

**IMPROVING YOUTH EMPLOYMENT PROSPECTS:  
ISSUES AND OPTIONS**

**The Congress of the United States  
Congressional Budget Office**



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PREFACE

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This study was prepared at the request of the Senate Budget Committee. It analyzes present federal programs affecting the youth labor market and considers a number of alternative options. In accordance with the mandate of the Congressional Budget Office (CBO) to provide objective and impartial analysis, the paper offers no recommendations.

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## SUMMARY

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In coming months, the Congress will have an opportunity to reexamine the federal government's role in the youth labor market. The authorizing legislation for the Comprehensive Employment and Training Act (CETA) expires in 1982. Authorization for the Targeted Jobs Tax Credit (TJTC)--which provides a subsidy for the employment of certain disadvantaged groups--will also expire in 1982. Further, although the Vocational Education Act (VEA) is now authorized through 1984, the Administration may submit proposals for changes this year. Finally, the Congress may be asked to consider an additional economic development program (enterprise zones) and a youth subminimum wage.

### NATURE OF THE PROBLEM

In 1981, the unemployment rate among white youths was 15.0 percent, more than twice the average rate for the labor force as a whole. For nonwhite youths, the rate was 34.6 percent, more than four times the average rate (see Summary Table 1).

SUMMARY TABLE 1. UNEMPLOYMENT RATES, 1981 (In percents)

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Entire Labor Force	Youths (16-21)	White Youths (16-21)	Nonwhite Youths (16-21)
7.6	17.3	15.0	34.6

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SOURCE: Bureau of Labor Statistics.

The youth employment problem has two aspects. One is the difficult transition from school to work. Even youths who are job-ready--who have basic academic skills--are more likely to experience unemployment than adults. This is because they are more likely than adults to be new entrants to the labor market or to change jobs. As they mature, building up work experience and seniority, most will settle into stable employment.

Some youths, however, experience more lasting difficulty upon entering the labor market. Nearly two-thirds of measured youth unemployment in 1978 was experienced by the 10 percent of the youth labor force that was unemployed for 15 weeks or longer. This group is disproportionately black and poor, and many of them lack basic academic skills. Although most of them ultimately find some employment, they are likely to be plagued by low pay and recurrent unemployment in later years.

#### ALTERNATIVE POLICY APPROACHES

Efforts to alleviate the employment problems of young people can seek to:

- o Increase employment demand for youths;
- o Enhance their job qualifications; or
- o Improve their ability to negotiate the transition from school to work or from one job to another.

For those who lack basic academic skills, the second approach--enhancing job qualifications--must take priority. For the others, who are adequately prepared for work by the school system, the transition into stable employment could be facilitated by providing for career exploration, job-search training, and other placement services before leaving school. But neither of these approaches can succeed if the job market itself is inadequate. This raises the issue of what the federal government can do to increase employment demand.

#### Options for Increasing Employment Demand

A higher level of economic activity would help not only to reduce youth unemployment rates, but also to reduce the differential in rates between youths and adults as well as between white and minority youths. Youths and minorities gain relatively more than others in the labor force when the economy is prospering and they lose relatively more when it is weak. If the unemployment rate for adult males was reduced by 1 percentage point, it is estimated that the unemployment rate for white youths would be lower by 1.5 percentage points and that the rate for nonwhite youths would be lower by 2.5 percentage points.

Reducing unemployment by stimulative macroeconomic policies could, however, fuel further inflation, so that other approaches might be preferred. But since average unemployment is expected to be well above its 1981 level throughout 1982 and into 1983, in part because of recent efforts to reduce inflation, it will be more difficult for programs intended to alleviate youth employment problems to succeed.

Leave the Minimum Wage Unchanged. One noninflationary way in which the federal government could increase employment demand for youths, with no immediate budgetary cost, would be to keep the minimum wage at its current level--\$3.35 an hour. It appears that the minimum wage is a significant barrier to employment for youths because their lack of experience reduces their value to employers. The barrier set up by the minimum wage is even higher for disadvantaged youths. No further minimum wage increases are scheduled in current legislation, and inflation is expected to reduce the real value of the current minimum wage by almost 25 percent by 1985. This could raise youth employment by 2.5 percent and achieve employment gains for low-wage adults as well. Allowing youths to work at a subminimum wage might double their employment gains, but perhaps one-third of the jobs gained by youths would come at the expense of displaced low-wage adults.

Expand Employment Subsidies. Jobs for disadvantaged youths might be increased by larger employment subsidies, which might be provided nationwide or only in distressed areas through economic development programs. Unfortunately, the Targeted Jobs Tax Credit--which is the principal federal employment subsidy program now--does not appear to have been very effective at increasing employment demand for disadvantaged youths. Employers claimed credits for fewer than 3 percent of newly hired youths who were eligible. Further, it is estimated that 82 percent of youths who were claimed would have been hired without the subsidy, so that a substantial proportion of program costs has been dissipated in windfalls to employers. Although the average first-year revenue loss for each full-year full-time employee for which the credit is claimed is \$1,950, it is estimated that the revenue loss for each new youth job created has been much higher--about \$10,800--because of the windfalls (see Summary Table 2). Recent amendments to the program--eliminating retroactive certification of eligible employees, for example--will probably reduce the potential for windfalls to employers, thereby lowering the federal cost per new job, but the already-low rates of use by employers will probably drop as well so that the TJTC is not likely to be an effective way to increase employment among disadvantaged young people.

SUMMARY TABLE 2. COMPARISON OF PROGRAMS TO INCREASE EMPLOYMENT DEMAND FOR DISADVANTAGED YOUTHS

	1982 Costs per Full-Year Full- Time Slot Funded by the Program (dollars)	Minimum Proportion of Slots That Would Not Exist Without the Program	Maximum 1982 Costs per Full-Year Full- Time Slot Created by the Program (dollars)	Long-Term Gain in Employability
Targeted Jobs Tax Credit	1,950 <sup>a</sup>	0.18 <sup>b</sup>	10,833	Some gain due to accumulation of private- sector work ex- perience.
CETA Work Experience	8,800 <sup>c</sup>	0.67 <sup>d</sup>	13,134	Little or no gain, since the work experience accumulated in public programs is apparently not valued by employers.

- a. This assumes that the employer's tax rate is 35 percent, that the annual earnings of the employee are \$6,000, and that the employer receives a 50 percent subsidy of these wage costs.
- b. This may increase under the provisions of the amendments passed in 1981, which eliminate retroactive certification. If the proportion doubled--to 36 percent--the cost per full-year slot created would drop by half, to \$5,417.
- c. This estimate was obtained by annualizing the slot cost--\$980--for the Summer Youth Employment Program, which provides 200 hours of employment for each participant.
- d. It is estimated that no more than one-third of disadvantaged youths in CETA work experience programs would have found alternative employment.

Expand Work Experience Programs. Although they do not appear to enhance their future employability, CETA work experience programs have provided large numbers of jobs for disadvantaged youths--more than 20 percent of the jobs held by black youths at the programs' peak in 1978. The federal cost for each new full-time job created may be as high as \$13,000--higher than the maximum cost per new youth job created by the TJTC (see Summary Table 2). In addition, because employers apparently do not value the work experience accumulated in public programs, the private-sector work experience accumulated through the TJTC is more likely to result in some long-term gain in employability.

### Options for Enhancing Job Qualifications

The school system is the major public program for developing employability among youths. The schools are successful at instilling basic academic skills for most youths, who may then develop further occupational skills at postsecondary institutions or on the job.

Youths who lack basic literacy skills when they leave school, however, are increasingly unemployable in the U.S. economy. It is estimated that about 12 percent of high school students are functionally illiterate, and employer surveys indicate that it is the absence of basic literacy, not the lack of occupational skills, that is the principal barrier to their employment.

Expand Job Training Programs. One purpose of public employment and training programs is to provide a second chance to those who have failed to obtain an adequate preparation for employment from the schools. Experience with the Job Corps indicates that severely disadvantaged youths benefit from a combination of remedial basic education and well-supervised work or training, where the latter serves in part to motivate them to continue their education. Except for the Job Corps, however, most CETA programs have not been very effective at increasing employability for disadvantaged youths, because they typically provide only work experience.

More emphasis on education or training in other CETA programs for youths might be obtained either by mandating training requirements, or by modifying performance standards to consider long-term earnings gains. Since current performance standards emphasize costs per placement, program administrators are encouraged to favor short-duration work experience programs, even if followed by

a placement no better than could have been obtained prior to participation, over lengthier and more expensive instructional programs that might ultimately lead to better jobs.<sup>1</sup>

Redirect Federal Expenditures for Secondary Education. Basic academic and job skills might be developed through the vocational education system, but vocational education programs, especially at the secondary level, have not been markedly effective at increasing the long-term employability of youths.

Federal funds currently provided to high schools under the Vocational Education Act (VEA), most of which go to supplement general state and local programs of occupational training, might be used instead to provide remedial education in basic academic skills. This might be accomplished by reallocating these funds to Title I of the Elementary and Secondary Education Act (ESEA) and earmarking them for use in the high schools. If all funds appropriated for the 1981-1982 school year under the VEA were reallocated, approximately one million more high school students could be served. Currently, less than 5 percent of federal funds for compensatory education under the ESEA go to high schools.

Experience in the Job Corps with self-paced programs indicates that remedial education can be successful for disadvantaged youths, although it is not certain that this success could be duplicated in a traditional high school setting. Prospects for success might be enhanced by using a jobs program to motivate participants. Results from the Youth Incentive Entitlement Pilot Projects--funded under CETA Title IV-A--indicate that some disadvantaged students can be induced to persevere with their education by guaranteeing them part-time jobs while they do so. A part-time jobs program combined with in-school compensatory education would be a less costly alternative to the Job Corps--with an estimated cost per service year of \$5,550 compared to \$14,100--and might result in substantial benefits for some disadvantaged youths (see Summary Table 3). Year-long jobs could be provided for about 170,000 in-school youths at 1982 funding levels for CETA Title IV youth programs--excluding the Job Corps. Intensive programs like the Job Corps would probably continue to be necessary for more seriously disadvantaged out-of-school youths, however.

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1. The cost of training programs could be reduced, however, by reducing or eliminating the stipends paid to participants.

SUMMARY TABLE 3. COMPARISON OF PROGRAMS TO ENHANCE JOB QUALIFICATIONS

Program	1982 Costs per Full-Year Slot Funded by the Program (dollars)	Long-Term Gain in Employability
Job Corps	14,100	Substantial gain in earnings and employment.
Youth Incentive Entitlement Pilot Project	4,900	Increased school attendance. Effect on employability could be substantial if combined with effective education.
Compensatory Education in High Schools	650	Substantial gain probable.

Options for Facilitating Labor Market Transitions

Most high schools provide little in the way of job placement services or instruction in how to look for a job, but placement assistance is a relatively low-cost activity with several potential benefits. It could lower the average unemployment rate for youths by enabling them to find more satisfactory jobs more quickly. It might also reduce the need for employment and training programs, by enabling youths with adequate academic skills to find jobs on their own. And it could help to ensure that those who participate in employment and training programs ultimately find jobs.

Programs in job-search training have been among the most effective in the mix of demonstration projects carried out in recent years under CETA, the Work Incentive (WIN) program, and the Employment Service. Such programs provide labor market information, guidance in how to prepare a resume, and training in interviewing skills. Participation in short-duration programs like the Job Track--which provides two to five days of training at a cost

of \$200 per participant--can cut in half the length of time required to find a job (see Summary Table 4). Short-duration programs are not likely to produce long-term gains in employability, though. Year-long programs for high school seniors like the School-to-Work Transition program cost more per participant--about \$1,100--with no greater short-term gains in employment, but preliminary results from an eight-month followup suggest that they may be more effective at increasing long-term employability.

SUMMARY TABLE 4. COMPARISON OF JOB SEARCH ASSISTANCE PROGRAMS

Program	1982 Cost per Participant (dollars)	Average Number of Days to Find a Job		Employment Rate Three Months After Program Completion (percent)	
		Partici- pants	Non- Partici- pants	Partici- pants	Non- Partici- pants
School-to- Work Transition <sup>a</sup>	1,100	N/A	N/A	68	64
Job Track <sup>b</sup>	200	13	25	44	38

N/A = Not available.

a. Provided five to ten hours of instruction weekly--as a regular high school course--during the junior or senior year.

b. Provided two days of instruction, followed by three days of support services including counseling and use of telephones, typewriters, and copying machines.

The Employment Service could be encouraged to offer more instruction in job-search skills by providing additional funds earmarked for that purpose. In addition, some federal funds currently provided to high schools under the Vocational Education Act might be earmarked to provide more placement services, including job-search training, to students leaving school. All high school students needing such services in 1982 could be provided with instruction such as was provided in the Job Track program at a total cost of \$260 million, which represents about 40 percent of funds appropriated under the VEA for use in the 1981-1982 school year. Only half these students could be served in a long-duration in-school program, however, even if all VEA funds were earmarked for this purpose.



In response to rising youth unemployment rates, the Congress has attempted in recent years to focus federal labor market programs more heavily on disadvantaged youths. Expenditures under the Comprehensive Employment and Training Act (CETA) have been targeted almost exclusively on the economically disadvantaged, with a substantial proportion of total expenditures earmarked for services to youths. Federal expenditures for vocational education under the Vocational Education Act (VEA) have been increasingly directed toward the disadvantaged. In 1978, the Targeted Jobs Tax Credit (TJTC) was introduced to subsidize the employment of selected disadvantaged and youth groups.

Debate over reauthorization of these programs is expected during fiscal year 1982.<sup>1</sup> There may also be debate about modifications of the minimum wage provisions of the Fair Labor Standards Act (perhaps in the form of a subminimum wage for youths), and about a new economic development program (enterprise zones).

#### THE YOUTH EMPLOYMENT PROBLEM

The unemployment rate for youths is high relative to the rate for adults, and the rate for minority youths is high relative to the rate for white youths (see Table 1). In 1980, nearly half of the unemployed were youths between the ages of 16 and 24, although these youths comprised only a quarter of the total labor force. Among youths, the unemployment rate for nonwhites was at least twice that for whites in the same age group. Further, a smaller proportion of nonwhite youths are counted in the labor force statistics, suggesting that some of them have dropped out of the labor market from discouragement--a form of hidden unemployment.

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1. Authorization for the TJTC expires in December 1982. Authorization for CETA expires in September 1982, although there is provision for an automatic one-year extension if neither House of Congress has completed action on reauthorization by September 10, 1982. Authorization for the VEA was recently extended through September 1984, but the Administration has proposed changes in the VEA for 1983.

TABLE 1. UNEMPLOYMENT RATES IN THE CIVILIAN POPULATION, BY AGE, RACE, AND SEX: 1981 (In percents)

	Youths (16-19)	Youths (20-24)	Adults (25-54)
All Males	20.1	13.2	5.4
White males	17.9	11.6	4.9
Nonwhite males	38.3	24.9	10.3
All Females	19.0	11.1	6.3
White females	16.6	9.1	5.5
Nonwhite females	38.6	24.5	10.8

SOURCE: Bureau of Labor Statistics.

Although the size of the youth labor force will drop during the 1980s, thereby reducing youth unemployment relative to the total, there will remain a core of disadvantaged youths who are likely to face chronic employment problems. These youths--who are disproportionately black and poor--will probably continue to require assistance to overcome their economic and educational handicaps if they are to become productive members of the labor force.

#### LEGISLATIVE BACKGROUND AND ISSUES FOR THE FUTURE

The federal government has been actively involved in employment and training programs for at least 20 years, but the focus of its efforts has shifted over time. The federal role in employment and training programs began on a significant scale with passage of the Manpower Development and Training Act (MDTA) in 1962, and the VEA in 1963. Their initial purpose was to provide occupational skill training to new labor market entrants and to those already in the labor force who had been displaced by new technology, without regard to income.

More recently, federal employment and training efforts have been increasingly targeted on the economically disadvantaged. The VEA was amended in 1968 and again in 1976 to direct a higher proportion of federal funds to the disadvantaged, although substantial services are still provided to middle-income groups. The MDTA was replaced in 1973 by CETA, which provides employment, education, and training that are targeted almost exclusively on the economically disadvantaged.

Federal efforts have also been increasingly directed toward youths, as youths have made up an increasing proportion of the unemployed. The bulk of vocational education is provided to youths, through secondary schools. Nearly half of CETA participants in its first years were youths, and the Youth Employment and Demonstration Projects Act of 1977 further increased services to youths by introducing several new programs expressly for them, while imposing a maintenance-of-effort requirement on existing CETA programs serving both youths and adults. The TJTC--introduced in 1978--provides tax credits to employers hiring members of certain economically disadvantaged groups, including youths.<sup>2</sup>

As the Congress considers reauthorization of CETA, the VEA, and the TJTC, it must appraise the ongoing characteristics of youth employment problems, and decide what policies will be most appropriate to deal with them.

#### PLAN OF THE PAPER

This paper is intended to aid the Congress in its efforts to create a set of policies that might improve labor market prospects

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2. An exception to the stronger federal focus on youths is the Employment Service. Until the mid-1960s, Employment Service agencies were heavily involved in school programs that provided employment, counseling, testing, and placement services for graduating seniors. As a part of the War on Poverty, however, the resources of the Employment Service were shifted to serving disadvantaged adults and out-of-school youths.

for youths.<sup>3</sup> Chapter II examines the dimensions of youth employment in more detail and presents projections for the 1980s. Alternative policy approaches are described in Chapter III. Chapters IV through VI examine current programs that attempt to implement these approaches, as well as a number of specific options that might be adopted in the future.

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3. This is the fourth report on youth employment prepared by the Congressional Budget Office since 1977. See Budget Options for the Youth Employment Problem (March 1977); Youth Unemployment: The Outlook and Some Policy Strategies (April 1978); and Youth Employment and Education: Possible Federal Approaches (July 1980).

Despite high average unemployment rates relative to adults, most youths do not experience serious difficulty finding a job. In fact, the average time before finding a new job is shorter for unemployed youths than for adults--2.5 to 3 months for youths compared to 3.5 to 4 months for adults.<sup>1</sup> For the most part, unemployment rates are higher for youths than for adults because a larger proportion of youths experience unemployment over the year, for two reasons. First, youths are more likely to be entering or reentering the labor force, and this often involves an initial period of unemployment. Second, youths already working are more likely than adults to leave their jobs--voluntarily or not--due in part to low seniority.<sup>2</sup> Consequently, youths are twice as likely as adults to experience a period of unemployment in any given period, although most will ultimately settle into stable employment as they mature.<sup>3</sup>

A small proportion of young people, however, experience recurring or long-duration unemployment. These youths are disproportionately black and disadvantaged, both economically and educationally.<sup>4</sup> The youth employment problem is largely the problem of this group, who represent roughly 10 percent of the youth labor force.

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1. Kim B. Clark and Lawrence H. Summers, "Labor Market Dynamics and Unemployment: A Reconsideration," in Brookings Papers on Economic Activity (1979), vol. I, p. 19. These figures exclude the effects of labor force withdrawal.
  2. *Ibid.*, p. 53. The average duration of a job for youths is less than 3 months. For adult males, the average duration is 30 months.
  3. Richard B. Freeman, "Why Is There a Youth Labor Market Problem?" in Bernard E. Anderson and Isabel V. Sawhill, ed., Youth Employment and Public Policy (Prentice-Hall, 1980), pp. 17-19.
  4. Richard B. Freeman and David A. Wise, NBER Summary Report: Youth Unemployment (National Bureau of Economic Research, 1980), p. 3.

This chapter describes recent employment patterns for various youth groups,<sup>5</sup> and presents projections for the 1980s indicating that employment problems for minority and disadvantaged youths are likely to continue. The analysis uses a number of employment measures in addition to unemployment rates, because an exclusive focus on unemployment rates can be misleading, especially for youths.

#### CURRENT EMPLOYMENT PATTERNS AND RECENT TRENDS

The labor market experience of youths has worsened in comparison with that of adults over the last 20 years, and most of the worsening, especially since the 1960s, has taken place among nonwhite youths. Unemployment rates have risen sharply among young nonwhite men. Unemployment rates for young nonwhite women have also risen. Among white youths, on the other hand, the increase in unemployment rates has been comparatively slight. The differences are presented in Table 2, which shows that while unemployment rates for young white men rose by less than 20 percent between 1957 and 1978--years of cyclical peak in economic activity in which the unemployment rate for adult white males was constant--unemployment rates for young nonwhites rose by 60 percent or more. By 1978, unemployment rates for nonwhite youths were at least two and one-half times the rates for white youths of the same age and sex.<sup>6</sup>

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5. The racial/ethnic breakdown used is white and nonwhite. It would be useful to present figures for Hispanic youths as well, but those data are incomplete. The nonwhite category is about 90 percent black. Hispanics are distributed among the two categories, with about 95 percent classified as white and 5 percent classified as nonwhite.
  6. The unemployment rate for Hispanic youths tends to be only slightly higher than that for all youths, and much lower than the rate for black youths. There are, however, substantial differences in unemployment within the group of Hispanic youths. The rate for Puerto Rican youths is similar to that for black youths; the rate for Mexican-American youths is similar to the average for all youths; and the rate for all other Spanish-origin youths is lower than the average for all youths. See Congressional Budget Office, Youth Unemployment: The Outlook and Some Policy Strategies (April 1978), pp. 22-23.