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.
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
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

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
Effect on probability of being in paid work

Effect of 4ppt rise in unemployment upon leaving education (ppt)

Years since left education

-16 -12 -8 -4 0 4

After 1 year: 7 ppt lower

After 5 years: 1 ppt lower

Note: Dotted lines represent 95% confidence intervals around the estimated effects
Effect on pre-tax earnings for workers

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Effect on pre-tax earnings for workers

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After 1 year: 6% lower
After 5 years: 2% lower
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?
Effect on combined earnings of individuals and their cohabiting partner (if applicable)

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Notes: Working families only.
Dotted lines represent 95% confidence intervals around the estimated effects.
Effect on net income of individuals and their cohabiting partner

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

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Proportion who live with parents (2010-2015)

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Effect on equivalised net household income

Note: Dotted lines represent 95% confidence intervals around the estimated effects.
Effect on equivalised net household income

Years since left education

Effect on equivalised net household income (%)

Large labour market impacts, but high % live with parents

Low % live with parents but earnings effects have faded

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

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Effect on equivalised net household income (%)

Years since left education

Note: Dotted lines represent 95% confidence intervals around the estimated effects
Effect on measures of income

Effect on equivalised net household income (%)

-16 -12 -8 -4 0 4

Years since left education

0 1 2 3 4 5 6 7 8 9 10

Net household income
Net income of individual + partner

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

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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

Low educated: -4%
High educated: -0%

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Effects on people with high and low education

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

- Low educated: 60%
- High educated: 21%
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.
Effects on net household income for those not living with their parents

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- 20%
- 15%
- 10%
- 5%
- 0%

Effect of 4 ppt increase in unemployment upon leaving education

Years since leaving education

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