Get a job and keep it! High school employment and adult wealth accumulation

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Abstract

Wealth inequality receives substantial scholarly attention, but mounting evidence suggests that childhood and adolescent traits and experiences contribute to financial disparities in the United States. This study examines the relationship between adolescent labor force participation and adult wealth accumulation. I argue that employed high school students gain practical life skills, abilities, and knowledge from work experience and business exposure that shape investment decisions and affect overall net worth. I use the National Longitudinal Survey of Youth, 1979 cohort, to empirically explore this idea. This study extends the wealth literature by identifying adolescent employment as an important mechanism that improves adult net worth and financial well-being.

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Wealth inequality gained renewed and substantial sociological attention in recent years. This increased scholarly interest corresponds with considerable financial turbulence, which has affected the rich and poor alike. Just in the past 15 years, Americans witnessed a period of historic turmoil that included unprecedented highs in the stock market, burst bubbles in the financial and housing sectors, and a current economic climate that many compare to the Great Depression. Prior to the present upheaval, evidence suggested that most Americans prospered and improved their financial position throughout the 1990s and early 2000s (Wolff, 2006). Perhaps more importantly, wealth inequality stagnated from 1989 to 2004, suggesting that even the less wealthy benefited financially during this period (Wolff, 2007). Individuals in this wealth-poor group who owned assets were also more likely to carry debt (Kennickell, 2006). Furthermore, current household income and total household net worth share a low correlation (Lerman & Mikesell, 1988), suggesting that income inequality can only partially explain wealth inequality (Wolff, 2001). Thus, although the financial situation of most Americans improved during the 1990s and early 2000s, considerable inequality in wealth accumulation remained.

One potential contributor to adult wealth inequality is adolescent labor force participation. Numerous studies examine the relationship between high school employment and various adult labor market outcomes such as income, wages, and occupational benefits (Bacolod & Hotz, 2006; Carr, Wright, & Brody, 1996; Hotz, Xu, Tienda, & Ahituv, 2002; Light, 1999; Ruhm, 1997).
Despite the extensive scholarly work, whether a relationship actually exists continues to be disputed. The disagreement primarily centers on issues of selection, but several studies that model selection using conventional techniques suggest that high school employment affects future adult outcomes (Light, 1999; Ruhm, 1997). I build upon this research by extending human capital arguments to adult wealth accumulation. Though many factors influence net worth throughout the life cycle, I expect that high school employment may be related to adult wealth accumulation, net of education, income, and other important social and economic influences. Additionally, employed high school students may have an advantage in the acquisition of essential assets such as homes and stock.

This paper examines the relationship between high school employment and adult wealth accumulation by considering employment experience as an indicator of human capital. To explore this relationship, I use the National Longitudinal Survey of Youth because of its detailed demographic, employment, and financial questions. I model the relationship between high school employment and net worth with general linear regression and use logistic regression to model two important mechanisms for wealth accumulation—home and stock ownership. Notably, not all high school students participate in the labor force. Pre-existing traits may select certain individuals into employment and these same characteristics may also affect wealth inequality. Therefore, potential selection bias must be considered when examining the association between high school employment and adult wealth accumulation.

1. Employed high school students

The majority of students are employed at some point during high school (e.g. Entwisle, Alexander, & Olson, 2000; Manning, 1990; Mortimer, 2003), but not all students are equally likely to seek employment and/or succeed in being hired. For instance, whites are more likely to be employed than racial/ethnic minorities (e.g. Entwisle et al., 2000; Schoenhals, Tienda, & Schneider, 1998). Gender differences are largely based on distinguishing between formal and informal work. Depending on the study and the incorporation of this distinction, men (Keithly & Deseran, 1995; Schoenhals et al., 1998) or women (Mortimer, 2003; Mortimer, Harley, & Staff, 2002; Mortimer & Johnson, 1998) are more likely to work. Age is also an important factor for employment, as older students are more likely to be employed (Entwisle et al., 2000). Regarding family socioeconomic status, there is some contention. Some research posits that higher family socioeconomic status increases the likelihood of high school employment (e.g. Entwisle et al., 2000; Greenberger & Steinberg, 1986; Staff, Mortimer, & Uggen, 2004), while other research finds that high school employment may be unrelated to family socioeconomic status (e.g. Freeman & Wise, 1982; Mortimer et al., 2002; Rees & Gray, 1982). There is also no consensus in the literature about the influence of individual indicators of socioeconomic status including parental income (Johnson & Lino, 2000; Keithly & Deseran, 1995; Schoenhals et al., 1998), parental education (Carr et al., 1996), parental work status (Johnson & Lino, 2000), and family structure (Keithly & Deseran, 1995; Schoenhals et al., 1998). These varied findings suggest that the socioeconomic backgrounds of employed and nonemployed students may not be categorically different (Carr et al., 1996).

2. Selection and high school employment

The relationship between high school employment and any given adult outcome may be summarized by three hypotheses. First, high school employment may be positively associated with adult outcomes such as employment, income, and wages (e.g. Carr et al., 1996; Light, 1999; Ruhm, 1997). Second, high school employment may negatively affect future outcomes such as educational attainment (e.g. Marsh, 1991; Mortimer & Finch, 1986; Steinberg & Dornbusch, 1991). Finally, any observed relationship may be spurious due to selection (e.g. Bacoled & Hotz, 2006; Hotz et al., 2002). Depending on the research question and method, selection explains a substantial part and/or all of the relationship between high school employment and several outcomes. For example, recent research challenges the long-held perceptions that high school employment causes poor academic outcomes, juvenile delinquency, and alcohol and drug use (e.g. Apel, Bushway, & Brame, 2006; Paternoster, Bushway, Brame, & Apel, 2003; Warren, LePore, & Mare, 2000). When accounting for selection, high school employment does not harm academic outcomes (Gottfredson, 1985; Schoenhals et al., 1998; Warren et al., 2000). Selection bias also explains the relationship between high school employment and juvenile delinquency (Gottfredson, 1985; Paternoster et al., 2003) and substance abuse (Paternoster et al., 2003). Yet, high school employment may still place youth at higher risks for problematic behaviors (Bachman & Schulenberg, 1993; Brame, Bushway, Paternoster, & Apel, 2004; Ploeger, 1997).
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