

# Does leaving education in a recession have a lasting impact on living standards?

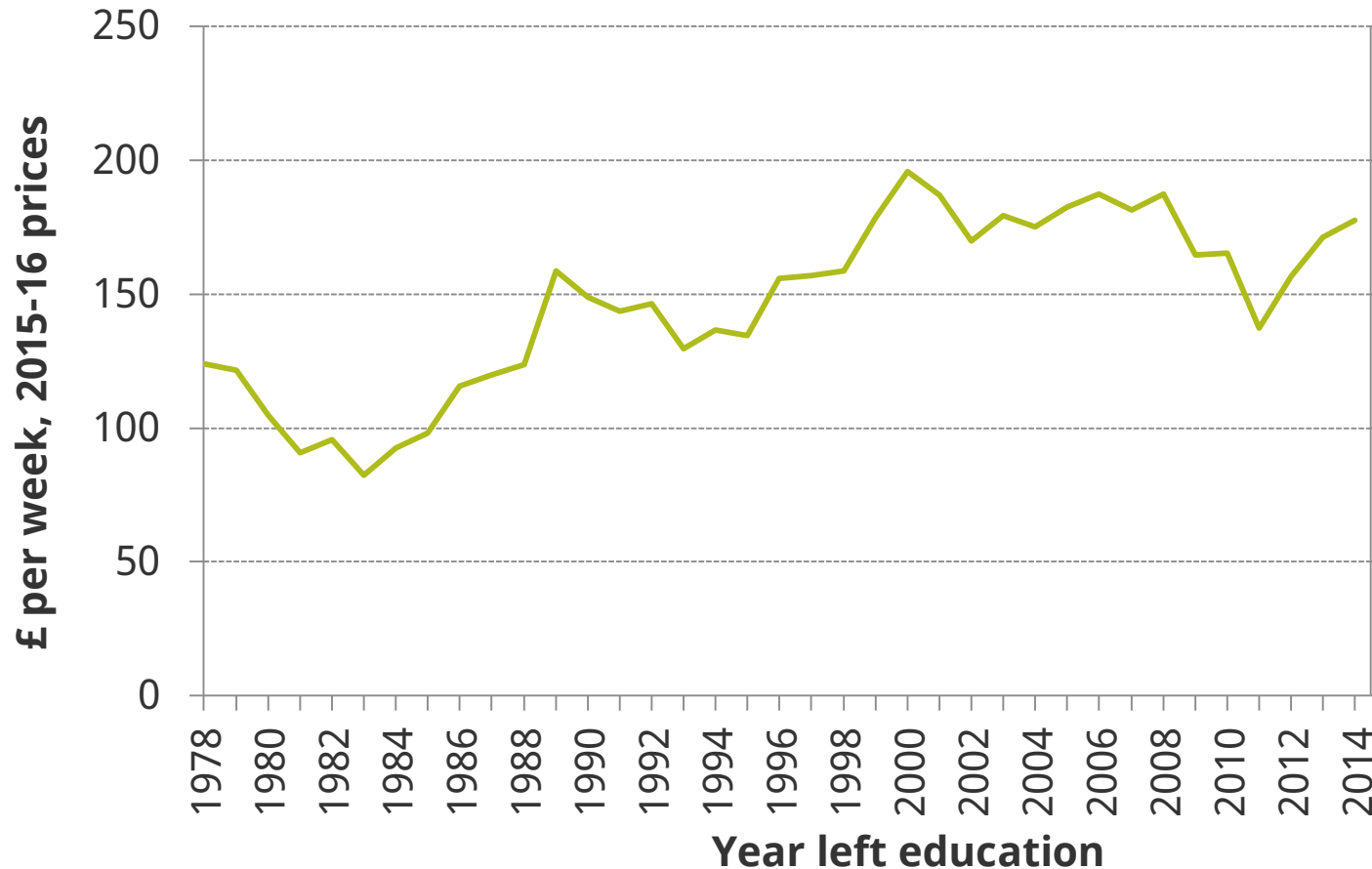
Jonathan Cribb

# Outline

- Young adults leaving education and starting their working lives are particularly hard hit by recessions

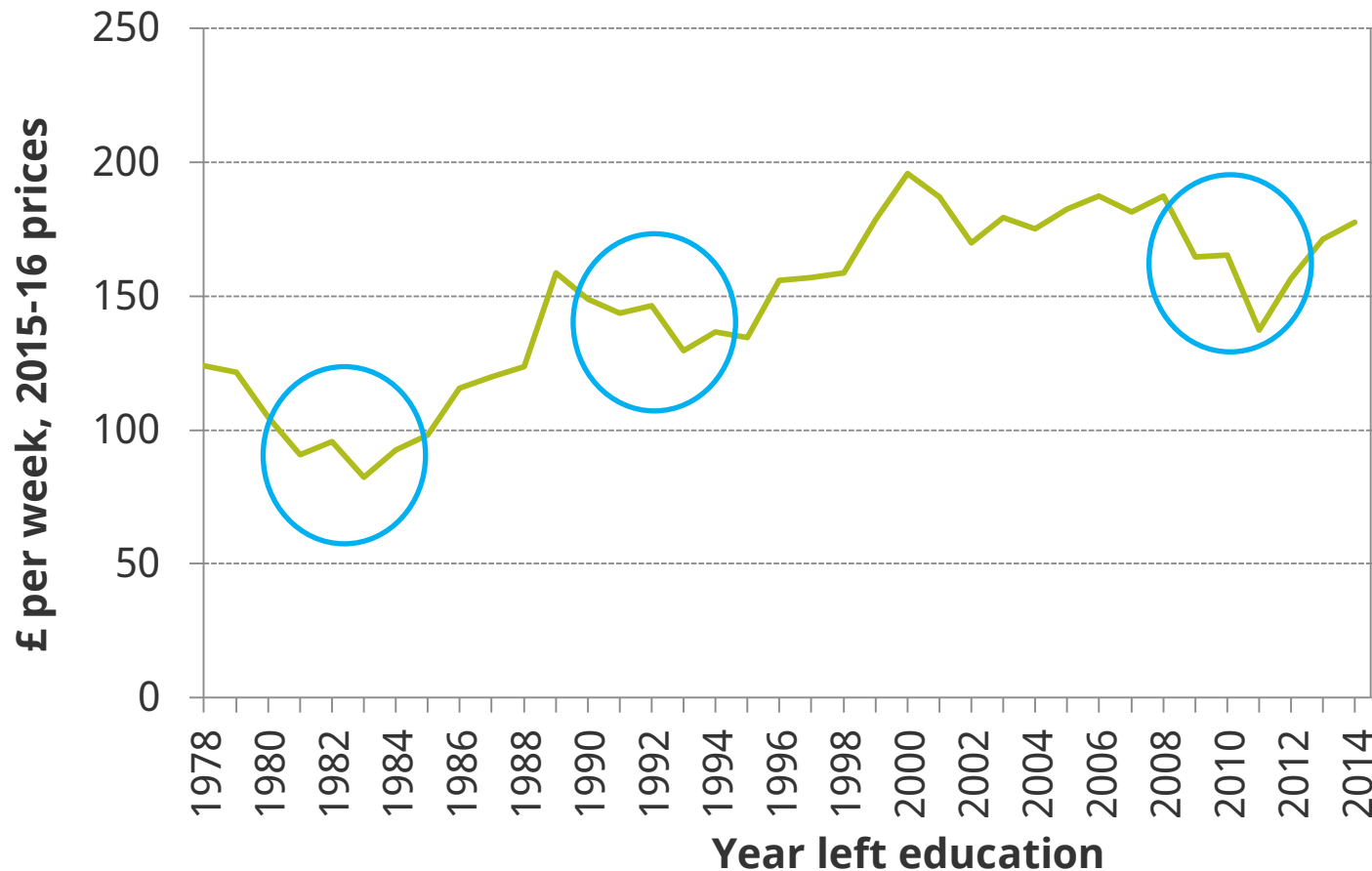
# Earnings of young workers tend to fall in recessions

Figure 1. Mean pre-tax earnings of young adults in paid work in the first two years after leaving education, by year left education



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# Outline

- Young adults leaving education and starting their working lives are particularly hard hit by recessions
1. Do people leaving education at an unlucky time have persistently or permanently lower earnings, even once the economy has returned to normal?
  2. Do negative labour market impacts lead to persistently lower living standards?

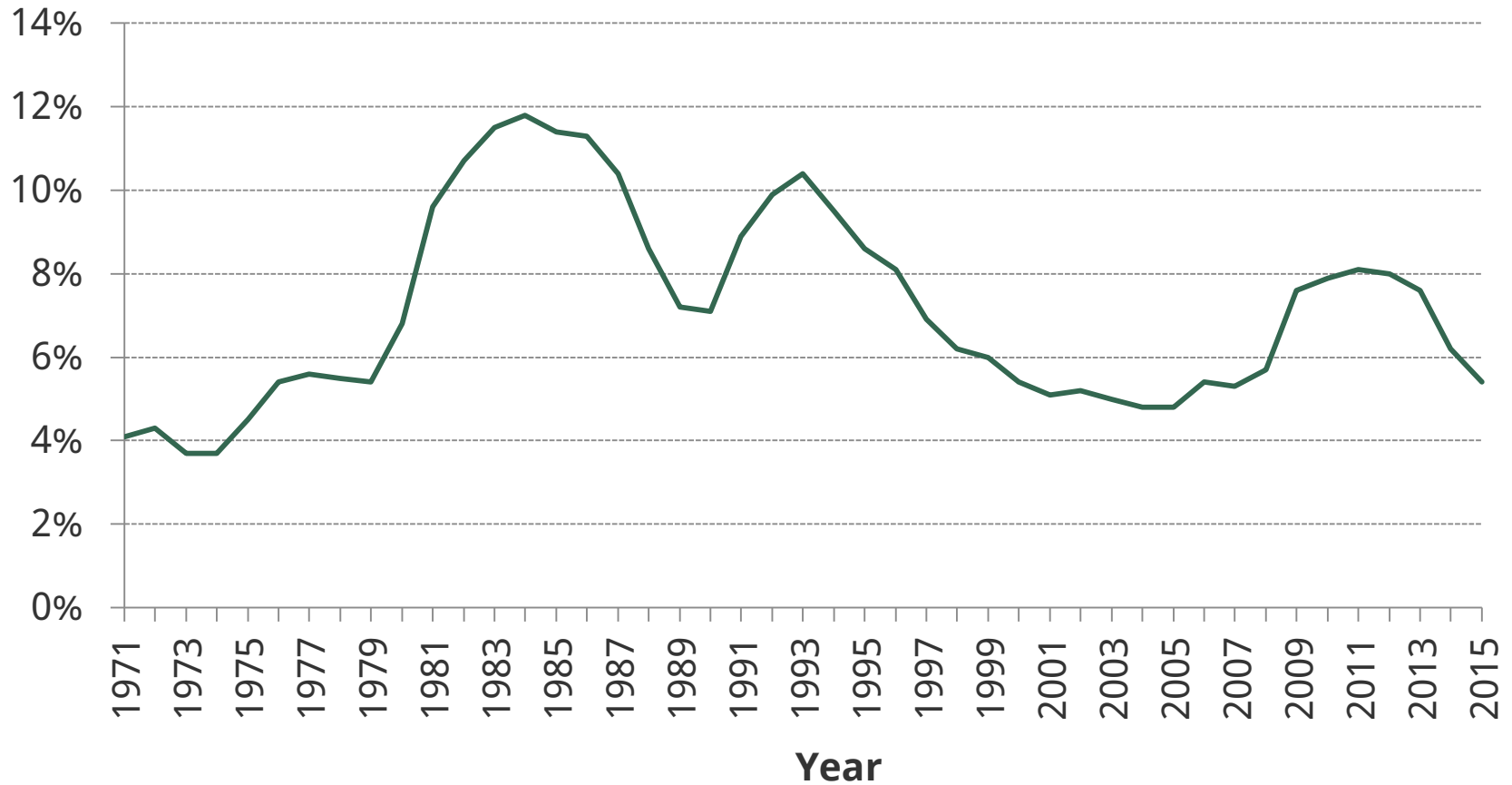
# Data

- We use almost 40 years of data from two large household surveys:
  - Family Expenditure Survey (since 1978)
  - Family Resources Survey (since 1994-95)
- Because individuals are asked when they left education, we can effectively track the progress of different “cohorts” who left education in different years
- Sample size of almost 200,000 individuals (in the first 10 years after leaving education)

# What we do

- Estimate causal impact of economic conditions when leaving education on your subsequent outcomes
- Use regression methods to control for sex, education, “experience” (and how it varies by education) and current economic conditions
- Will show results using unemployment rate as measure of state of economy
  - Key results same if use output gap

# UK unemployment rate 1971-2015

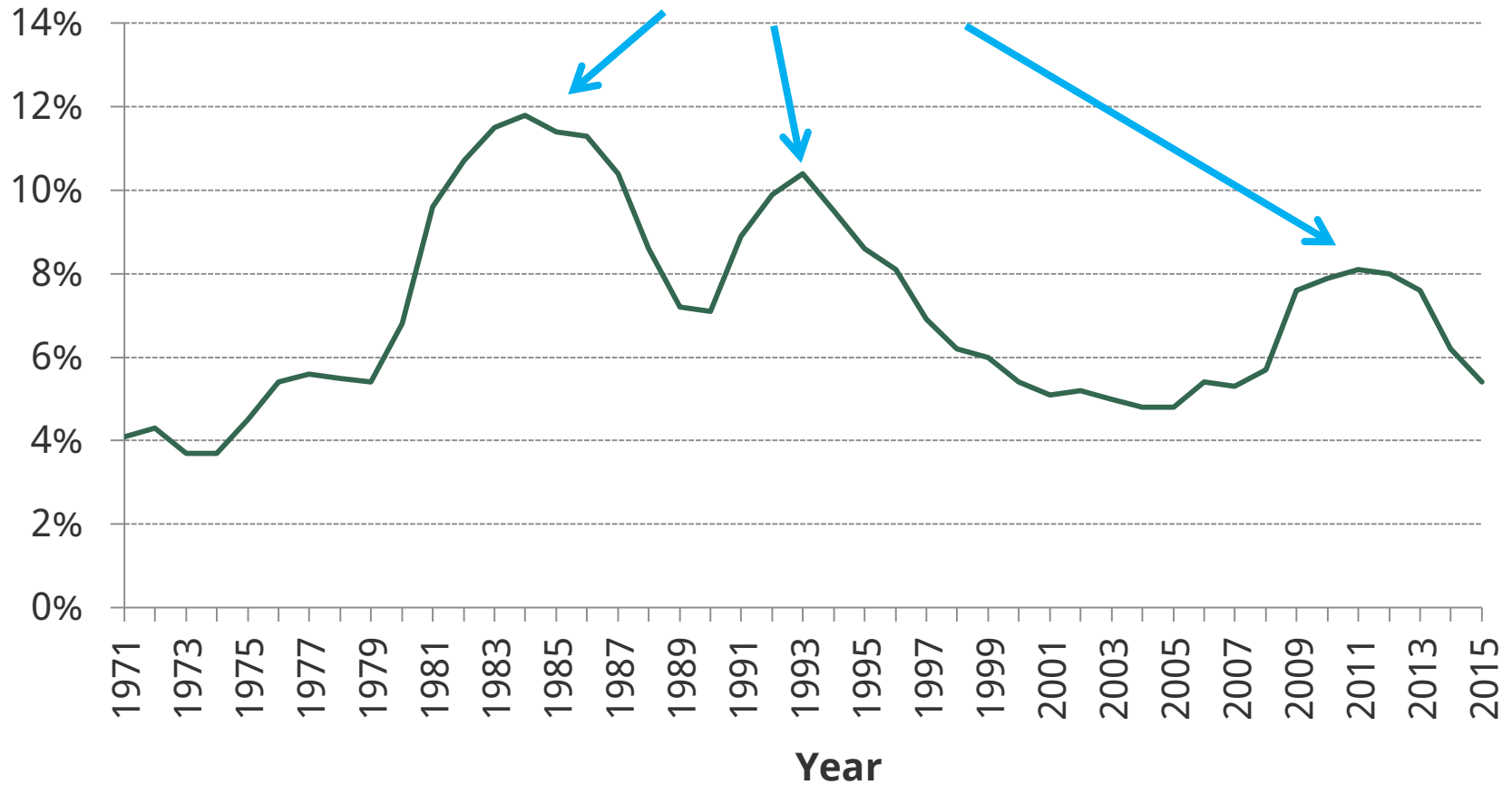


Source: ONS Labour Market Statistics



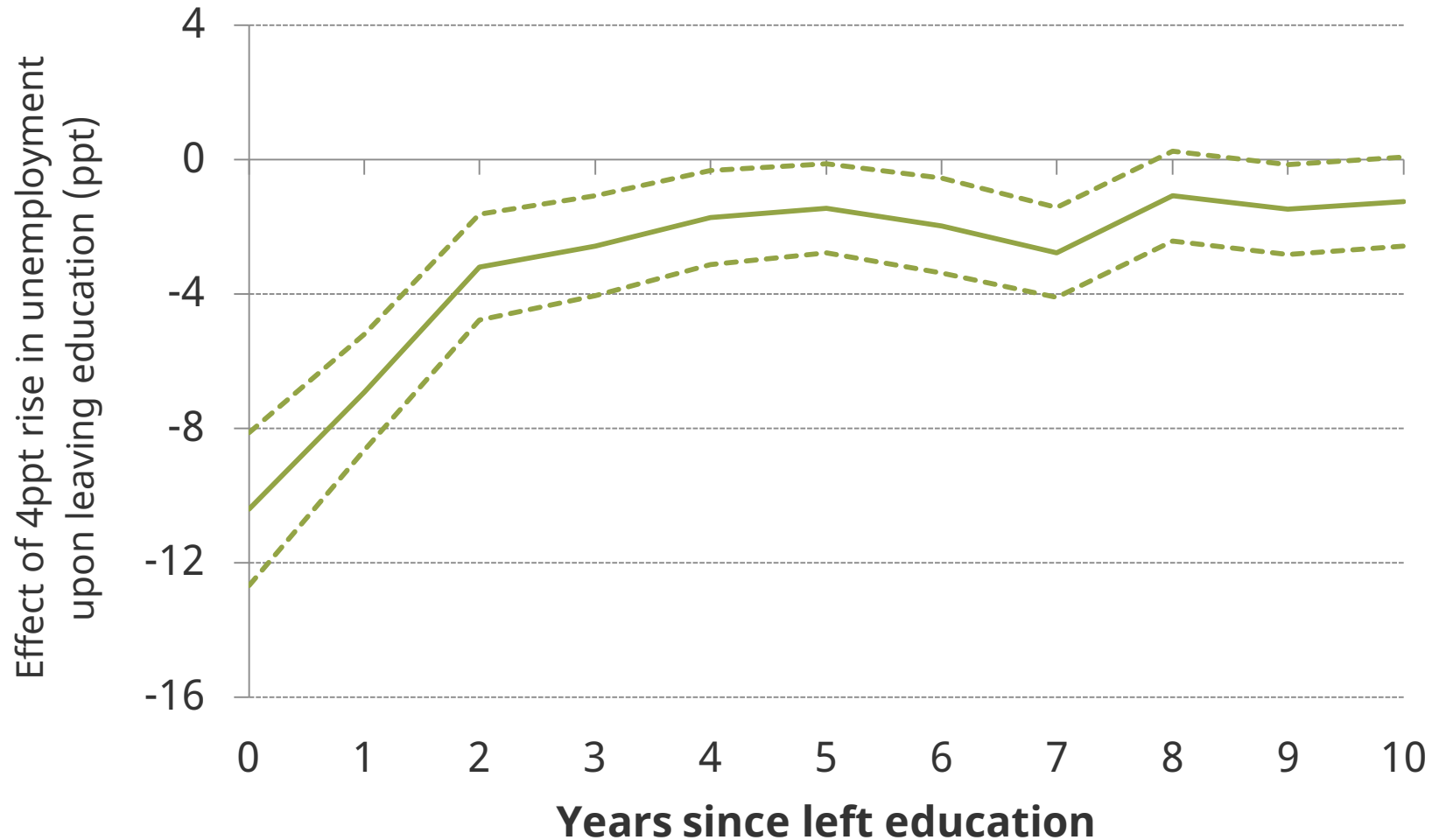
# UK unemployment rate 1971-2015

**Average increase in unemployment in last 3 recessions: 4 ppt**



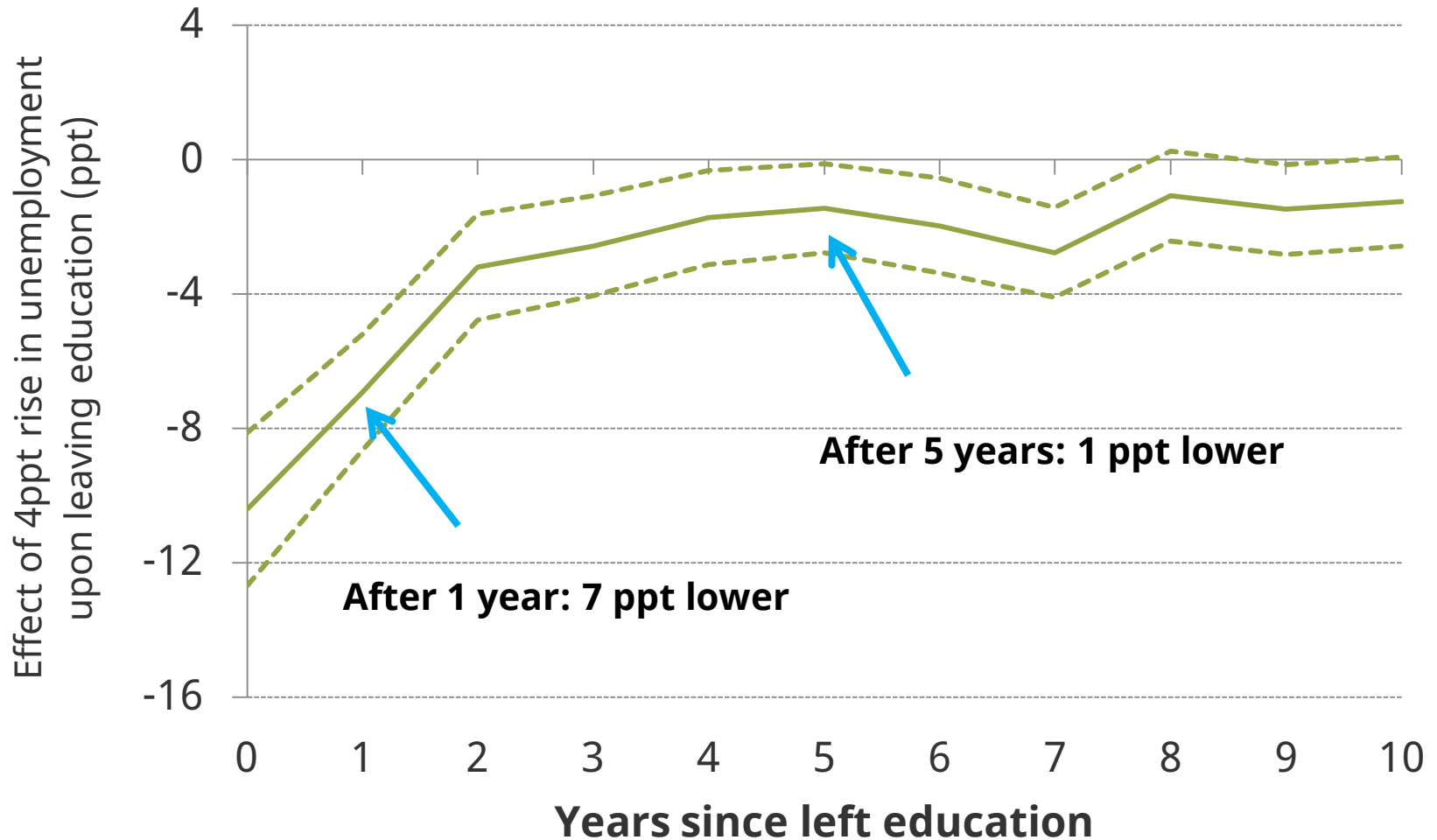
Source: ONS Labour Market Statistics

# Effect on probability of being in paid work



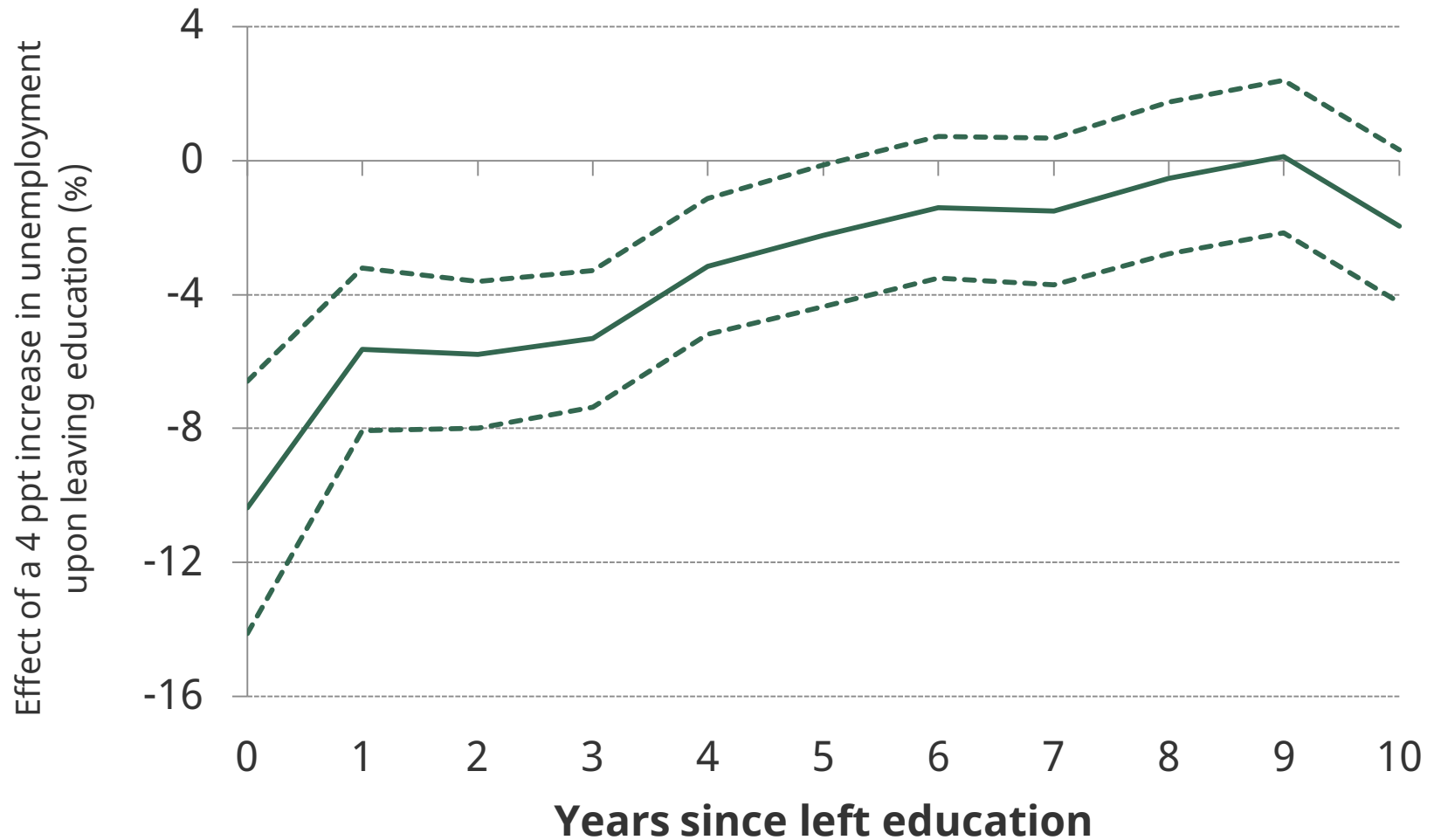
Note: Dotted lines represent 95% confidence intervals around the estimated effects

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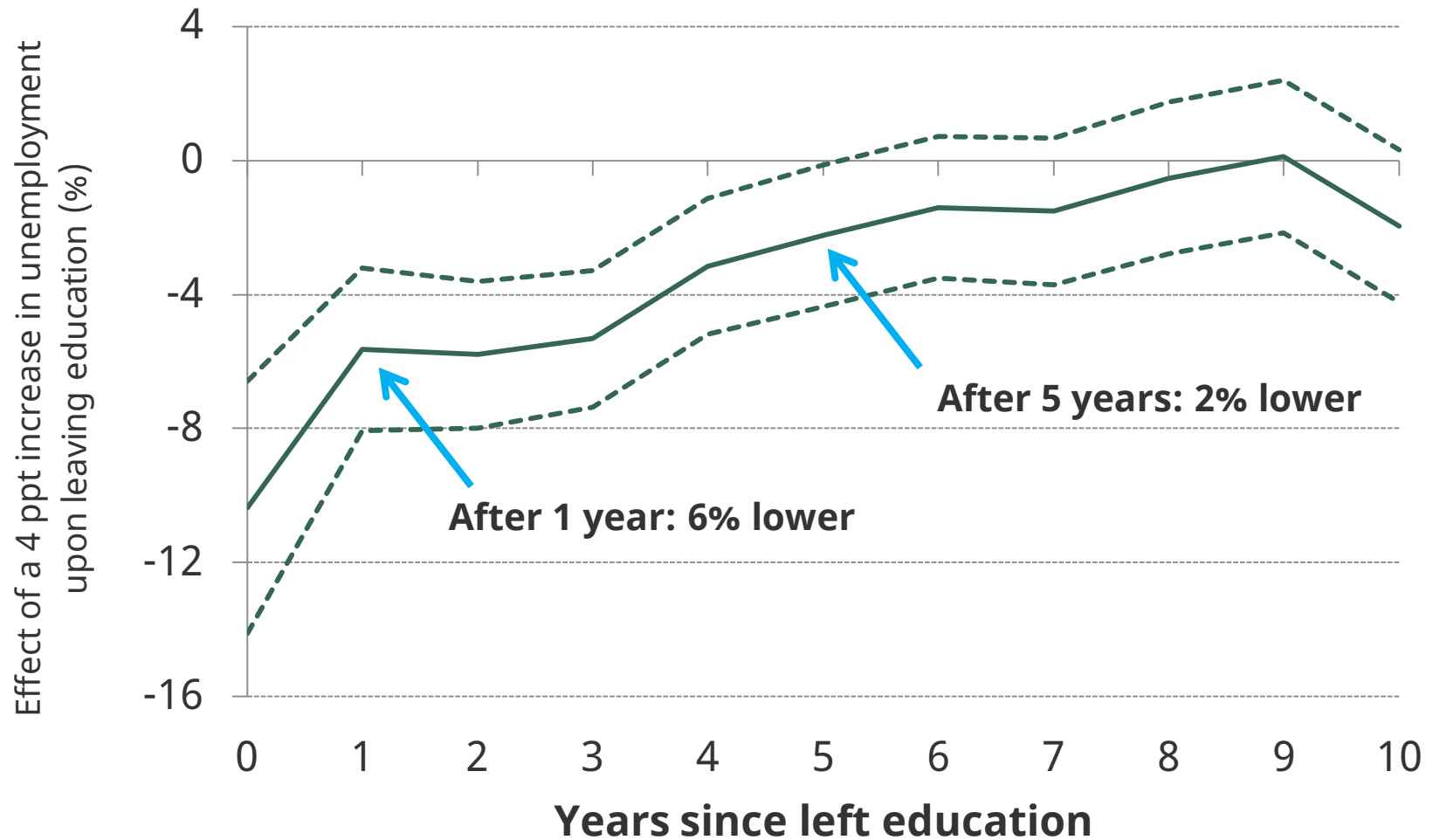
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# Effect on pre-tax earnings for workers



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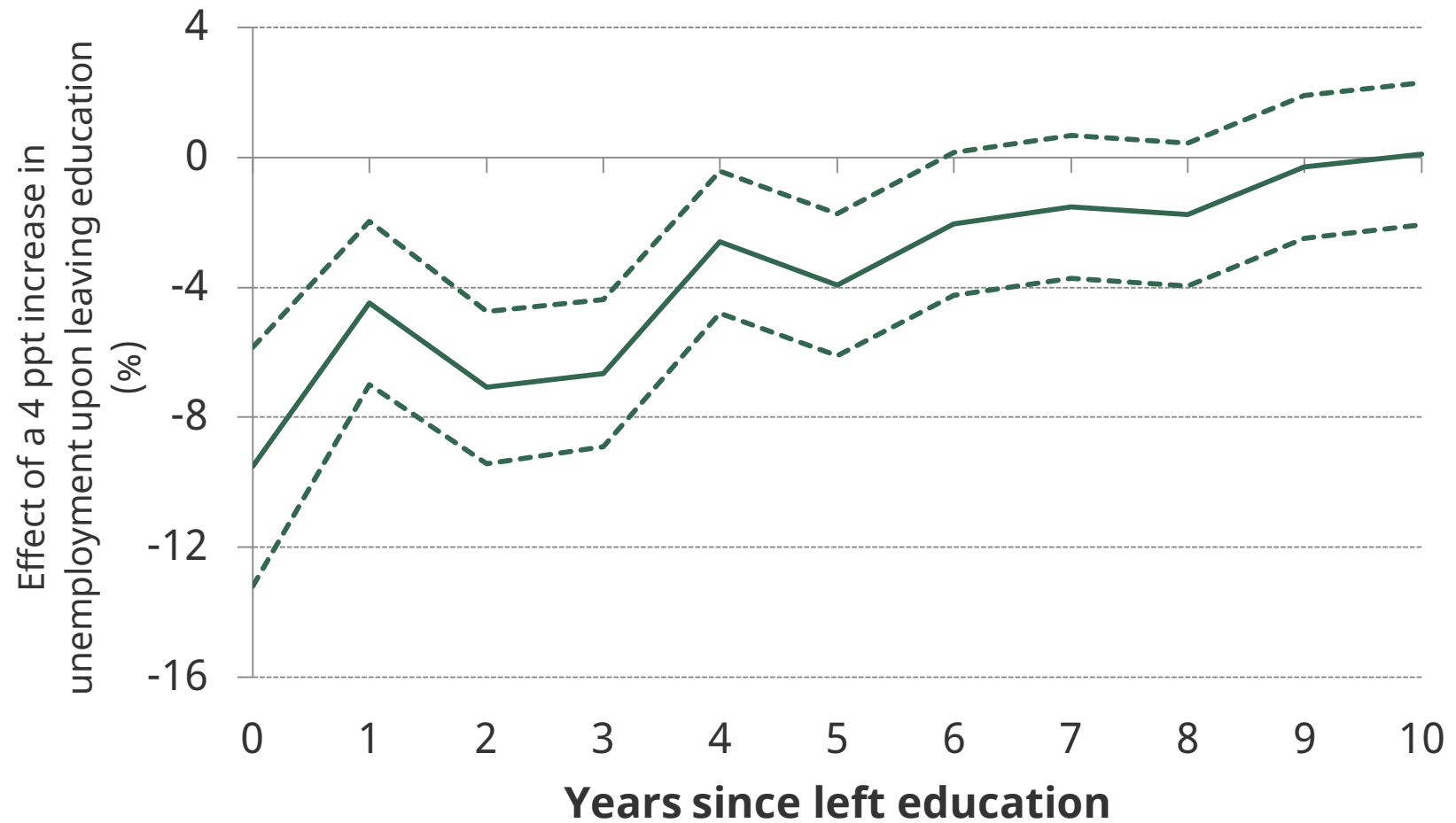


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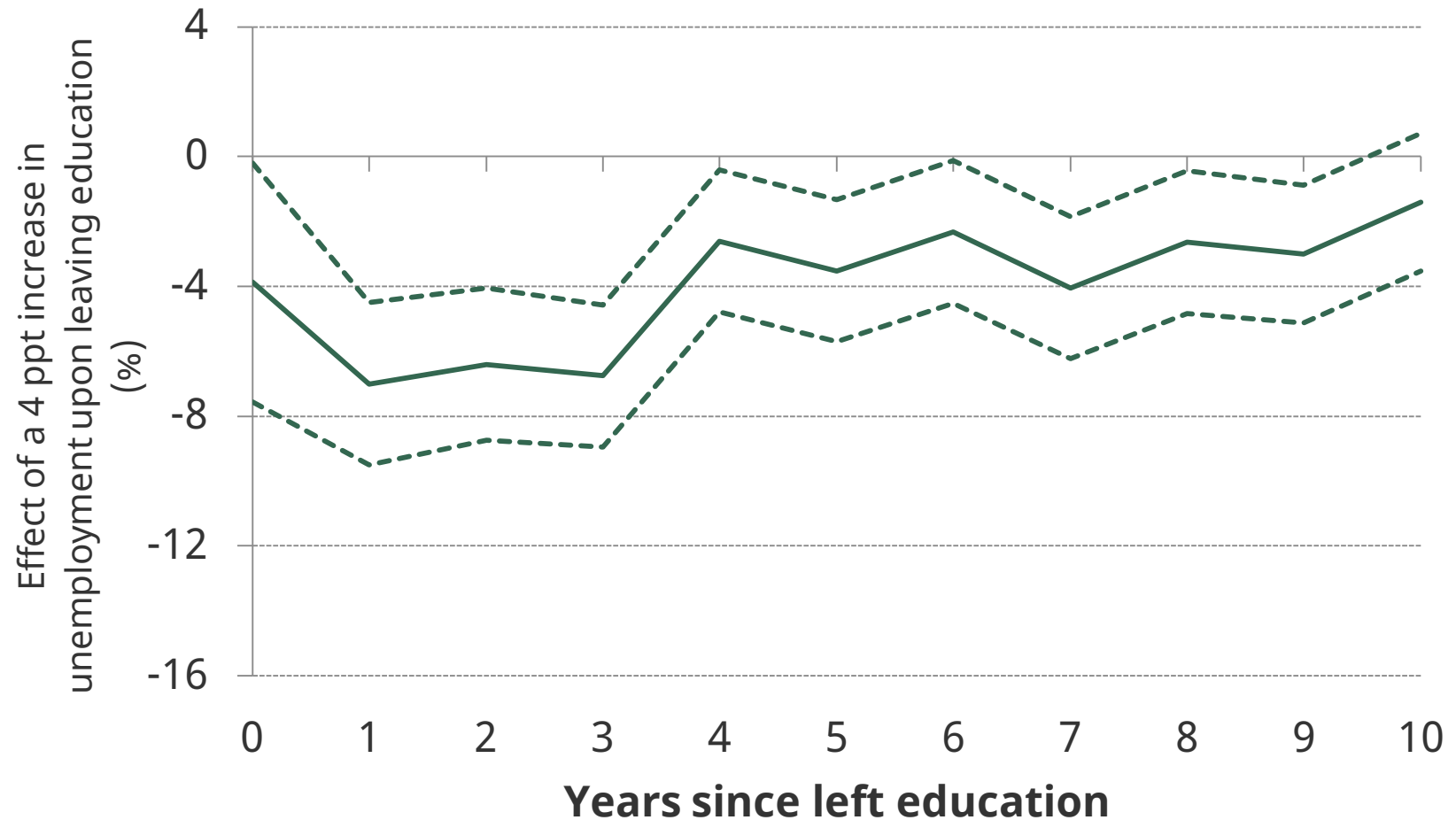
# Effect on combined earnings of individuals and their cohabiting partner (if applicable)



Notes: Working families only.

Dotted lines represent 95% confidence intervals around the estimated effects

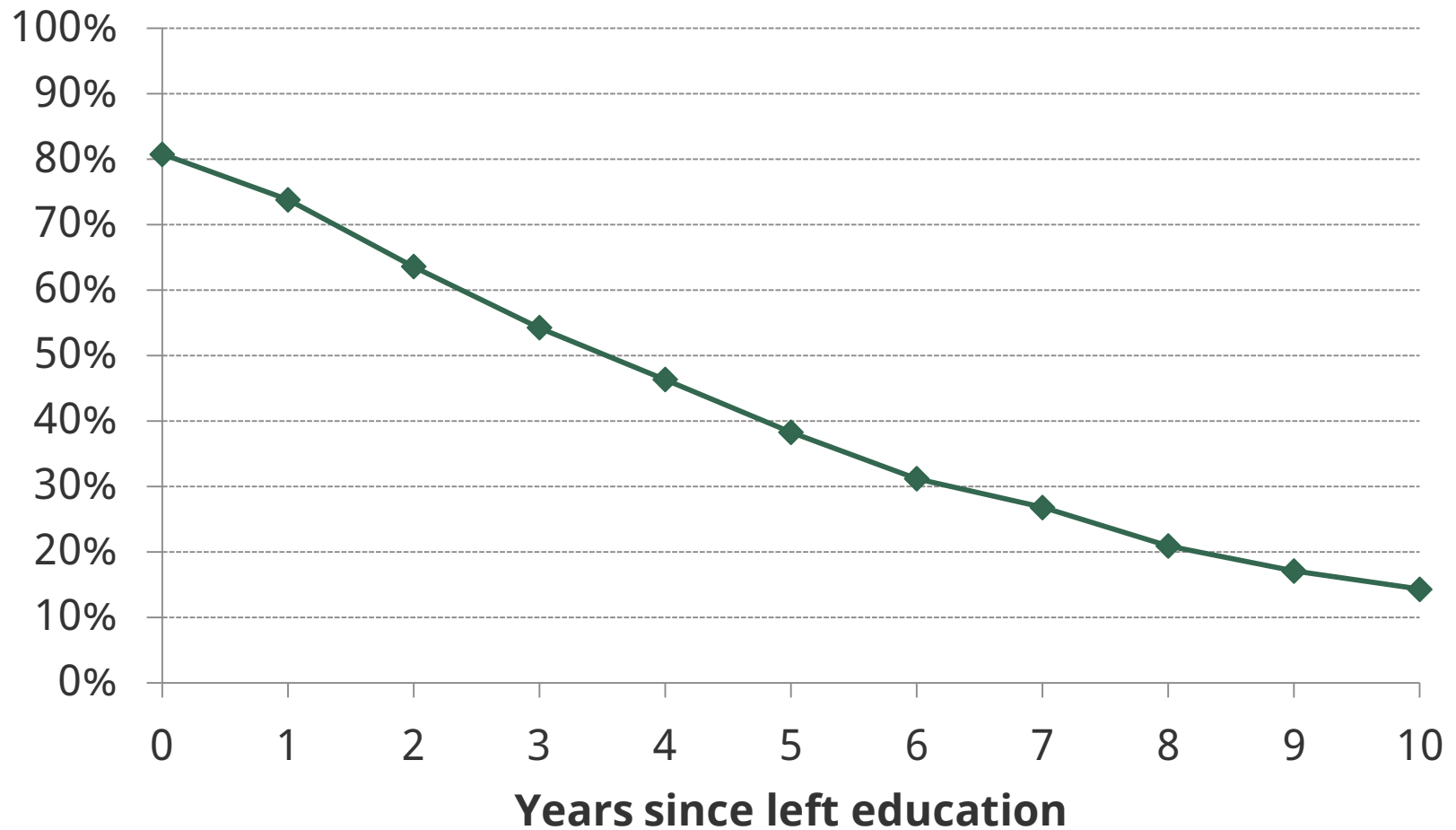
# Effect on net income of individuals and their cohabiting partner



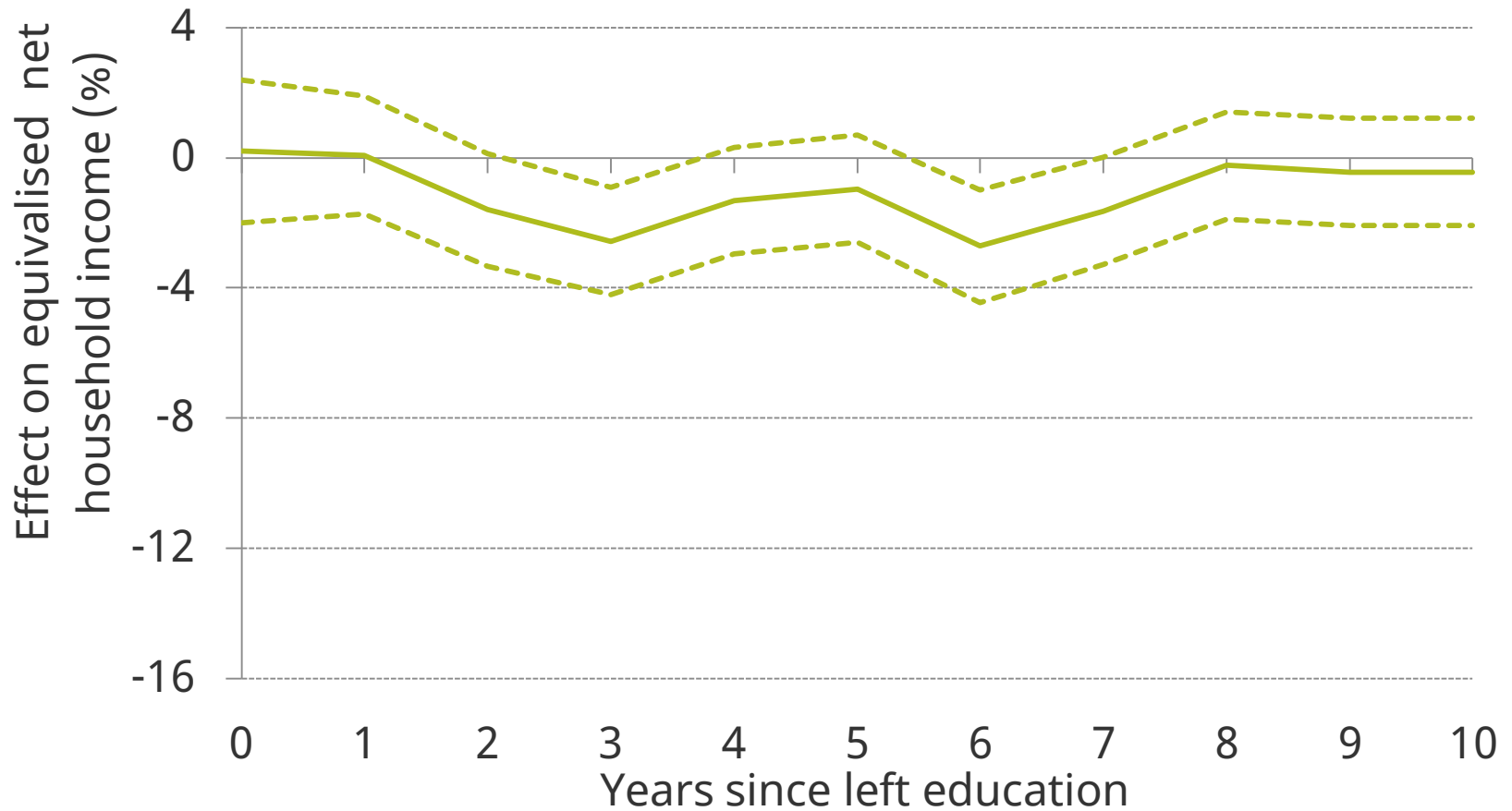
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# Proportion who live with parents (2010-2015)

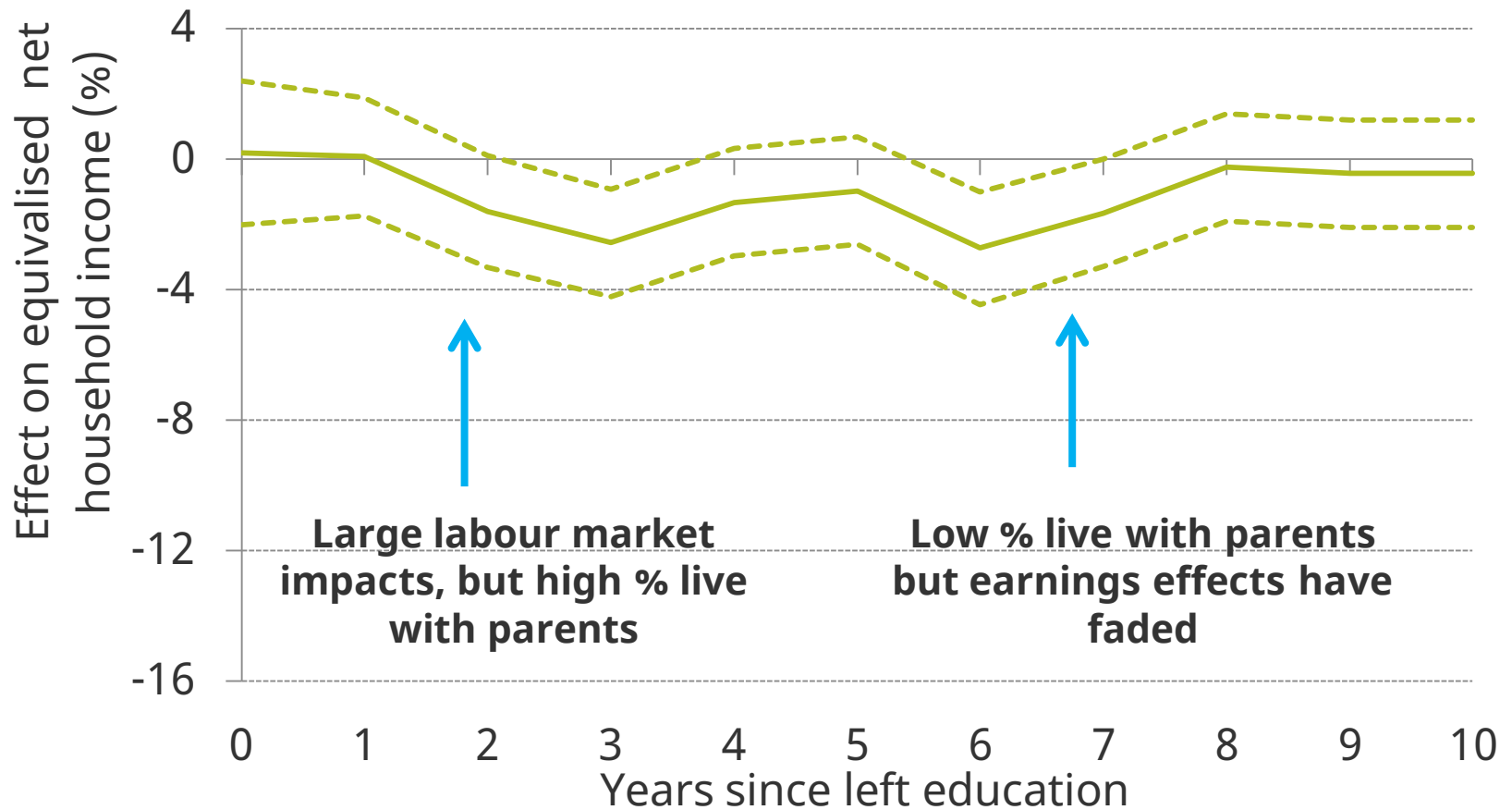


# Effect on equivalised net household income



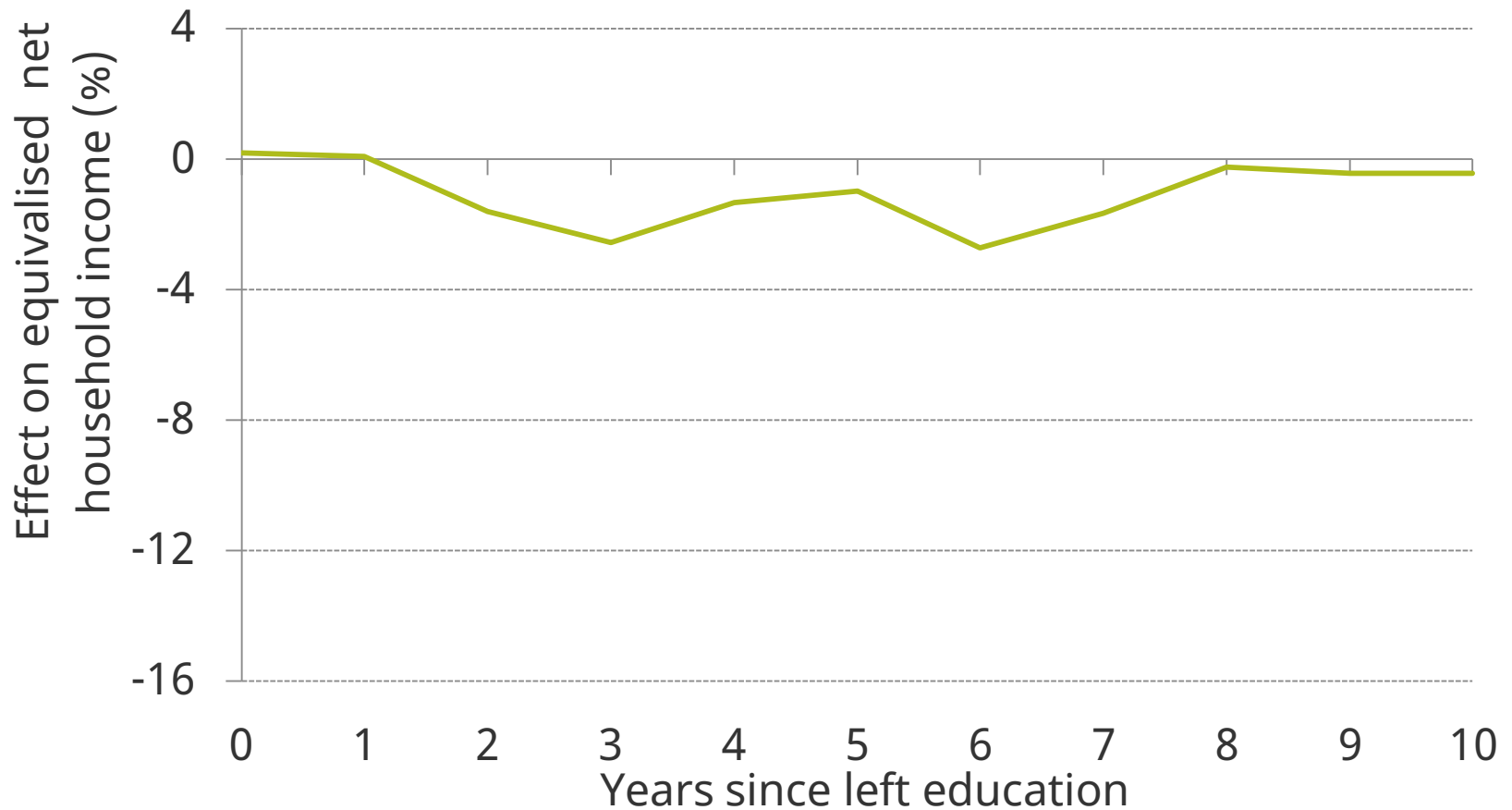
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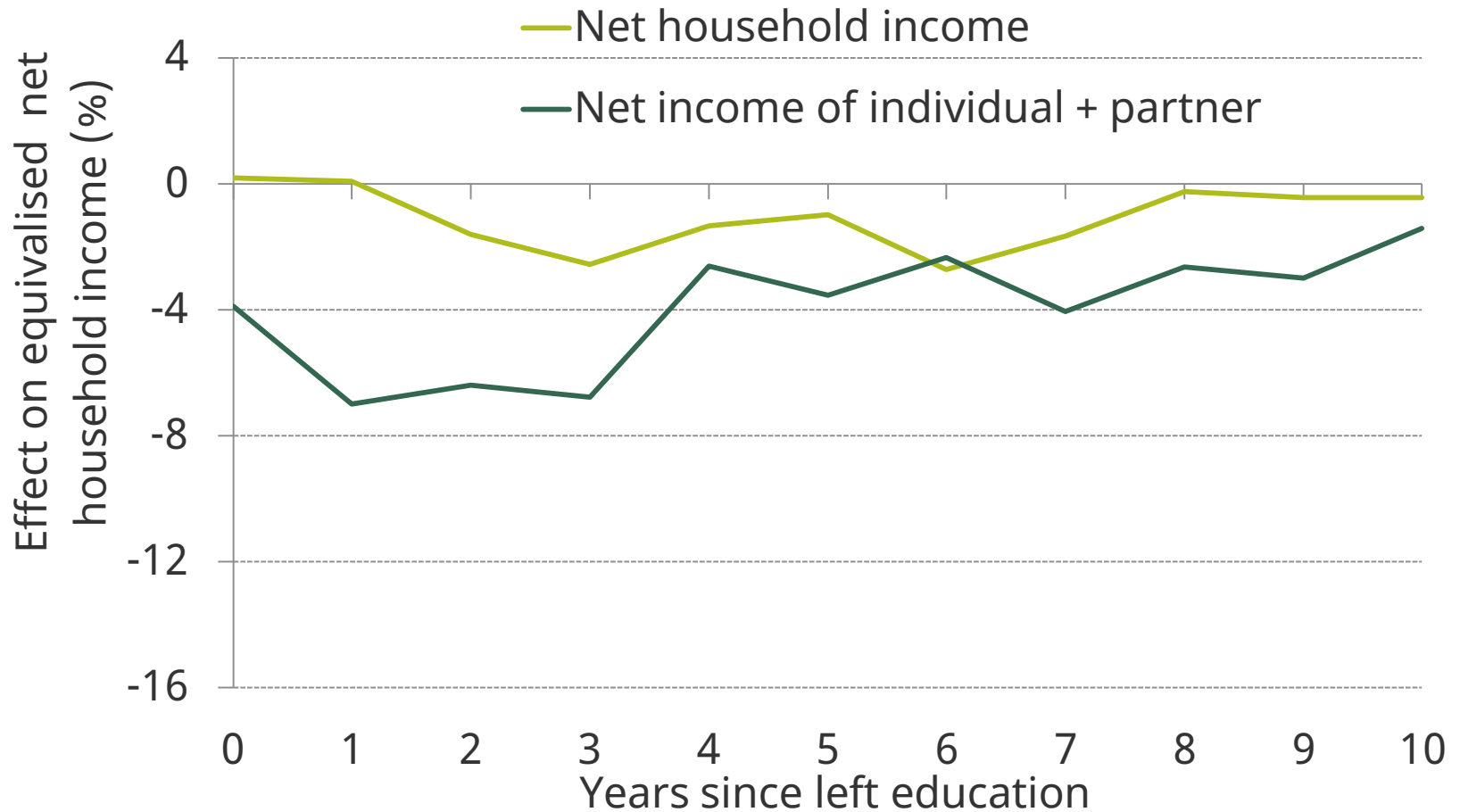
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# Effect on measures of income



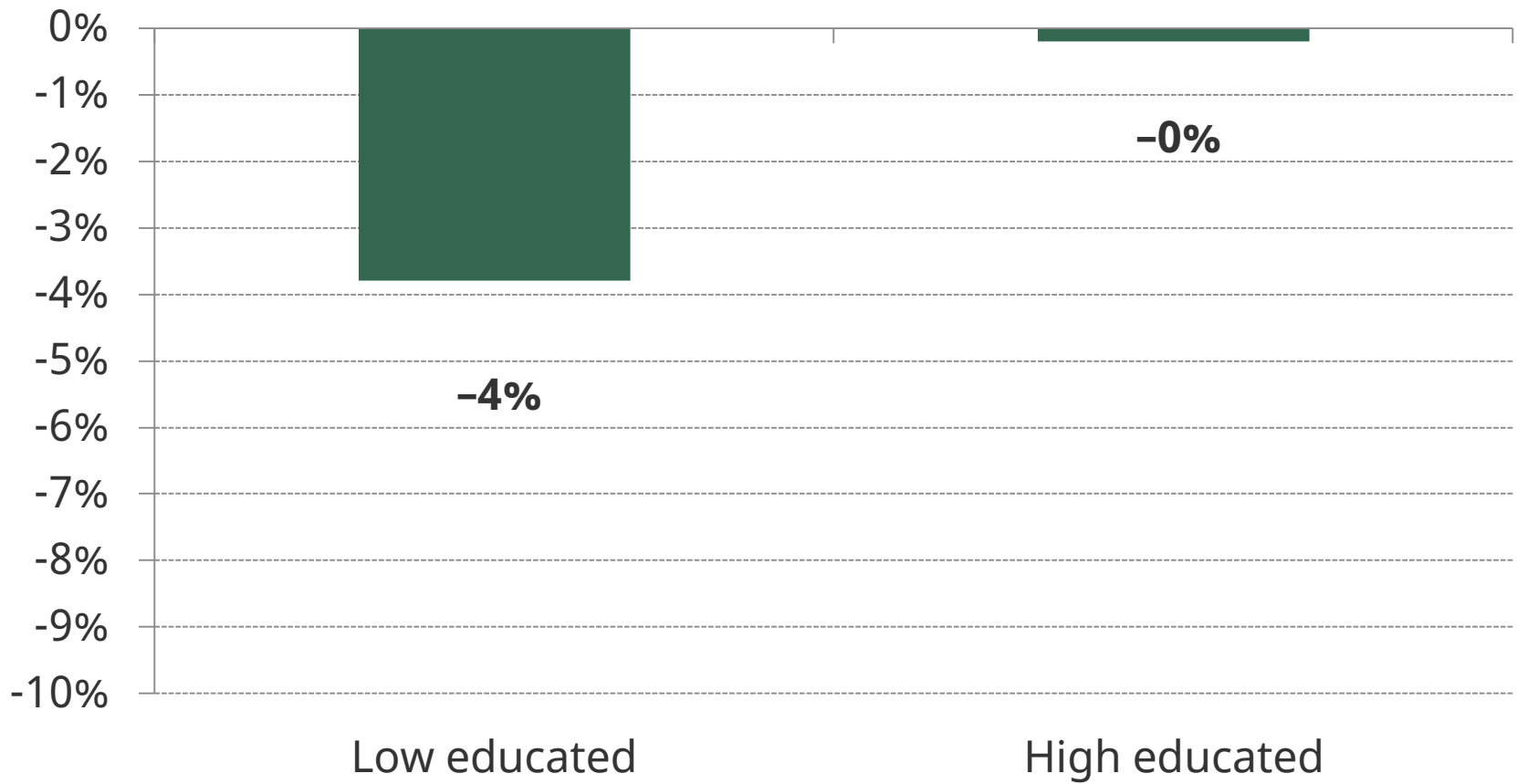
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# Why does the parental safety net seem so large?

- Results **not** primarily driven by young adults choosing to stay with parents as result of weak economic conditions
- Rather, many live with parents at this stage in life **regardless** of economic conditions
  - Most of their household's resources therefore come from their parents, not the young adult themselves
- Particularly important safety net as those who are most likely to be affected by the recession are those who are most likely to live with their parents

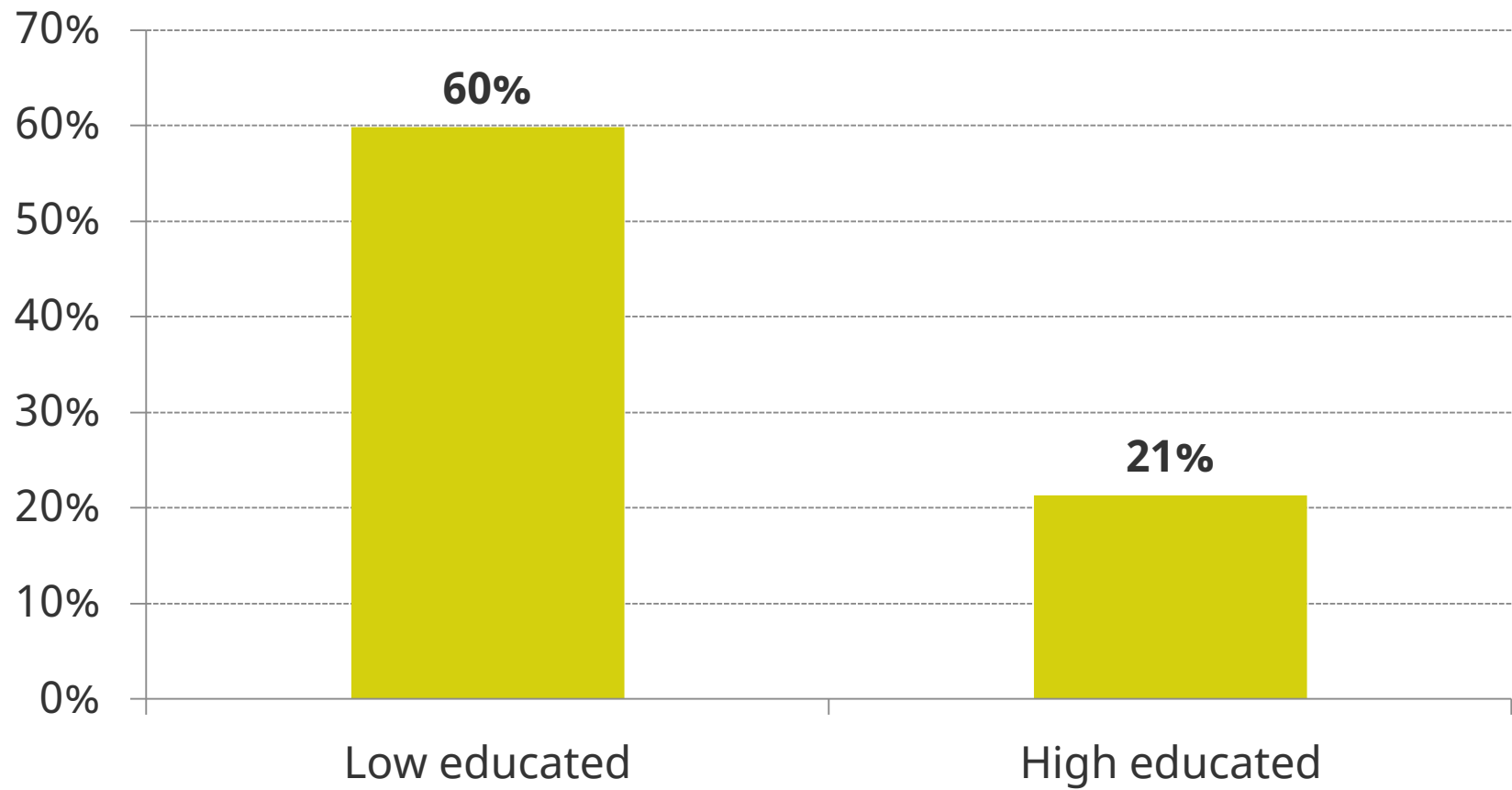
# Effects on people with high and low education

Effect on pre-tax earnings of adult and their cohabiting partner,  
five years after leaving education



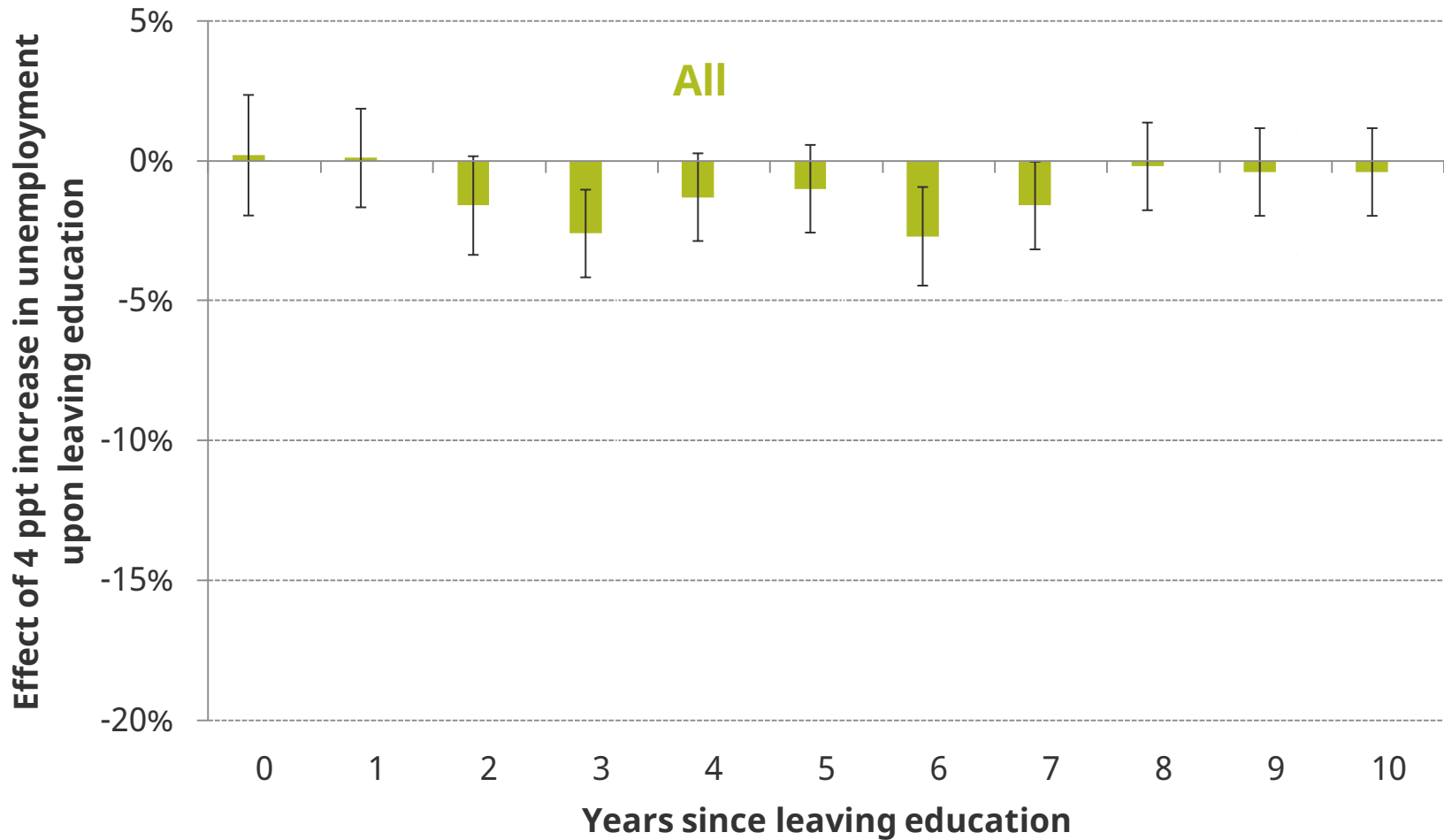
# Effects on people with high and low education

Percentage of young adults living with parents, five years after leaving education

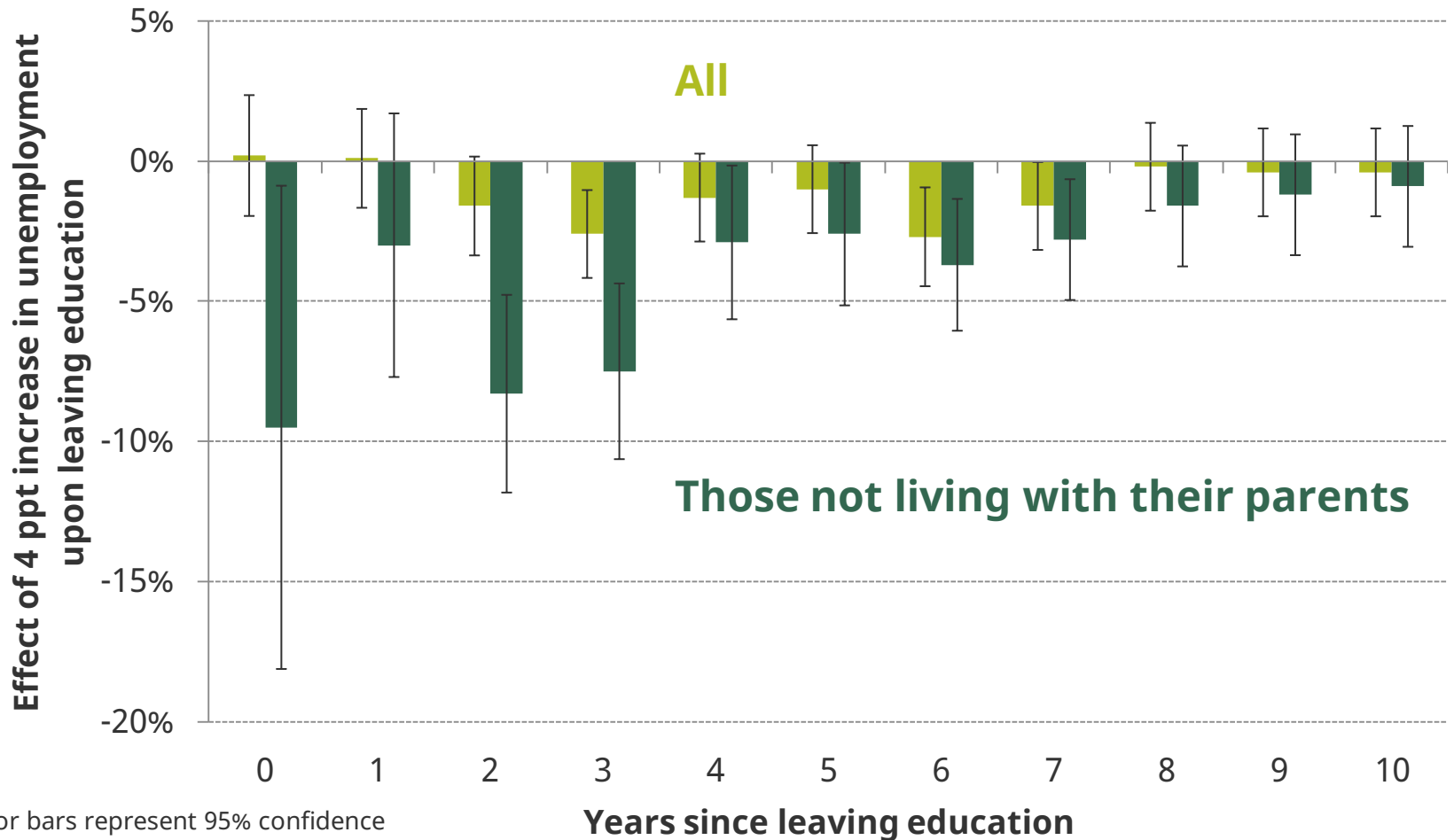




# Effects on net household income for those not living with their parents



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Note: Error bars represent 95% confidence intervals around the estimated effects

# Conclusions

- Significant negative and persistent effects on employment and earnings from entering the labour market in a recession
  - Impacts mostly fade within 10 years
- Parental safety net means that there is little impact on the total resources available to the household for young adults
- Key group of potential concern for policymakers: those who do not (or cannot) live with their parents in the first few years after leaving education