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It doesn’t pay (as much) to enter the labor market during a recession

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Entering the labor market during a recession can adversely affect a worker’s future earnings and employment perspectives. During a recession, many firms are averse to laying off workers, and prefer to cease hiring new employees or to hire them at lower starting wages. This can be problematic, as salary sends a message to employers and firms about the productivity of a worker. Although someone may have been hired during a recession, they have a label that may persist for years to come, making it difficult to recoup wages that would have accrued if the hire had occurred under better economic conditions.

In “Unlucky cohorts: estimating the long-term effects of entering the labor market in a recession in large cross-sectional data sets” (*National Bureau of Economic Research*, Working Paper 25141, October 2018), authors Hannes Schwandt and Till M. von Wachter studied the effects of entering the labor market during a recession for all workers in the United States from 1976 to 2015. They looked at the short- and long-term effects on wages and earnings, as well as other socioeconomic outcomes, such as health, family formation, health insurance coverage, and poverty status.

Schwandt and von Wachter point to the fact that previous studies had only looked at the effects that entering the labor market during a recession had on college graduates. Therefore, one goal of this study was to pay special attention to less advantaged groups, such as less skilled and lower income workers, women, and minorities. The authors hypothesized that the effects of labor market entry during a recession would be more pronounced and last longer for these groups because of their marginalized status.

Citing data and measurement issues with longitudinal data sets, the authors used the Bureau of Labor Statistics Current Population Survey and American Community Survey, as well as Decennial Census data. These datasets were chosen because the large samples effectively captured the socioeconomic effects that entering the labor market during a recession had on less-advantaged groups. The use of repeated cross sections allowed them to look at the possible buffering effects that social insurance, measured in this study as the receipt of the Supplemental Nutrition Assistance Program (SNAP) and Medicaid, had on the less advantaged groups.

Schwandt and von Wachter found that “all labor market entrants experience persistent reductions in earnings, employment, and wages from entering the labor market in a recession that last at least 10 years.” The authors estimate that a person hired during a moderate recession (defined as an increase in the unemployment rate of 3 points) could lose as much as 60 percent of a year’s earnings over their first 10 years in the labor market. The authors further distinguish the effect on earnings as being from both reduced hours worked and lower wages. They report that about two-thirds of the effect on earnings in the short run (first 3 years) was due to a reduction in the number of hours worked, whereas two-thirds of the long-term effect was from lower wages.

The less advantaged groups, especially non-Whites and high school dropouts, were especially vulnerable to recessions. They had a much larger initial drop in wages and hours worked, and recessions had a much more persistent effect on their long-term earnings. Entering the labor market during a recession was especially damaging for Blacks, as they had a much higher incidence of poverty than other groups. The authors also found that receipt of SNAP and Medicaid worked to buffer against lower wages; however, this was only a temporary buffer in many cases, and was not effective enough to keep many out of poverty. Also, many labor market entrants could not get social insurance benefits because they did not qualify.

The issue of adverse consequences from entering the labor market during a recession is one that is relevant to all demographic and socioeconomic groups, as it affects all labor market entrants in both the short and long run. This study added to the literature because it focused on the unfair burden that recessions place on minorities and other less-advantaged groups. However, being one of the first of its kind, further studies are warranted to examine the extent to which being less advantaged during a recession affects earnings and poverty outcomes.