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Youth Employment in the 1970s

About half of the gap that evolved in the 1970s between the employment rates of white and black youths can be explained by changing economic, demographic, and social factors, according to *NBER Working Paper No. 1055* by **David T. Ellwood** and **David A. Wise**. In **Youth Employment in the Seventies: The Changing Circumstances of Young Adults**, the authors first determine that employment patterns for people aged 16 to 24 changed dramatically during the 1970s, and then they ask why.

Between 1954 and 1979, employment rates for white males were relatively stable, rising slightly in the 1970s. For white females, employment rates rose gradually in the 1960s and jumped in the 1970s. Employment rates for black males, comparable to those for white males in 1954, declined so much during the 1970s that there was a gap of 20 percentage points by 1979. For black females, employment rates were low and relatively unchanged throughout this period.

Between 1969 and 1979 alone, the black/white gap widened by about 14 points. For males, the change reflected a 4-point increase for whites and a 10-point fall for blacks. For females, all of the increased gap stemmed from rising employment rates for white females.

What factors were responsible for this deteriorating situation for young blacks? Ellwood and Wise first consider demographics: between 1960 and 1980, the number of youths aged 15-24 rose from 12 to 17 percent of the population. But that fact does not explain the opposite trends in employment for blacks and whites. Moreover, the bulk of this teen boom occurred in the 1960s, while the worst problems for

minority youths were in the 1970s. Furthermore, the labor market adapts fairly well to the summer influx of young workers. "If the market can adjust to a nearly threefold increase in teenage labor supply each summer," the authors reason, "it seems hard to believe it could not adjust to a far more gradual increase over several decades."

What about the military, the major employer of males aged 18-24? There has been a dramatic long-term decline in the relative number of young men in the military over the last three decades with the exception of the Vietnam War period. Between 1969 and 1978, the proportion of young whites in the military fell steeply while the share of young blacks was relatively constant. If those in the service were treated as employed, then the black/white gap would have grown by 11 rather than 14 points in the 1970s. The authors conclude that the changing structure of the military represents 2-3 points of the gap for males.

Macroeconomic conditions may also have had an effect on youth employment in the 1970s, since it is known that for every percentage point of rise in the adult male employment rate, there is a 2-point fall in the rate for white teens and a 3-point fall for blacks. In fact, during the 1975-76 recession the black teenage unemployment rate was over 35 percent in contrast to a rate of less than 25 percent in the booming late 1960s.

The authors calculate that one-third to one-half of the decline in black male employment rates from 1969 to 1979 can be traced to economic conditions. Still, only about 14 percent of the increase in disparity between blacks and whites can be attributed to

the macroeconomy. However, taken together, the changing structure of the military and macroeconomic conditions may explain up to 7 points of the 14-point growth in the racial employment gap for young men. For both males and females, general weakness in the economy accounts for another 2 points in the black/white employment gap.

How important have changes in school enrollment rates been? During the 1960s and 1970s, the black/white enrollment gap was largely eliminated, although the dropout rate for blacks still exceeds that rate for whites. If all other factors were equal, the rising school enrollment rates from 1954 to 1979 should have resulted in lower employment rates, since fewer students work than do nonstudents. This was not the case, in part because employment rates for those still in school have risen sharply since 1954.

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Employment rates for white males rose in the 1970s because their school enrollment rate declined and because a larger share of those still in school were working. But employment rates for black males declined in the 1970s for both the out-of-school and the in-school group. Since the school enrollment rate for black males was basically the same in 1969 and 1979, little of their declining employment rate can be traced to enrollment patterns.

For all males in this age group, changing enrollment rates account for as much as 3 points of the 14-point gap in employment rates. Therefore, slightly more than half of the gap (for males) is explained by the effects of the military, economic conditions, and schooling.

The picture is similar in some respects for females. A rise of over 10 points in the employment rate for white females in the 1970s reflected increased employment for those both in school and out of school. For black females, the enrollment and employment patterns were almost identical in 1969 and 1979.

Finally, the authors note that once a youngster leaves school, the level of education reached is strongly associated with employment. This is true regardless of sex or race. Notably, less than 20 percent of the 17-year-old black male dropouts work, and virtually none of the comparable females work.

How does household formation, through marriage or simply leaving the parents' home, affect employment? For females, marriage and childbearing sharply reduce school enrollment and employment rates. For males who are married, school enrollment is lower but employment is higher.

During the 1960s and 1970s, there was a substantial decline in fertility rates for young white females but no change for black females. At the same time, marriage rates declined for both groups, but the labor force participation of married females rose.

The authors conclude that changes in family structure between 1970 and 1980 accounted for higher employment rates for white females and lower rates for black females. On net, as much as 3 points of the widening gap might be explained by changes in family structure. However, “changing household formation seems to explain little for men.”

Does family background, in terms of income or whether the household has one or two parents present, affect employment? Yes and no, the authors find. While rising family income correlates with rising employment levels, and family type (one- or two-parent households) is strongly associated with employment rates, the associations are not large enough to explain the black/white differential. “Even if family structures and income levels for blacks were identical to those of whites, the overall employment rate for black teenagers living at home would rise only from 21 to 27 percent. The overall rate for whites is 48 percent.”

During the 1970s, the proportion of black teens in single-parent households rose from 30 percent to 50 percent; 14.4 percent of white teens lived in single-parent households, up from 9.1 percent. Ellwood and Wise estimate that such changes in family structure may have accounted for, at most, 2 points of the increase in the black/white employment gap. Finally, certain federal policies enacted in the 1970s to spur youth employment worked in both directions with no discernable impact overall.

Since Ellwood and Wise focus on those aged 16–24, they are quick to point out the importance of distinguishing among youths according to whether or not they are in school. Almost half of the teenagers classified as unemployed are still in school; thus, “what might be regarded as the most serious social ill, being both out of school and unemployed, touches just 4 percent of youth at the moment.”

U.S.-Owned Affiliates and Host-Country Exports

In many host nations, affiliates of U.S.-owned multinational corporations (MNCs) are criticized for not exporting more of their production so that needed foreign exchange can be earned. U.S. trade policymakers are concerned, on the other hand, that these exports of MNC affiliates are squeezing U.S. exports out of third-country markets.

In *NBER Working Paper No. 1037, U.S.-Owned Affiliates and Host-Country Exports*, NBER Research Associates **Irving B. Kravis** and **Robert E. Lipsey** explore the role of exporting in the activities of U.S.-owned manufacturing companies in foreign countries and the role of these companies in their host countries' export trade.

Kravis and Lipsey note that U.S.-owned manufacturing affiliates have always had as their main markets the host countries in which they operate. However, they have been increasing their export activity. In 1957 and 1966, less than 20 percent of the sales of U.S. affiliates were exported. By 1977, though, the share of exports in total sales reached more than 30 percent. The rise in exports between 1966 and 1977 took place in every one of the 15 industrialized countries that the authors examine, particularly in Europe. In fact, the share of affiliates' exports relative to their production increased by roughly half in this period in the European Economic Community and in other European nations aside from the United Kingdom.

In developing countries, affiliates particularly specialized in local sales; they were 95 percent of total sales in 1957 and 92 percent in 1966. However, between 1966 and 1977 these affiliates' exports rose from 8 percent to 18 percent of their total production. This trend was particularly strong in the group of small Asian countries that includes Hong Kong, Singapore, Malaysia, Taiwan, and South Korea. Affiliates in those countries exported less than 20 percent of their production in 1957, 42 percent in 1966, and about 75 percent in 1977.

Kravis and Lipsey zero in on five industries in their paper: foods, chemicals, metals, machinery (total), and transportation equipment. They find that in each industry, the U.S. affiliates became more export-oriented between 1966 and 1977. Nonetheless, the bulk of affiliates' production was still for local sale in 1977, with the exception of metals and machinery in Asia other than Japan, motor vehicles in Canada, and several industries in some of the smaller European countries.

U.S. affiliates in smaller countries (in terms of population) and in more densely populated countries tend to be more export-oriented; that is, they tend to export a larger proportion of their production. The authors suggest that if companies are lured to small markets by government actions, such as trade restrictions or subsidies, they may then build larger plants than warranted by the size of those markets in order to gain some economies of scale. Surplus production would then be exported.

Exporting to the United States has been a relatively minor, although expanding, activity of U.S.-owned MNCs in foreign countries. For the industrialized countries as a group, affiliates' exports to the United States were between 6 and 7 percent of their total sales in 1957 and 1966, rising to 9 percent in 1977. U.S. affiliates in developing countries also exported

9 percent of their production to the United States in 1977, up from 3 percent in 1957 and 1966. In the smaller Asian countries, though, U.S. affiliates shipped almost half of their total sales to the United States in 1977. Aside from these countries, and particularly the machinery industry in these countries, "... exporting to the United States was probably not a major reason for the establishment or development of U.S. production abroad in most cases," the authors write. The changes in the importance of the U.S. market to U.S.-owned affiliates were the result of two factors: (1) the rise in the importance of export markets in general in the sales of affiliates in both developed and developing countries; and (2) the shift away from the United States as an export market for the affiliates in developed countries and toward the United States for affiliates in developing countries.

"There is no indication that the presence of U.S. affiliates inhibited the growth of host-country exports, and, indeed, there is some evidence that they promoted the growth of these exports."

The degree to which affiliates in the industrialized countries as a group turned away from the United States as an export market is indicated by the decrease from 37 to 30 to 27 percent between 1957 and 1977 in the share of their exports going to the United States. This negative trend was especially strong in Europe. U.S. affiliates in Canada, on the other hand, shipped 66 percent of their exports to the United States in 1957, 82 percent in 1966, and 87 percent in 1977. But this high and rising ratio is partly attributable to the trade in automobiles and parts resulting from the U.S.-Canadian auto agreement. In the developing nations, exports to the United States by affiliates rose from 38 to 50 percent of their total exports between 1966 and 1977. The latter ratio was roughly a return to the 1957 levels rather than part of a clear trend.

U.S. affiliates increased their total exports in the 1966-77 period more than other manufacturing concerns in their host countries did. Thus, they increased their share in both host-country manufactured exports as a whole and in their industries' exports. U.S. affiliates' shares of manufactured exports grew by more than half in developing countries and in Asian countries outside Japan, and by over 15 percent even in the developed countries. The widest margin between U.S. affiliates and their industries was for machinery affiliates in Asia other than Japan. Their exports grew more than three times as fast as those of their industry and they accounted for at least one-third

of the growth of machinery exports in their countries.

Lipsey and Kravis conclude that U.S.-owned affiliates were leaders in expanding exports in most of the countries in which they operated. There is no

indication that the presence of U.S. affiliates inhibited the growth of host-country exports, and, indeed, there is some evidence that they promoted the growth of these exports. DF

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