

# Do youths graduating in a recession incur permanent losses?

## Penalties may last ten years or more, especially for high-educated youth and in rigid labor markets

Keywords: scars, graduating in recessions, lost generation, labor market rigidity

### ELEVATOR PITCH

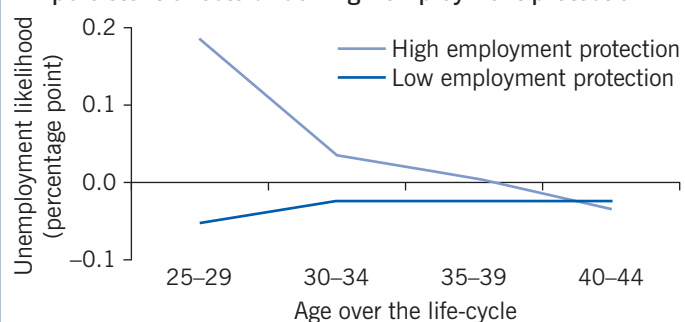
The Great Recession that began in 2008–2009 dramatically increased youth unemployment. But did it have long-lasting, adverse effects on the careers of youths? Are cohorts that graduate during a recession doomed to fall permanently behind those that graduate at other times? Are the impacts different for low- and high-educated individuals? If recessions impose penalties that persist over time, then more government outlays are justified to stabilize economic activity. Scientific evidence from a variety of countries shows that rigid labor markets can reinforce the persistence of these setbacks, which has important policy implications.

### KEY FINDINGS

#### Pros

- ⊕ High-educated youth graduating during a recession incur a moderate, but long-lasting loss in earnings.
- ⊕ High-educated youth get locked into lower-quality jobs, especially in rigid labor markets.
- ⊕ Strict employment protection legislation and other rigid worker protections induce more unemployment and reinforce the persistency of losses.
- ⊕ Low employment protection for fixed-term contracts and high employment protection for regular contracts increase the likelihood of unemployment and churning between short-term jobs.

#### An increase in unemployment at ages 15–24 has persistent effects under high employment protection



Note: The figure shows the effect on unemployment likelihood of a 1 percentage point increase in the unemployment rate at ages 15–24.

Source: [1]; p. 105, Figure 3.

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#### Cons

- ⊖ The earnings of low-educated youth entering the labor market in a recession fall considerably in the short-term, but the penalty dissipates quickly.
- ⊖ High-educated unlucky cohorts can eventually catch up if the labor market is sufficiently flexible.
- ⊖ A high minimum wage shields low-skilled youth against a wage penalty, while other worker protections reduce immediate negative impacts on employment and hours worked.
- ⊖ High-educated youth are less affected in terms of employment and hours worked, irrespective of labor market flexibility.

### AUTHOR'S MAIN MESSAGE

In flexible labor markets, low-educated entrants are harmed by economic downturns, but the penalties are short-lived. High-educated youth are less adversely affected, but the penalties persist longer. It takes about ten years for young cohorts that enter the labor market during a downturn to catch up to cohorts that did not. In rigid labor markets, however, while low-educated entrants are better shielded in the short term, both low- and high-educated workers never make up their earnings losses. Macroeconomic stabilization policies should be complemented by policies that aim at combining more job flexibility with job security.