #1 U01 AE000002-02.
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5. Claudia Goldin and Lawrence Katz, *The Race between Education and Technology* (Cambridge, Mass.: Belknap Press, 2008).
6. Congressional Budget Office, *Historical Effective Tax Rates, 1979 to 2005: Supplement with Additional Data on Sources of Income and High-Income Households* (Washington: Congressional Budget Office, 2008).
7. We computed these wage rates from the merged Outgoing Rotation Group (ORG) files of the Current Population Survey (CPS), available annually starting in 1979. All data in this paper are adjusted for inflation to 2007 dollars using the CPI-U-RS, which corrects (at least partially) for the overstatement of inflation in the standard inflation series, the CPI-U. In addition to being the first year of the ORG data, 1979 is near the business cycle peak (a recession started in early 1980). The most recent recession started in December 2007. Thus, a comparison between 1979 and 2007 reflects long-run trends between two business cycle peaks, not changes due to business cycle conditions.
8. We do not distinguish between native-born and foreign-born Hispanics. Differences between these two groups are discussed in the article in this volume by Rubén Rumbaut and Goldnaz Komaie on immigrant youth.
9. While ORG wage rates are first available in 1979, the March CPS has data on annual earnings from the mid-1960s onward. We analyze annual earnings beginning in 1973, as November 1973 was a business cycle peak; 1973 was also the year in which the lowest annual poverty rate was recorded by the Census Bureau. Our results would not differ qualitatively if we began the analysis for annual earnings in 1979.
10. Peter B. Edelman, Harry J. Holzer, and Paul Offner, *Reconnecting Disadvantaged Young Men* (Washington: Urban Institute Press, 2006).
11. School enrollment and employment are measured during the week before the March CPS interview.
12. Andrew Sum and others, "The Collapse of the 2008 Summer Teen Job Market," Working Paper (Boston: Northeastern University Center for Labor Market Studies, 2008).
13. Sum and colleagues focus on changes between 2000 and 2008. We computed the July employment rates for

- 1973 and 2007, two years near the business cycle peak, using their methodology and data from the Bureau of Labor Statistics.
14. There is disagreement about how best to adjust for inflation. As mentioned, we use the CPI-U-RS, a more conservative inflation index than the official CPI-U. Some economists contend that the CPI-U-RS also overstates inflation. If this were true, our analyses understate real wage and earnings growth, and would overstate negative growth in wages. Lerman suggests that real earnings changes of the less-educated would be less negative if the analysis accounted for increased immigration by comparing the earnings of immigrants in their country of origin with their earnings in the United States. Inflation adjustments do not affect comparisons by race, gender, and education. Robert Lerman, "U.S. Wage-Inequality Trends and Recent Immigration," *American Economic Review Papers and Proceedings* 89 (1999): 2; Robert Lerman, "U.S. Income Inequality Trends and Recent Immigration," in *Inequality, Welfare, and Poverty: Theory and Measurement*, vol. 9 of *Research on Income Inequality*, edited by John A. Bishop (Amsterdam: Elsevier Science Ltd., 2003), pp. 289–307.
  15. Data in the figures refer to non-Hispanic blacks and non-Hispanic whites; for brevity, we use the terms blacks and whites. CPS sample sizes are too small to report trends for American Indians or Asian Americans.
  16. Results were similar when we used an alternative measure of low-wage work—the percentage of workers who earn less than the poverty line for a family of four in each year (results available from the authors upon request).
  17. Maria Cancian and Deborah Reed, "Changes in Family Structure, Childbearing, and Employment: Implications for the Level and Trend in Poverty," in *Changing Poverty, Changing Policies*, edited by Maria Cancian and Sheldon Danziger (New York: Russell Sage Foundation, 2009), pp. 92–121.
  18. Chinhui Juhn, Kevin Murphy, and Robert Topel, "Why Has the Natural Rate of Unemployment Increased over Time?" *Brookings Papers on Economic Activity* 1991, no. 1: 2; Chinhui Juhn, Kevin Murphy, and Robert Topel, "Current Unemployment, Historically Contemplated," *Brookings Papers on Economic Activity* 2002, no. 1: 79.
  19. Following Juhn, Murphy, and Topel, we define the employment rate as the fraction of weeks during the year in which a young adult was employed. The non-employment rate is the percent of the year, also in weeks, spent unemployed or out of the labor force. Data by detailed year and demographic groups are available upon request from the authors. For these analyses, Hispanics are included as whites or blacks.
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  22. The annual employment rate is defined as the percentage who worked at any time in the calendar year.
  23. Harry J. Holzer, Steven Raphael, and Michael A. Stoll, "Perceived Criminality, Criminal Background Checks, and the Racial Hiring Practices of Employers," *Journal of Law Economics* 49, no. 2 (2006): 451.

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  27. William Julius Wilson, *The Truly Disadvantaged: The Inner City, The Underclass, and Public Policy* (University of Chicago Press, 1987); William Julius Wilson, *More Than Just Race: Being Black and Poor in the Inner City* (New York: Norton, 2009).
  28. We concentrate on jobs instability rather than earnings instability. Fluctuations in earnings and income have also increased in recent decades. Karen Dynan, Doug Elmendorf, and Daniel Sichel, "The Evolution of Household Income Volatility," Finance and Economics Discussion Series 2007-61 (Washington: Federal Reserve Board, 2007).
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  30. Henry Farber, "Is the Company Man an Anachronism? Trends in Long-Term Employment in the United States, 1973–2006," in *The Price of Independence: The Economics of Early Adulthood*, edited by Sheldon Danziger and Cecilia Elena Rouse (New York: Russell Sage Foundation, 2007), pp. 56–83; Henry Farber, "Employment Insecurity: The Decline of Worker-Firm Attachment in the United States," Working Paper 530 (Princeton University Industrial Relations Section, 2008). Ann Huff Stevens finds that the average tenure of the longest job held by male workers, ages fifty-eight to sixty-two, was constant at about twenty-two years in both 1969 and 2002. Her results are not inconsistent with the possibility that workers now experience substantial job churning in young adulthood, delaying the transition to adulthood, but eventually settle into a steady job. Also, the latest cohort she examines was aged twenty-five to thirty-four in the 1960s, a different labor market than the one now facing young men. Ann Huff Stevens, "The More Things Change, the More They Stay the Same: Trends in Long-Term Employment in the United States, 1969–2002," NBER Working Paper W11878 (Cambridge, Mass: National Bureau of Economic Research, 2005).
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38. Maria Fitzpatrick and Sarah Turner, "Blurring the Boundary: Changes in the Transition from College Participation to Adulthood," in *The Price of Independence: The Economics of Early Adulthood*, edited by Sheldon Danziger and Cecilia Elena Rouse (New York: Russell Sage Foundation, 2007), pp. 107–37.
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44. National Center for Education Statistics, *Youth Indicators 2005: Trends in Well-Being of American Youth* (U.S. Department of Education, Institute of Education Sciences, NCES 2005-050, July 2005).
45. Low socioeconomic background is defined by the NCES as the bottom quartile of a composite index of family income, parents' education, and occupation; high SES is the top quartile.
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