Policy Brief

Youth Employment and Financial Behavior: Does work in high school build financial capability?

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Young adulthood is an important period where individuals transition to independence. Young adults begin to make financial decisions, like investing in higher education, borrowing, and saving, that have long-lasting impacts on financial stability in later years. Today's young adults have higher levels of student loan debt, lower savings, and lower homeownership rates than past generations (Emmons et al., 2018). Today's young adults express widespread sentiments of financial insecurity (American Psychological Association, 2015).

This paper explores one potential mechanism that builds financial capability-- youth employment. Opportunities to develop financial knowledge and skills necessary to effectively manage finances are limited. However, developing these skills may pay dividends improving short-term and longer-term financial outcomes of young adults.

Employment in high school is an experience early in life where one may gain financial expertise and improve financial behavior. For many teenagers, a first job marks an important milestone. Employment provides an opportunity for youth to earn income for the first-time. It also requires them to make new financial choices, like selecting a bank account, budgeting, and filing taxes. They interact with colleagues who may share information about finances and may acquire skills on the job that are relevant to financial decision- making.

This study provides evidence to answer two questions: (1) Does building financial capability through high school employment affect financial behavior in young adulthood? and (2) Are these young adults building a financial buffer with savings and credit?

Using data from a nationally-representative panel of young adults at age 25, I find that those who work in high school are more likely to borrow, and they borrow more than those who do not work in school. However, estimates from an alternative approach reveal no statistically significant effect. The evidence suggests that young adults who worked during high school may build a buffer by accessing credit.

Little research provides evidence on the effect of youth employment on financial independence from parents. This study shows that there are positive effects of youth employment on asset accumulation in young adulthood. The findings from this study support parents encouraging their child to work while in high school. These findings are also consistent with policies and programs that support youth who engage in work early in life.