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# The Black Youth Employment Crisis: Summary of Findings

Richard B. Freeman and Harry J. Holzer

Black youths have historically fared more poorly in the job market than have white youths. In the early 1960s, for example, black youths earned considerably less than otherwise comparable white youths, and they also received a lower return on their investments in schooling (Weiss 1970). Although differences between blacks and whites in skill, geographic location, and family background factors have in the past explained some of blacks' disadvantage in the job market, a large part of the observed differential was attributed to discrimination.

In recent years, with the onset of equal employment opportunity, affirmative action, and other government and private efforts to reduce market discrimination, the wages of black youths have risen relative to those of white youths. Young blacks have made advances in both occupation and education. Yet their *employment* problem has worsened, reaching levels that can only be described as catastrophic. In 1983 a bare 45 percent of black men who were aged 16 to 21 and out of school were employed, whereas 73 percent of their white counterparts were employed.<sup>1</sup> The heralded youth unemployment problem has taken the form not so much of joblessness among white youths as of high joblessness among black youths. In many respects, the urban unemployment characteristic of Third World countries appears to have taken root among black youths in the United States.

What are the dimensions and nature of the job crisis among black youths? What has caused the deterioration of black youth employment? What forces might reverse that deterioration?

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Under the auspices of the National Bureau of Economic Research (NBER), economists from several universities have been engaged in extensive investigations of the problem of black youth joblessness. As part of this project, NBER researchers developed a survey to examine the situation facing black youths, the survey of Inner-City Black Youth. This survey was undertaken because existing governmental information, notably the Census Bureau's Current Population Survey (CPS), was inadequate for understanding the problem.

Basically, the CPS asks, "Are you working?" and obtains relatively little information on the activities of the jobless, particularly those out of the labor force. In addition, the census survey lacks information on certain alternatives to work that may be quite important to these youths. It is widely recognized, for example, that crime (broadly defined to include working in the "underground economy" as well as violent crime) is a major alternative to employment for youths; yet the CPS contains no questions on such activities. Finally, there is a serious "respondent bias" in the CPS, with one member of the household answering for all others. Consequently, the information obtained on the activities of youths in these households is not always accurate (Freeman and Medoff 1982).

To obtain a data set more suitable for analyzing the black youth employment crisis, NBER developed a set of questions to ask inner-city minority youths and contracted Mathematica Policy Research, Inc., to administer the survey to black men, aged 16 to 24, in Boston, Chicago, and Philadelphia. The sample was limited to men because the employment and social problems facing black women are quite different. The sample covered persons living on city blocks identified by the 1970 Census of Population as having at least 70 percent black residents and 30 percent of families living below the poverty line. Initially, the research staff was concerned whether the sampling would yield a sufficient response rate to reflect a random sample within these areas. But over 2,000 youths from the worst poverty tracts in these three U.S. cities did respond, representing an 82.6 percent response rate (see table 1).

**Table 1**                      **General Characteristics of the NBER Survey of Inner-City Black Youths**

| City         | Number of Completed Interviews | Number of Attempted Interviews | Response Rate |
|--------------|--------------------------------|--------------------------------|---------------|
| Boston       | 757                            | 939                            | 80.6%         |
| Chicago      | 800                            | 919                            | 87.1%         |
| Philadelphia | 801                            | 996                            | 80.4%         |
| Total        | 2,358                          | 2,854                          | 82.6%         |

As a further check on the representative nature of the sample, we compared the characteristics of youths in our survey with those of the youths from the same geographic areas who were surveyed in the 1980 Census. Although there is some evidence that older youths and household heads may be underrepresented in our sample, we find no evidence of systematic biases in estimated relationships resulting from these differences (Bound 1986).

The topics covered by the survey ranged from standard work activities to the hourly activities of these youths in a day, their desire to work, their use of drugs, their participation in illegal activities, and their perceptions of the labor market. One set of questions had to do with their willingness to work, for example, "How willing are you to take a job at different levels of pay?" and "Would you take a full-time job right now, if it were as a laborer in a factory at—?" Various hourly wage levels were suggested in the latter question, beginning at \$2.50 and rising until the respondent indicated an acceptable wage. The question also listed various potential jobs. The purpose of these questions was to gauge the "reservation wages" (the wage goals that govern the willingness to work) of these young people—again, a subject about which the CPS provides no regular information.

A second set of questions in the NBER survey dealt with some of the illegal activities in which the youths might have been involved over the previous 12 months. Although the difficulty in soliciting truthful responses to questions about criminal involvement is well known, a fair number of young people did report participation in crime; approximately one-quarter of the total income reported in the sample came from illegal activities (Hindelang, Hirschi, and Weis 1981).

A third set of questions focused on the activities of these youths in a typical day and over a 13-month period. These questions were designed to determine whether young blacks spend their time productively, especially when out of work and out of school. Questions about daily activities therefore investigated both productive ones—such as work, searching for work, school and studying, work around the house, and job training—and unproductive ones, such as crime, drug use, and recreational activities (going to movies, listening to music, "hanging out," and so forth). Similarly, the 13-month time line gauged time spent at work, in school or in training, in jail, and in other activities.

Another set of questions focused on the attitudes and family background of the youths. These included the welfare status of their families, churchgoing, residence in public housing, and jobs held by other family members.

The concentration of the NBER survey on inner-city black youths is both a strength and a weakness. The strength is that we have detailed information on the largest sample of such youths now available in social

science research. One weakness is that the data cannot be used by themselves to compare the inner-city youths with other youths. Another weakness is that the NBER survey is limited to one observation in time; the only longitudinal component of the data is the retrospective “time line,” for which the youths were asked what they had done in the previous 13 months. To overcome these weaknesses, many of the analysts supplemented the NBER data with other data sets, notably the youth cohort of the National Longitudinal Surveys of Labor Market Experience (NLS). The NLS surveyed a nationwide sample of white and minority youths aged 14 to 21 in 1979 and follows them in later years. The NLS also contains many questions that are similar to those asked in the NBER survey. The former was therefore well suited for a comparison of inner-city blacks with other youths.

Given the new data and a major research effort by several economists, what did the NBER analysis discover about the job crisis among black youths? Is the problem one of lack of skills and a work ethic, as some allege? Or is it one of discrimination, pure and simple? Why, in a period of overall black economic progress, have inner-city black youth suffered so much joblessness?

At the outset, it is important to state that the study has found no single factor to be *the* cause of the black youth employment problem. Rather, the various analyses in this volume identify a number of factors—on both the supply and the demand sides of the market—as contributing to the problem. Reversals or changes in these many factors, not in one single element, are needed to remedy the situation.

Among the factors that we have found to influence the employment of black youth are: the proportion of women in the labor force; the aspirations and churchgoing behavior of these youths; their willingness to accept low-wage jobs; the incentives for crime that they face; the employment and welfare status of their families; the overall state of their local labor markets; the behavior of employers and the characteristics of jobs they offer youths; the youths’ performance on jobs, especially their absenteeism; and their years of education and school performance.

Because of the difficulty in determining the true “structure” by which certain factors operate, many of the studies in this volume take a “reduced form” approach to the analysis. In other words, they provide estimates of the link between factors and outcomes rather than estimates of structural parameters in complete behavioral models. Even so, the analyses provide new evidence on a broad range of causes and characteristics of the black youth employment problem that have not been seriously evaluated, to date, and without which sensible policy approaches to this problem cannot be devised.

If there is a single unifying theme in this book, it is that black male youths are quite responsive to a number of economic incentives and

to their social and family environment. Thus, the magnitude of the observed employment decline in the 1970s reflects in large part the high elasticity of supply responses to negative employment incentives and to social and family developments. This finding suggests that if the society offers different incentives to young blacks in the 1980s, their employment situation should improve significantly. Developing policies that change these incentives is therefore the major challenge of any effort to improve black youth employment rates.

### The Nature and Pattern of the Black Youth Employment Crisis

The striking deterioration in the employment of black youths, which motivated this study, is shown in table 2. The data show that black youth employment has declined in every age group relative to white youth employment and that unemployment rates have risen. They also show the often-forgotten and disturbing fact that the extraordinarily wide differentials have developed only in the past few decades. In 1954 approximately equal percentages of black and white youths were employed. Since that time, unemployment rates for black youths have soared and their employment rates have fallen, with especially large declines in the 1970s. This trend contrasts sharply with that of wages. Over the same period, wage differentials between young blacks and whites have narrowed dramatically, especially between subgroups having had the largest differentials in the past, such as Southerners (Bound and Freeman 1984).

What the employment numbers in the table do not reveal is that the joblessness problem is more severe among inner-city, poverty area

**Table 2** Employment and Unemployment Rates among Black and White Male Youths, 1954–81

| Age                                      | Blacks and Other Nonwhites |      |      |      |      | Whites |      |      |      |      |
|------------------------------------------|----------------------------|------|------|------|------|--------|------|------|------|------|
|                                          | 1954                       | 1964 | 1969 | 1977 | 1981 | 1954   | 1964 | 1969 | 1977 | 1981 |
| Percentage of the Population Employed    |                            |      |      |      |      |        |      |      |      |      |
| 16–17                                    | 40.4                       | 27.6 | 28.4 | 18.9 | 17.9 | 40.6   | 36.5 | 42.7 | 44.3 | 41.2 |
| 18–19                                    | 66.5                       | 51.8 | 51.1 | 36.9 | 34.5 | 61.3   | 57.7 | 61.8 | 65.2 | 61.4 |
| 20–24                                    | 75.9                       | 78.1 | 77.3 | 61.2 | 58.0 | 77.9   | 79.3 | 78.8 | 80.5 | 76.9 |
| 25–54                                    | 86.4                       | 87.8 | 89.7 | 81.7 | 78.6 | 93.8   | 94.4 | 95.1 | 91.3 | 90.5 |
| Percentage of the Labor Force Unemployed |                            |      |      |      |      |        |      |      |      |      |
| 16–17                                    | 13.4                       | 25.9 | 24.7 | 38.4 | 40.1 | 14.0   | 16.1 | 12.5 | 17.6 | 19.9 |
| 18–19                                    | 14.7                       | 23.1 | 19.0 | 35.4 | 36.0 | 13.0   | 13.4 | 7.9  | 13.0 | 16.4 |
| 20–24                                    | 16.9                       | 12.6 | 8.4  | 21.4 | 24.4 | 9.8    | 7.4  | 4.6  | 9.3  | 11.6 |
| 25–54                                    | 9.5                        | 6.6  | 2.8  | 7.8  | 10.1 | 3.9    | 2.8  | 1.5  | 3.9  | 4.8  |

Source: *Employment and Training Report of the President, 1982*.

youths than among other blacks and that it is severest among those out of school.

Table 3 compares several dimensions of the employment problem among the inner-city NBER sample to the experience of all black and white youths from the National Longitudinal Survey. The comparison shows that the NBER survey correctly identified those youths facing the most severe economic problems: The inner-city black youths are much more likely to be unemployed and less likely to be employed than white youths or all black youths. They tend to have slightly lower wages than other youths and they work fewer weeks per year. In addition, these youths also have far worse family backgrounds than others. One-third of them live in public housing; almost one-half of them have a family member on welfare. Only 28 percent of them have an adult man in their household.

With respect to "socially deviant behavior," 16 percent of the NBER survey group reported having engaged in crimes; 26 percent reported drug use beyond marijuana; and 20 percent reported alcohol use. The survey responses to questions about the allocation of time show that those out of school spent only 17 percent of their time on anything that could be considered socially useful. The bulk of their days was instead spent watching television, going to movies, listening to music, or the like, in other words, on "leisure" as opposed to productive activities that might lead to work.

**Table 3** Comparison of NBER Inner-City Black Youths and All NLS White and Black Youths

| Characteristic                       | NBER              | NLS        |            |
|--------------------------------------|-------------------|------------|------------|
|                                      | Inner-City Blacks | All Blacks | All Whites |
| <b>Out-of-School Youth</b>           |                   |            |            |
| % in the Labor Force                 | 80                | 90         | 94         |
| % Unemployed                         | 41                | 33         | 40         |
| % Employed                           | 48                | 61         | 76         |
| Hourly Wages                         | \$4.26            | \$4.29     | \$4.53     |
| Weeks Worked in the Year             | 26                | 29         | 37         |
| <b>Family Background, All Youths</b> |                   |            |            |
| % with Man in Household              | 28                | 51         | 69         |
| % with Household Member              |                   |            |            |
| Working or in School                 | 41                | 56         | 71         |
| % in Family on Welfare               | 45                | —          | —          |
| % in Public Housing                  | 32                | 10         | 1          |

Source: Tabulated from the NBER survey and the NLS.

## The Dynamics of Nonemployment

Several recent analyses of joblessness have focused on the dynamics of the process, namely, the transition between the states of employment and nonemployment, the frequency with which individuals change states, and the duration of time in each of the states. For instance, people can suffer from nonemployment either because they have trouble finding jobs and are unemployed for long periods of time or because they are laid off or discharged frequently and thus hold given jobs for only short periods of time.

Analysis of the transitions in the NBER data set indicates that much of the unemployment among black youths has to do with the facts that they are out of work for very long periods of time and that, once nonemployed, they have great difficulty securing another job. They have short-term jobs followed by long spells of being out of work. Twenty percent of the sample's out-of-school youths may not be employed for over a year. Moreover, their successive jobless spells do not seem to become any shorter as time passes (Ballen and Freeman 1986).

An implication of this last finding is that the labor market problems of inner-city black youths are not likely to diminish greatly as they grow older: Although black youth employment rises with age, the increases in employment rates are relatively moderate. As a result, simple aging will not solve the problem of joblessness for black youth. Indeed, if the rate of increase in employment with age remains at the level of the 1970s, the cohort of inner-city black youths 18 to 19 years old in 1979 will not achieve a rate of employment of 80 percent until they reach their mid-thirties.<sup>2</sup>

One of the reasons why aging will not solve the problem is that the typical out-of-school, nonemployed youth spends his time on activities that do little to raise his employability. In the NBER time budget, the youths reported spending most of their time on "hanging out," "TV/movies," "listening to music," or "getting high," as opposed to searching for jobs, reading, or working around the house. Although one may regard the former set of activities as representing "leisure," the youths are not particularly satisfied with their lives and have a desire to engage in activities that could serve to improve their future.<sup>3</sup>

In addition to the slow transition from nonemployment to employment, the black youth employment problem is exacerbated by the frequent loss of jobs through layoffs and discharges. In a society where relatively few workers are discharged, one-quarter of the youths in the NBER survey had been fired—many because of absenteeism. Interestingly, most of the higher layoff rate among young blacks than among whites cannot be attributed to differences in human capital or broad



characteristics of the workplace. However, the black youth layoff rate is reduced greatly by job tenure (Ferguson and Filer 1986; Jackson and Montgomery 1986).

### Demand and Supply Causes

The potential causes of high or increasing youth joblessness can be fruitfully analyzed in terms of factors likely to affect joblessness by altering the supply of labor and the demand for labor. Although most measured variables influence both sides of the labor market, this simply dichotomy provides a useful framework for analysis.

The researchers in the NBER project analyzed a variety of factors on both sides of the market, as outlined in table 4. Because of the need to control for factors beyond the ones on which each particular study focused, nearly all variables were examined in all the studies. All told, therefore, these analyses provide a much firmer basis for assessing results than is comon in single studies. We claim as "findings" only those results occurring under different specifications and models—that is, only results that are robust.

#### Demand

On the demand side, the NBER survey yielded strong evidence that the state of the local labor market was a major determinant of youth

**Table 4** NBER Findings on the Impact of Selected Demand and Supply Factors on Black Youth Joblessness

| Variable                               | Effect on Black Youth Employment                                                     |
|----------------------------------------|--------------------------------------------------------------------------------------|
| State of Local Labor Market            | Sizeable impact on employment.                                                       |
| Commuting Distance                     | Does not affect employment. "Race, not space."                                       |
| Proportion of Women in Labor Market    | The higher proportion of women in market reduces black youths' wages and employment. |
| Treatment of Job Seekers               | Black youths treated less courteously, reducing likelihood of hire.                  |
| Layoffs                                | Higher rate of layoffs, due in part to absenteeism, lowers employment.               |
| Employment of Other Family Members     | Improves youths' chances of working.                                                 |
| Reservation wage                       | Higher reservation wage raises nonemployment.                                        |
| Churchgoing                            | Improves school-going and employment; reduces socially undesirable behavior.         |
| Career Aspirations                     | Improve chances of employment.                                                       |
| Illegal Income Opportunites            | Raise crime; reduce employment.                                                      |
| Welfare Homes; Public Housing          | Reduce employment chances.                                                           |
| Education                              | Still has significant positive effect.                                               |
| Perception of Stiff Criminal Penalties | Reduces crime; improves chances of employment.                                       |

joblessness. Inner-city blacks in Boston, a city with a relatively strong labor market, had an employment rate some 10 percentage points above that of otherwise comparable youth in Chicago and Philadelphia. Confirming this, an analysis of youth employment across all Standard Metropolitan Statistical Areas (SMSAs) shows a significant portion of differences were related to geographic factors.<sup>4</sup>

Although the city of residence matters greatly, the particular part of a city in which youths reside appears to have only a slight effect on employment. In particular, a detailed study of the Chicago labor market strongly indicates that the youth employment problem is one of "race, not space." The Chicago area encompasses two primary residential clusterings of blacks, known as West Side and the South Side. There are many factories and jobs in the West Side; the South Side is much more exclusively residential.

On the basis of proximity to work, one might predict that youths residing on the South Side would have a much worse employment experience than those on the West Side who are closer to the jobs. But there turns out to be very little difference between their employment rates. Moreover, if one looks only at the border between the areas where blacks and whites live on the West Side, one finds that the white youths hold most of the jobs. The conclusion here is that the problem facing these black youths is not a lack of jobs in their residential neighborhoods; even when the jobs are located nearby, the white youths still obtain them more easily (Ellwood 1986).

This finding has a policy implication for cities considering the adoption of some sort of "enterprise zone" scheme: many employers might just employ white youths from elsewhere in the city. Instead, what seems to benefit black youths most is a high level of overall demand for labor in their city. This finding is consistent with the results of aggregate time-series studies that show black youth employment rates to be very sensitive to cyclical factors (Clark and Summers 1983).

Prior to the NBER study, there was considerable speculation about, but little hard evidence of, the potential effect of the rapid growth in the number of older women in the labor force on the employment prospects of young blacks. One of the most striking and surprising results from the NBER analysis of the demand for labor is the finding that cities with a high proportion of women in the labor force had the worst labor markets for young blacks. Both wages and labor participation rates were lower among blacks in those cities. We interpret this finding to mean that the rise in female participation rates in recent years has seriously hurt the job opportunities of young blacks. This interpretation suggests that women entering the job market often fill the entry-level jobs that might otherwise go to young blacks (Borjas 1986).

Despite affirmative action efforts and the elimination of blatant discrimination from the job market, our pilot "audit" project indicates

that black youths still face discrimination from employers. In this project, the researchers sent out on job interviews both black and white youths who were graduating or about to graduate from high school in Newark, New Jersey. The researchers told them, in effect, "Here's a list of jobs that we've identified. We'll pay you to come back and report to us on what happened when you applied for these jobs." Ironically, and illustrative of the black-white difference in joblessness, the researchers had great difficulty finding white youths to participate; black youths were much more eager to go through this process.

On the demand side, the audit project found that the black job applicants were treated less courteously, in some respects, than the white applicants. For example, potential employers were less likely to call them "Sir." In addition, the project found that white youths had much better links to the job market but that both white and black youths were "reference poor." In other words, when filling out job applications that asked, "Who do you give as a reference for yourself?" most would list their friends at school instead of teachers or previous employers. For whites, most of whom came from families with employed members and "connections" to employers, this lack of references is not as critical a problem in finding a job as it is for blacks (Culp and Dunson (1986).

Perceived discriminatory behavior by employers seems to affect the performance of young blacks on their jobs as well as their ability to become employed. For instance, youths who claimed that their employers discriminated were more likely to be absent from their jobs. Several other job characteristics also affect absenteeism rates among black youth. These include wages and status (as measured by the Duncan index), which lower the frequency of absenteeism, and industry-specific skills, which raise it. All of these factors seem to reflect responses to incentives; the first two of these variables reflect the attractiveness of a job, while the third may reflect the employer's incentive to retain these workers despite their performance. Furthermore, absenteeism does raise the likelihood of any worker's being discharged. Thus, the performance of black youths on jobs they consider unattractive is a cause of their high discharge rate (Ferguson and Filer 1986).

The unattractive characteristics of jobs held by black youths also seem to contribute to the lengthy duration of the jobless spells they suffer. Their short and infrequent spells of employment do not reduce the duration of the periods of nonemployment they subsequently experience. Interviews with employers in low-income neighborhoods also show that the "spotty" work histories caused by unattractive jobs and high turnover rates make employers even more reluctant to hire these youths (Ballen and Freeman 1986).

Finally, as noted, young blacks also experience a serious layoff problem, due in part to their high absence rate. The cycle of layoffs or

discharges and then long spells of nonemployment (in turn, partially due to spotty work histories) seems to end only when these young blacks accumulate some tenure on their jobs.

The studies examining the effects of other family members' employment indicate that young blacks were more likely to hold jobs when other members of their family were employed (Freeman 1986; Lerman 1986). It is unclear whether this represents an improved ability to find jobs because of better information or "connections" or merely a stronger work ethic instilled by the experience in the family. In either case, "family experience" factors that raise job holding and family stability among black adults may offer an important "indirect" approach for improving the job chances of black youths.

### Supply

Because the NBER project surveyed the youths themselves, it gathered considerable information about supply-side behavior. Among the more interesting findings on the supply side was the result that churchgoing and "good" attitudes or aspirations are important in enabling youths to take appropriate steps toward escaping inner-city poverty. In the NBER survey, youths were asked whether they attended church and whether they were members of church groups. The reasoning behind these questions was that the church (a major social institution in the black community) might be doing things that will help these youths advance in society.

In fact, churchgoing turned out to exert a significantly positive influence. Regarding socially deviant activity, school attendance, and employment, the youths who went to church behaved differently from those who did not report going to church. But does one interpret these results as indicating the role of the church as a social institution helping youth? Or is it simply that "good kids" go to church, get jobs, stay in school, and do not commit crimes? The problem of determining causal links in nonexperimental data is a difficult one, one that different researchers treat in different ways. Although it is not possible to declare that churchgoing is truly an exogenous variable, the fact that it has different effects on youth behavior than do other family factors suggests that it does play some independent role (Freeman 1986).

Another hypothesis examined in the project was that youths with high aspirations and the "correct" outlook do better than others. Independent of churchgoing and various other objective factors, we find that attitudes play a role in youth behavior. Black youths with strong long-term career desires manage to find more work than those without such desires. The implication is that activities and factors that positively influence attitudes (ranging perhaps from role models to Operation Push activities) can help reduce the joblessness problem among black youths (Datcher-Loury and Loury 1986).

In its Fifth Annual Report to the President and the Congress, the National Commission for Employment Policy noted that one of the lacunae in understanding youth unemployment is "documentation of direct causal links between various labor market problems and illegal activities" (National Commission 1979). The NBER analysis of the relationship between youths' perceptions of market opportunities and penalties for crimes and their labor market experiences offers much of the needed documentation.

Our survey questionnaire asked the youths to compare their potential for making money on a job with their potential "on the street." A large minority saw greater opportunities for earnings "on the street": 32 percent believed there were more opportunities on the street; 58 percent believed there were more on a job; and 10 percent judged the two alternatives as offering the same earnings potential. As might be expected, this minority tended to commit (or to admit having committed) more crimes than the majority did. In fact, about one-fourth of all income reported by the inner-city black youths was from crime. Perceptions of the riskiness of crime were also found to be a major factor in whether youths chose a legitimate job or crime. The youths who perceived that the chances to make money illegally were good and who foresaw little chance of being arrested and convicted tended to commit crimes. They more often tended not to be employed, not to be in school, not to spend their time productively, and to be involved with drugs or gangs (Viscusi 1986).

Viewed in terms of supply-side behavior, the elasticities of substitution between crime and employment implied by these estimates are fairly significant. Furthermore, those engaged in criminal activity tended to perform poorly when employed and had less chance of becoming employed (Ferguson and Filer (1986). These results are striking when considered in the context of the crime literature (Freeman 1983). To date, most studies of the trade-off between unemployment and crime have found very modest linkages, as the analyses were performed using aggregate data for crime rates and unemployment rates. But the cross-sectional evidence reported above strongly suggests that poor employment opportunities lead to participation in crime, which further reduces success in the legal labor market. Nonetheless, the exact causal patterns in this cycle of crime and unemployment remain unclear.

Although no single study in the NBER project focuses on education, nearly all the analysts considered the impact of schooling on outcomes. Table 5 lists most of their findings. In spite of the poor quality of education in the inner city, staying in school longer appeared to benefit the youths, and those who did better in school had better employment records. These findings hold for a broad range of outcomes as well as a wide variety of schooling measures, and they usually remained sig-

**Table 5** NBER Findings on the Effects of Education on the Employment Outcomes of Black Youths

| Study                   | Finding                                                                                                                                                                                                                                                                  |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Freeman                 | Years of schooling raises the "productive hours" of youths. Also raises proportion of total time over time spent on "productive" activities.                                                                                                                             |
| Holzer                  | Graduating from high school raises youths' wages by 15% and increases weeks worked per year by 6%.                                                                                                                                                                       |
| Lerman                  | Higher grades in school increase wages for youths: mostly A's and B's by 15%; mostly B's and C's by 39%. Also, higher grades in school reduce the likelihood that youths will drop out of school or be unemployed: mostly A's and B's by 60%; mostly B's and C's by 80%. |
| Datcher-Loury and Loury | Years of schooling increases wages earned per week by 11 to 14%, according to NBER study, and by 7 to 16%, according to the NLS.                                                                                                                                         |
| Viscusi                 | Years of schooling reduces probability of youth participation in crime by 40 to 60%. Also reduces youths' perception of increasing income on the street.                                                                                                                 |
| Ferguson and Filer      | Low grades increase chance that youth will be absent from work. No years-of-schooling effect found.                                                                                                                                                                      |

nificant even after controlling for many family background characteristics. Graduation from high school proved to have especially important effects, and grades in school often had effects in addition to the level of schooling. These results are consistent with those of other researchers who have shown the positive effects of such measures as class work, test scores, and vocational training on weeks worked by black youth (Meyer and Wise 1982).

One of the more depressing results of the study is our finding that youths whose families received assistance from major public programs for disadvantaged families did worse in the job market. Youths from welfare homes with the same family income and otherwise comparable to youths from non-welfare homes had a much worse experience in the job market. If there were a natural reduction of the number of families on welfare, the odds are that the youths would benefit as well as the rest of their families. Youths living in public housing projects also did less well than youths living in private housing.

Since the loss of welfare benefits to families is slight when youths work (in the states we studied), the employment problem of youths in welfare households does not reflect family responsiveness to the pattern of benefits. Instead, their difficulties are more likely related to other

factors, such as information and “connections” or attitudes and a work ethic, as noted above. It is also noteworthy that employment in female-headed households or households without an adult man present was no worse per se than in households where a man was present—if the female head was employed. The problem is therefore one of employment rather than gender (Lerman 1986; Freeman 1986).

Some direct evidence on the labor-supply responses of young black men can be found in the fact that their reservation wages were comparable to those of young white men, whereas their job prospects were worse than those of young whites. Since there were some differences in their possibilities of getting jobs, and there were some differences in the wages paid by the jobs they did get, about 30 percent of the longer period that blacks are out of employment can be explained by the fact that they *maintain* relatively high reservation wages. Black youths should not necessarily lower their expectations, nor should they accept lower wages than those offered white youths, which would be illegal discrimination by the employer. But the fact that they do not adjust their wage expectations based on their experience contributes to their joblessness. Although some blacks reported a willingness to accept low-wage or low-skilled jobs, many appeared to retain that willingness only temporarily. The fact that a large number of black youths do accept jobs at minimum-wage levels also suggests that the minimum wage may contribute to rough wage equalization between young blacks and whites in starting jobs and to the loss of some employment for the blacks (Holzer 1986).

The importance of reservation wages is underscored by the finding that a large proportion of out-of-school, not employed youths thought they could find a job relatively easily, as shown in the following:

|                                   | Very easy to<br>find a job | Somewhat easy<br>to find a job |
|-----------------------------------|----------------------------|--------------------------------|
| Working as a laborer              | 18%                        | 28%                            |
| Working at a minimum-<br>wage job | 38%                        | 33%                            |

Although it may be easy for a given individual to find low-paying jobs, these are the high-turnover, “dead end” jobs that youths tend to hold only temporarily. Furthermore, only a small fraction of the youths looked for and were willing to accept those jobs at any particular time. In some sense, those jobs are “shared” among youths: they work for a few months at a hamburger joint, then leave. If all of the out-of-school, nonemployed youths sought such jobs simultaneously and were willing to hold them for longer periods, it is unlikely that the jobs would be as easy to find.

An important supply-side finding running through most of our studies is that the supply of black youths is very responsive to incentives and opportunities to work or engage in other activities. If the market situation is basically unattractive and the youths see crime as a well-paying, low time-investment alternative to work, they will respond accordingly; and the converse is true if the job market is good. To indicate the magnitude of this response, we calculated a labor-supply elasticity of sorts, relating the number of individuals who reported each particular reservation wage to that wage level (and as a control, the individual's total income in the previous month). The resulting elasticity for all nonemployed black youths was 1.8, while the elasticity for those youths searching for work ranged from 2.1 to 3.2 depending on the particular reservation-wage equations—all high elasticities by any criterion.<sup>5</sup>

### **Conclusion**

The NBER results are consistent with the picture of black youth employment problems provided by the recent Manpower Development Resource Corporation (MDRC) experiments with various public and private employment programs. Just as we find no single cause or single cure, the MDRC concluded that “no single program approach will work for all disadvantaged youths” (MDRC 1983). A variety of social and economic factors have contributed to the crisis. On the demand side of the market, we find evidence of several determinants, including local labor market conditions and demographics, discriminatory employer behavior, and the unattractive characteristics of the job held. On the supply side of the market, we find aspirations and churchgoing, opportunities for crime, the family's employment and welfare status, education, and the willingness to accept low-wage jobs all to be important factors. Overall, we see a picture in which many black youths face unappealing labor market choices and therefore find other ways to obtain income and spend their time. They thus are responsive to incentives posed in choosing among various market and nonmarket alternatives.

Our evidence also suggests that these factors have contributed to the deterioration of black youth employment over the last few decades: the growth of the female labor force, the rising number of welfare households, and the increasing willingness of youth to participate in crime. Evidence of the overall economic conditions in local labor markets suggests that slower growth and frequent economic downturns may have contributed to this problem as well. These local conditions have prevented inner-city black youths from realizing the improvements in wages and occupational standing that have benefited other



groups of blacks as a result of government antidiscrimination efforts and improved educational levels. Nor is there any evidence that their employment problems will disappear as they age or as they witness other changes over time.

Of course, we must again stress the caveats mentioned above regarding the specific causal mechanisms by which factors such as family background and churchgoing affect black youth employment. Future research must build on our work by specifying these mechanisms and estimating models that measure these effects more precisely.

## Notes

1. Tabulated from *Employment and Earnings*.
2. Calculated from Table 2.1 of Ballen and Freeman (1986), assuming a two-percentage-point rise in the employment rate per year of aging.
3. In response to the question, "Are you satisfied or dissatisfied with the way things are going in your life?" 40 percent of the total sample reported dissatisfaction, with even higher rates of dissatisfaction among the nonemployed and nonenrolled youth. In response to the question, "What is important in your life right now?" 95 percent cited being able to find steady work and 98 percent cited having a good education.
4. Specifically, the addition of a set of SMSA dummies to a regression of youth employment rates on other factors has a statistically significant effect when interacted with race.
5. Specifically, the following regression was estimated:

$$\ln N = a + b \ln ResW + c \ln Y,$$

where  $N$  is the number of individuals who would work at any particular wage or at a higher wage;  $ResW$  is the reservation wage; and  $Y$  is the individual's total income in the previous month. The equations were estimated using three reservation wages with the relevant sample for each, with the following results:

| Measure of Reservation Wage/Sample | Coefficient (and Standard Error) for Elasticity of Supply |
|------------------------------------|-----------------------------------------------------------|
| If had to get a job,<br>What wage? |                                                           |
| Sample = all nonemployed           | 1.79<br>(0.45)                                            |
| What wage at job sought?           |                                                           |
| Sample = job searchers             | 2.09<br>(.058)                                            |
| Lowest wage would accept?          |                                                           |
| Sample = job searchers             | 3.15<br>(.074)                                            |

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