

EXECUTIVE BRIEF

# Long-term labour market scarring on youth following recessions



Century Initiative | Initiative  
du Siècle

2023



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**ABOUT CENTURY INITIATIVE**

**Century Initiative is a national, non-partisan charity with a mission to enhance Canada's long-term prosperity, resiliency and global influence by responsibly growing the population of Canada to 100 million by 2100.**

Century Initiative delivers its mission by leading, enabling and partnering on initiatives that support long-term thinking and planning in immigration; infrastructure and environment; economy, entrepreneurship and innovation; support for children and families; and education, skills and employment. Century Initiative takes a network approach, prioritizing inclusion of diverse perspectives to inform and advance its work.

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Canadian charitable number: BN 843519638 RR0001

**ACKNOWLEDGMENT:**



**Future Skills  
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**Compétences futures**

This project is funded by the Government of Canada's [Future Skills Centre](#).

## Recessions don't only hurt young people in the short-term – they often leave long-term scars on their economic prospects and well-being.

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The initial impact of recessions on young people's earning power and job quality can impact their buying power and potential over time. This can have devastating long-term social and mental health impacts. Typically, government responses to recessions are focused on short-term economic concerns and move on to the next challenge once the worst of the downturn passes. But long-term solutions are needed to ensure young people are supported to meet the requirements of tomorrow's economy, and that those impacted by a recession do not face long-term disadvantages.

In 2021, work from the Future Skills Centre, the Environics Institute and the Diversity Institute showed the many ways young people in Canada were impacted by the pandemic, including employment and earnings, education and training, and their mental health.<sup>1</sup> As highlighted in Century Initiative's 2023 *National Scorecard on Canada's Growth and Prosperity*<sup>2</sup>, youth not in employment, education or training (NEET), the employment rate, and income inequality were all lagging in performance. Century Initiative has partnered with The Future Skills Centre to explore what long-term responses could look like to empower and enable youth to succeed in the wake of a recession and into the future.

### Key takeaways

- | **Graduating into a recession has long-term consequences for young people.** Young people land lower-quality work with lesser pay. This leads to labour market scarring: lasting impacts on a person's earnings and career opportunities over time.
- | **High youth unemployment during a recession risks the well-being and social inclusion of that generation.** Unemployment has mental and physical health costs that can last into a person's mid-life. When some young groups are more impacted than others by a recession, they may be at a greater disadvantage over time.
- | **The long-term impacts of scarring can also harm Canada's prosperity, equality and competitiveness for people of all ages.** Scarring effects of a recession can impact gender and racial equity in the workplace. Individual consequences of unemployment also harm Canada's economic productivity and collective well-being as a society.
- | **Typical policy responses to recessions do not address long-term consequences.** The government responds to recessions with short-term policy initiatives. While an immediate response is important, the long-term consequences of a recession require a long-term policy response.
- | **A long-term policy response to labour market scarring could have long-term benefits.** Thinking critically about a long-term policy response could help to prepare Canada for future recessions and result in individual and societal benefits that are worthwhile.

This conversation will continue with experts over the summer and culminate with policy recommendations in a Key Insights report in Fall 2023. Future work on this project can be found at [www.centuryinitiative.ca](http://www.centuryinitiative.ca) or [www.fsc-ccf.ca](http://www.fsc-ccf.ca).

## THE RISK OF LONG-TERM LABOUR MARKET SCARRING ON YOUTH

### A poor start to a young person's career can have lasting economic consequences

When young people enter the workforce during a weak labour market, they compete with more job seekers for fewer jobs. This means it's harder for them to get a job, and if they do secure work, that job is more likely to have lower pay and fewer training and promotion opportunities.<sup>3</sup> For example, a study compared the earnings of U.S. graduates from 1977 to 2011 in their first year after graduation; they found that graduating into a large recession reduced the average graduate's earnings by 10%.<sup>4</sup>

This poor start has lasting economic consequences. **Young people that graduate into a recession risk labour market scarring, reducing their long-term earnings and ties to the labour market.** Evidence from Canada shows that a one percent increase in the provincial youth unemployment rate during the year of graduation is associated with a 0.7% decline in earnings for five years following graduation.<sup>5</sup> Another study showed that U.S. graduates that entered a weak labour market had their earnings decline by 1.8% on average each year for 10 years.<sup>6</sup>

**Labour market scarring** happens when a person has a negative experience associated with macroeconomic conditions (e.g., a recession) that leads to long-term negative impacts on that person's labour market outcomes. For example, a worker entering a weak labour market might experience periods of unemployment or accept a lower quality job. That experience will impact their labour market outcomes for years in the future.

While recessions impact everyone, **weak labour market conditions are particularly damaging for new graduates.**<sup>7</sup> In a recession, new graduates just beginning their careers experience significant losses in earnings from being out of work.<sup>8</sup> In particular, University graduates from a lower-earning major—a major that typically earns less money than a higher-earning major like engineering—experience larger and longer lasting losses in earnings during a recession.<sup>9</sup> This means that the wage gap that already exists between these groups widens during a recession and persists in the following years.<sup>10</sup> Young people with lower levels of education in jobs that typically have lower pay also experience larger losses in earnings during a recession.<sup>11</sup>

**Scarring can reduce the quality of a person's employment over time.** Some firms view a recession as an opportunity to raise their skill requirements because more job seekers are competing for fewer positions. This forces some job seekers to accept roles with fewer

opportunities for upskilling, training and professional growth. Accepting lower quality work initially can decrease the quality of a person's employment over time, accounting for as much as 40-50% of their ongoing loss in earnings after a recession.<sup>12</sup>

Longer periods out of work might also harm a person's ability to land future work. **Recent research shows evidence of stigma towards applicants who were unemployed during the COVID-19 pandemic**, regardless of the reason for their resume gap.<sup>13</sup> In the study, fictional job applicants who were unemployed during the pandemic or who stopped working to supervise virtual school for their children were passed up for positions in favour of those who were employed continuously. This stigma was shown amongst both hiring managers and the general public.<sup>14</sup>

## **A rise in youth unemployment risks that generation's well-being**

**Extended time outside of work or education has long-term consequences on mental health and social inclusion.**<sup>15</sup> For example, research has shown clear and significant mental health decline immediately after a period of unemployment as a young person.<sup>16</sup> But recent research shows that those mental health effects can linger into a person's mid-life.<sup>17</sup> This means health policy—which generally considers the immediate mental health effects of unemployment—likely underestimates the mental health costs of unemployment over the long-term.<sup>18</sup>

**Recent rises in youth unemployment could reduce the well-being of some groups more than others.** COVID-19 shutdowns disproportionately impacted all young people, in part because industries hit hardest by public health measures were industries where young people often work.<sup>19</sup> Of those young people, women and racialized youth experienced the highest rates of unemployment.<sup>20</sup> This means that these groups are at a greater risk of experiencing the lasting effects of unemployment on their mental and physical health, as well as social inclusion.<sup>21</sup>

## **Long-term scarring impacts Canada's long-term prosperity, equality and competitiveness**

**The scarring effects of the pandemic could cause setbacks in gender and racial equity.** The uneven number of young women and racialized youth with resume gaps caused by the pandemic may be more likely to face compounding discrimination as they apply for job opportunities in the future.<sup>22</sup> That outcome would move Canada further away from a labour market where everyone has an equal chance to succeed.

**The impacts of a recession lead to long-term consequences for individuals, but also the economy and society.** The longer a person is out of work, the more their social connections and professional connections to the labour market decrease. This makes a person's job search more difficult,<sup>23</sup> and increases their risk of homelessness, interactions with the justice system, and mental health challenges.<sup>24</sup> These challenges a person struggles with also impact our collective well-being as a society. For the economy, when fewer people are in the workforce or working at their full potential, the economy is less productive. Impacts on the health of Canada's economy generally have worse outcomes for all Canadians.<sup>25</sup>

## THE POLICY GAP

### The government's typical recession response is short-term

**Typically, the government responds to recessions with short-term policy responses.** These responses are often focused on addressing the immediate impacts of a recession through job creation; training and skills; income supports; and sector-specific support.

**Often, government responses lean on existing federal and provincial programs and services,** like youth employment and support services or training programs. In some cases, the government generates new initiatives to address the immediate impacts of the recession.

**The federal government's COVID-19 response included some existing and some new initiatives.** These initiatives aimed to help businesses to avoid layoffs, rehire employees, and create new jobs for young people. These initiatives included:

- | Changes to existing programs to increase the number of available placements or matches, including the Student Work Placement Program, Youth Employment and Skills Strategy, Canada Summer Jobs Program, and Apprenticeship Service.
- | New policy approaches (such as wage subsidies) reflected in programs including the Canada Emergency Wage Subsidy, Canada Recovery Hiring Program, Tourism and Hospitality Recovery Program, and Hardest-Hit Businesses Recovery Program.

### To reduce the risk of scarring we need to think long-term

**There is a gap between the long-term impacts of scarring and existing short-term policy responses to recessions.** Despite the well-known long-term scarring impacts of a recession, these impacts most often overlooked by the government. While the short-term consequences of a recession are relatively straightforward and obvious for governments to respond to, the long-term consequences are less so. The long-term impacts of scarring are more subtle and more difficult to track over time, and there is no policy precedent for governments to pull from.

**Most available policy supports are not designed to provide support to people beyond the recession.** There are few existing tools to provide youth impacted by a recession with additional support that they need to bridge gaps in skills or earnings, and overcome barriers to employment (e.g., mental health services, childcare) over the long-term. The funding models that exist for these supports are not built to suit a long-term policy response.

**Other government supports are not designed to adapt to changes in the labour market.** In an increasingly digital workplace and gig-based economy, existing employment supports (e.g., EI training supports) are not available or useful to everyone. Young people just entering the labour market are not eligible for most programs or supports, nor are they are not designed with their needs in mind.

**A long-term policy response to labour market scarring could mitigate impacts to Canada's long-term prosperity, equality, and competitiveness.** Although the impacts of long-term labour market scarring are complex and, in some senses, unique to the generation, thinking critically about long-term policy response could result in significant individual and societal benefits that are worthwhile.

## Discussion questions

To reduce the long-term harms of recessions on young people and on Canada's prosperity, Canada needs to look at different, long-term approaches to policy responses. To do this, the following questions should be explored:

What barriers exist in current labour market policies to designing initiatives that support young people beyond the immediate effects of recessions?

What can we learn from how other jurisdictions have responded to the long-term impacts of labour market scarring?

How should policymakers track outcomes for young people impacted by recessions?

What existing programs and services could be strengthened to mitigate the immediate and long-term impacts of a recession on youth?

How can inclusion and equity be prioritized in policymaking to ensure that certain youth populations (e.g., women and racialized people) are not disproportionately disadvantaged by a recession over time?

Are there any similar policy challenges where governments have successfully responded to people's needs across their life course?

Century Initiative, in partnership with The Future Skills Centre, will be conducting conversations with experts throughout the summer and examining existing research and data to help answer these questions and develop long-term, actionable policy recommendations.

The findings from this work will be used to inform the development of a Key Insights paper that will be released in the fall of 2023.



If you're interested in learning more about this work, visit [www.centuryinitiative.ca](http://www.centuryinitiative.ca).

## Endnotes

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- 2 Century Initiative's *National Scorecard on Canada's Growth and Prosperity* provides a holistic look at Canada's progress across 39 indicators, comparing Canada's performance to similar countries or against goals set nationally utilizing reliable data, including from OECD and Statistics Canada. For more information: <https://www.centuryinitiative.ca/scorecard/home>.
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