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Jobs, Wages, and Leaving the Nest

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Have changes in labor demand and wages left young adults “priced-out” of the market for independence? Are they moving back home (or never leaving) more often today because there aren’t enough jobs and wages don’t keep pace with costs of living?

Using unemployment and real wages as measures of economic conditions, Jordan Matsudaira in a recent paper assesses the relationship between employment prospects and changes in living conditions among twenty-somethings in different regions of the United States.¹ He finds that when a region’s economic prospects sour, more young adults stay, or move back, home. He also finds, however, that if economics alone were involved, even more young adults would be living at home. This leaves open the possibility that other factors outweigh economic pressures in the decision to leave their parents’ home.

Living Arrangements Differ with Age, Race-Ethnicity, and Geographic Area

Using census data, Matsudaira finds that in the post-war period between 1950 and 1960, young men and women left their parents’ homes in increasing numbers to start new families. The percentage of young men living at home declined from 30% to 23% and the percentage of young women at home declined from 21% to 14%. Following this period, however, the trend began to reverse. Between 1960 and 2000, the number of 24-year-old men and living at home returned approximately to their 1950s levels. This raises the question of whether the post-war boom years were an aberration, and not a solid benchmark against which to compare current youth.

From 1980 to 2000, the greatest increases in living with parents occurred among 25- to 29-year-olds, with increases of about 4 percentage points for both men and women.

Trends by Age— Matsudaira finds that the trend differed by age, ethnicity, and geographic area. Between 1960 and 1980, for example, the fraction of 19- to 24-year-old men and women living at home rose by 4.3 and 5.4 percentage points, respectively, whereas the fraction of 25- to 29-year-olds decreased by about 1 percentage point each. From 1980 to 2000, however, the greatest increases in living with parents occurred among the 25- to 29-year-olds, with increases of about 4 percentage points for each. This might reflect the “rebound” back home of young adults after college or other independent living arrangements.

¹ Jordan Matsudaira, “Economic Conditions and the Living Arrangements of Young Adults.” Working paper. Philadelphia: MacArthur Network on Transitions to Adulthood, 2007. Available at www.transad.pop.upenn.edu/downloads/matsudaira.pdf

Trends by Race-Ethnicity— With respect to ethnicity, the data show that black men and women between age 19 and 24 were less likely to live at home in 2000 than in 1980 (decreases of 2.6 and 1.9 percentage points, respectively). Although the young black men and women may not have been leaving home to live with a spouse, given that marriage rates were on the decline, they were opting for more independent living conditions than their white counterparts. (As Stephen Raphael notes in his brief in this series, black men were also increasingly likely to be imprisoned during this era, which might account for some of this difference.)

Trends by Region— The trends varied significantly by region of the country. States in the West North Central (e.g., IA and MN) and East South Central regions (AL, KY, MS, TN) saw almost no change in the numbers of young people living at home. Only since 1980 has there been even a slight increase in numbers living at home in these regions. Similarly, the West South Central (CA, OR, WA) and Mountain regions (AZ, CO, NV, NM) saw no rise in living at home until 1980, and only a small rise since then. The most significant increase in young men living at home with their parents occurred in the Pacific Region (CA, WA, OR), especially in California. The increase was slightly more than triple the national average of 4.8% between 1960 and 2000.

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Economic Conditions Decline for Young Men

Matsudaira used two traditional factors to represent the economic conditions available for young adults. The first is the fraction of older individuals in each region, aged 35 to 44, who were employed at the time of the census. The second is a wage index.

Overall, employment rates for men fell from 92% to 83% from 1990 to 2000. The largest declines were in the Pacific and West South Central regions (7.4 and 6.1 percentage points, respectively). The mildest declines were in New England and West North Central (2.5 and 3 percentage points, respectively). For women, the trend was quite different, with an overall increase in employment of 30% between 1960 and 2000. The trends for women reflect social changes more than economic conditions.

For men, real earnings rose between 1960 and 1970, fell between 1970 and 1990, and then were largely stable between 1990 and 2000. For women, wages started to rise in the 1960s but flattened between 1970 and 1990.

Links between Economics and Living Arrangements

Matsudaira finds that young adults responded to worsening economic conditions by continuing to live at home with parents or moving back home. For every one percentage point increase in 35- to 45-year-old male employment, men between age 19 and 24 are on average 1.28 percentage points less likely to live with a parent. The magnitude of the effect is only about half as large for older men, aged 25 to 29, which makes sense given the greater flux in wages and job stability early in one's career. These findings hold after accounting for percentage enrolled in school,

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percentage foreign-born, housing costs, region, year, and age of the individual. The effect for women is approximately half that of men. Taken together, these results suggest that improvements in the business cycle open up employment opportunities for young adults, allowing them to set up their own homes.

The results for male wages are more tentative, but are generally in line with the employment trends. However, in contrast to the results of the business cycle, the effects of wages on living arrangements are larger for women. Whereas for men, a 10% increase in wages leads to a .14 percentage point decline in living with parents, for women, the same wage increase leads to a .38 percentage point decline.

A small, but measurable, effect also comes from monthly rents in the region, and the effect is greatest for men aged 25 to 29. A \$100 increase in rent, for example, leads to a 1.2 percentage point increase in men from this age group living at home. Likewise for women, a rent increase leads to a 0.9 percentage point increase in living with parents.

Matsudaira, however, also finds that these economic conditions do not explain the entire story. In fact, based on predictions, the 10% decline in employment between 1960 and 2000 should have increased by 12% and 5%, respectively, the number of young and older twenty-something men living at home. This is about twice the effect that was actually observed. Wage influences are also clear, but more modest. This suggests that additional factors may be influencing decisions to live at home.

Although not conclusive, this study shows the complexity of factors that affect a young person's decision to stay at home or move out. Sweeping conclusions about the group should be made cautiously, and further research is certainly warranted.

Based on Jordan Matsudaira, "Economic Conditions and the Living Arrangements of Young Adults." Working paper. Philadelphia: MacArthur Network on Transitions to Adulthood, 2007. Available at <http://www.transad.pop.upenn.edu/downloads/matsudaira.pdf>

Jordan Matsudaira is currently a Robert Wood Johnson Scholar in Health Policy at the University of California, Berkeley. His recent articles include "Sinking or Swimming? Evaluating the Impact of English Immersion vs. Bilingual Education" and "The Effects of Mandatory Summer School, A Regression-Discontinuity Analysis," forthcoming in the Journal of Econometrics.

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