Paper: Young workers hit hardest by slow hiring during recessions

May 17 2016, by Phil Ciciora

When hiring slows during recessions, the brunt of job losses is borne by job-seekers in their twenties and early thirties, according to a new paper by Eliza Forsythe, a professor of labor and employment relations and of economics at Illinois. Credit: L. Brian Stauffer

The saying "Youth is wasted on the young" may ring hollow to young workers who were unable to find work or begin building a career during the Great Recession. When hiring slows during recessions, the brunt of job losses is borne by job-seekers in their twenties and early thirties, according to a new paper by a University of Illinois expert in labor economics.

"Younger workers are less likely to be hired during recessions and, when they are hired, they tend to find lower-quality jobs and earn lower wages," said Eliza Forsythe, a professor of labor and employment relations and of economics at Illinois. "More-experienced workers see neither of these effects. In fact, the evidence indicates that these more-experienced workers actually crowd young workers out of the labor market during recessions."

It is well-known that jobs are harder to come by during recessions, but this new result shows that younger workers, who often have the most to lose in terms of establishing a career, suffer disproportionately. According to Forsythe, this seems to be because firms that are looking to hire have more choices during times when more workers are looking for jobs.

"When job seekers are plentiful, firms favor experienced workers - workers with longer resumes, workers whom they know have been productively employed before - because they're typically more immediately productive than younger, inexperienced workers," she said.

Not only is this harmful for young workers, it's also bad for the economy as a whole.

"Eventually, as older workers retire, firms won't be able to find the trained workers they need to help them grow." Forsythe said. "What happens is that we have these younger workers who should be developing skills, advancing in their careers. For young workers, it's really important to be able to move between jobs. But during a recession, that just grinds to a halt. Once the economy recovers, the labor market still has these young people who have been, essentially, underinvested in as workers."

Students who graduate during recessions have been shown to earn less than those who graduate at other times. Forsythe attributes these "missing" wages to a lack of job mobility. She said these young people will tend to be "underemployed" - stuck in low-wage, low-skill jobs with seemingly no path out.

"During normal economic times, they might take one of those jobs and then be able to progress to a better job. But during a recession they get stuck," she said. "Even as the economy moves out of a recession, it can take a long time for firm hiring to catch up, and these young workers can continue to be at a disadvantage. For instance, during the Great Recession, the market for new lawyers collapsed. In more recent years, hiring has recovered, but firms prefer to hire new graduates rather than those who happened to graduate during the recession and couldn't find jobs."

Forsythe measured changes in hiring patterns during recessions using survey data collected by the Bureau of Labor Statistics over the last two decades, including the Great Recession. Her research also shows that firms use slack labor markets as an opportunity to upgrade their labor force.

"That means businesses hire fewer workers in their 20s and 30s, but don't appreciably change their hiring of workers in their 40s and older," she said.

According to Forsythe, a clear understanding of this mechanism is crucial for the design of effective labor market policies.

"Since there are these long-term consequences, it means we might need to do more active interventions for young workers during recessions to make sure that they're not left behind," she said. "That could mean additional unemployment benefits, or getting them additional education so they're not trying to find a job when nobody is willing to hire them. We don't want a whole group of people stuck in a place that might be hard to recover from."

More information: The paper "Why Don't Firms Hire Young Workers During Recessions?" is available online.

Provided by University of Illinois at Urbana-Champaign