EMPLOYMENT
POLICIES
INSTITUTE
FOUNDATION

YOUTH EMPLOYMENT IN THE HOSPITALITY SECTOR

BRADLEY R. SCHILLER
School of Public Affairs
American University

June 1995

Suite 1110, 607 14th Street, N.W. - Washington, D.C. 20005 - (202) 347-5178 - Fax: (202) 347-5250

The Employment Policies Institute Foundation is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPIF research focuses on issues that affect entry-level employment. Among other issues, EPIF research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPIF commissions non-partisan research which is conducted by independent economists at major universities around the country.

YOUTH EMPLOYMENT IN THE HOSPITALITY SECTOR

BRADLEY R. SCHILLER
School of Public Affairs
American University

EXECUTIVE SUMMARY

It is no secret that the hospitality industry (restaurants and hotels) provides valuable opportunities to inexperienced workers, especially those seeking additional formal education. More than one in every five "first paid jobs" is in the hospitality sector. More than 40% of all youth employed in the 1980s had held at least one job in the hospitality industry. In the present study, Bradley Schiller of American University documents key characteristics of the people who work in the hospitality industry. This report goes far beyond the conventional wisdom, providing new information on crucial factors about hospitality industry employment.

Supporting Continuing Education

One of the most important findings of Dr. Schiller's research is the extent to which the hospitality industry is a source of employment for individuals who are in school or are seeking to supplement their education. Perhaps more than in any other industry, the work force in the hospitality sector includes a heavy complement of individuals who are improving their education: **more than 60% of the young people employed in the hospitality industry are also enrolled in school.** (Nearly 40% of hospitality youth are in high school, while about 25% are in college.)

Over the course of the 1980s, **hospitality employees added an average 41% more "years of schooling" to their resumes than youth employed in other industries,** either by staying in school or returning for higher education. And **more than two-thirds of all youth employed in the hospitality industry in 1980 completed additional schooling** in the ensuing decade.

Far from being a harbinger for unmotivated employees in "dead-end" jobs, it seems the hospitality sector attracts a large number of young people actively engaged in furthering their education, as well as a modest number of noncollege-bound youth making a full-time commitment to the work force, though with relatively short tenure in the industry.

While most youth in the hospitality industry are continuing their education, there is striking **evidence that noncollege-bound youth tend to seek employment outside this industry.** Only 11% of all employed *noncollege-bound* youth held hospitality jobs in 1980, well below the overall 18% of *all* employed youth who are in the industry. But within the industry, noncollege-bound individuals are significantly more likely to hold full-time positions than college-bound youth.

Perceptions of Employment

Whether they intend to go to college or not, young employees in the hospitality sector generally see their jobs as positive experiences. **Nearly two-thirds say their jobs "provide good income."** Three out of five believe they gain valuable experience from these jobs. Almost 80% say their jobs are secure. And **60% believe they have a good chance for promotion.** Partly as a result of these positive perceptions, nearly **60% of young hospitality workers log at least three years in the industry.** (Interestingly, however, only 15% of *noncollege-bound* youth stay in this industry at least three years.)

Finally, evidence spanning an entire decade shows that working in the hospitality industry is a good springboard for future potential earnings, showing none of the negative impact frequently — and erroneously — associated with hospitality industry employment. Dr. Schiller concludes that **workers who**

held hospitality jobs in 1980 experienced the same earnings growth over time as workers who started out in other industries.

Conclusion

Despite widespread misconceptions and stereotypes, this report reveals that the hospitality industry provides valuable employment opportunities which support learning opportunities for young people. Those who are in school or college-bound see this industry as a **key source of supplemental income, flexible scheduling, and basic work experience.** Those who do not plan to attend college generally seek employment in other industries, but when they do take jobs in the hospitality industry, they frequently make a solid commitment to full-time employment. And young people in this industry have a **positive perception of their jobs** — quite the opposite from the impression often highlighted by media reports. Finally, the evidence clearly suggests that at least one common stereotype of this industry — the "dead-end job" — is misguided: **there is no significant difference in earnings growth between those who start in the hospitality industry and those who do not.**

The findings in this report carry important implications for policymakers who unwittingly encourage employers to shift more operations to customer self-service and automation. Based on the evidence, it appears policymakers should be wary of proposals that discourage or hinder entry-level employment growth in the service sector. **If education is the ticket to a rewarding career, the hospitality industry apparently helps pay the fare.** Moreover, elected leaders considering welfare reform proposals may wish to examine the hospitality sector closely as both a **port of entry and a source of flexible employment for welfare recipients seeking to continue their education.**

Thomas K. Dilworth
Policy Analyst

The restaurant and hotel industries account for nearly seven percent of all jobs in the U.S. economy and a much higher proportion of job opportunities for youth. Yet employment in the hospitality industry, despite its patent importance to the workers employed in it, is not always perceived as advantageous. Quite often, in fact, employment in this sector is seen as dead-end employment offering little, if any, prospect of long-term economic advancement.

The objective of this study is to cut through the rhetoric and conventional wisdom concerning employment in this industry and document the value of the "hospitality" (restaurant and hotel) sector for youth employment. This study delineates how many young people acquire early work experience in the hospitality sector; the wages, benefits, and training they receive; and how their work life evolves thereafter. The findings underscore the importance of the hospitality sector as a critical entry point into the labor market and as a significant source of income for youth still enrolled in school.

Studying Youth Employment Dynamics

An analysis of the long-term effects of hospitality industry employment on youth is possible through the use of the National Longitudinal Surveys of Youth (NLSY). The NLSY is a longitudinal survey of more than 12,000 youth. Youths in the NLSY were first surveyed in 1979, and those same youth have been re-interviewed every year since. The sample respondents were aged 14-23 in 1979 and are now in their late twenties and early thirties. The accumulated database provides a unique view of the early life and work experiences of a nationally representative cohort of youth. With the NLSY, one can identify not only every job an individual has held, but also develop an incredibly detailed profile of personal characteristics and experiences.

From the NLSY universe, a subsample of employed youth has been extracted for this study. The subsample includes all youth who were (1) aged 16-24 in 1980 and (2) employed in the civilian sector for pay at any time in that year. The age boundaries are designed to focus on young workers. The base year of 1980 is chosen to maximize the length of the observation period for subsequent employment experiences. This pool of young workers is tracked until 1990, thus generating an employment and social profile that spans an entire decade.

The subsample of employed youth includes 7,354 individuals, statistically representative of a youth population of 22.8 million individuals. Additional subsamples of labor-market **entrants** and individuals employed in later years are drawn for comparative purposes.

Employment

The hospitality industry is one of the most important sources of jobs for youth. The industry employs nearly one out of five (18.1 percent) working youth in any given year.

The NLSY allows one to observe not only how many young people are employed in the hospitality sector in any particular year, but also how many are **ever** employed in that industry. This longitudinal

perspective reveals that over 40 percent of all youth (aged 16-24 in any given year) who were employed during the 1980s held at least one job in the hospitality sector. This is reflected in the third row of Table 1.

Table 1

Hospitality Share of Youth Employment

Employment Measure	Percent of Employed Youth in Hospitality Sector
1. 1980 Labor Market Entrants *(n=1,734)*	21.50%
2. All Youth Employed in 1980:	
a: All Employed Youth *(n=7,354)*	18.10%
b: Youth Employed Full-Time *(n=3,880)*	8.00%
3. All Youth with Work Experience in 1979-1990 *(n=11,882)*	40.70%
4. By Age:	
16-19	23.30%
20-24	12.60%
25-35	9.00%

Source: National Longitudinal Survey of Youth 1980 and 1990 cross-sections (for age 25-35)

The longitudinal perspective also reveals the special significance of the hospitality sector for young people first entering the labor market. Over 20 percent of the **first** paid jobs held by youth are located in this sector (Table 1, row 1).

Although young labor-market entrants are likely to get their first job experience in the hospitality sector, they tend to migrate to other industries as they acquire work experience. This is reflected in rows 4a-c of Table 1. Over 23 percent of all teenaged workers are employed in the hospitality sector. By the time these workers reach their early twenties, however, the employment share of the hospitality sector drops by half (12.6 percent). Only nine percent of the NLSY cohort is employed in the industry at ages 25-35.

Over two-thirds of the hospitality jobs held by youth are part-time (less than 35 hours a week). This compares to a 40 percent part-time rate in other industries.

Employee Profiles

The young people who work in the hospitality industry are representative of a cross-section of all youth, as measured by either gender, race, or family income. There are important distinctions, however, in their age and school status, as shown in Table 2. The young people who work in the hospitality sector tend to be younger than the youth employed in other industries, explaining much of the difference in full vs. part time work status. Two out of three youth in hospitality services are still in their teens. By comparison, only one out of two youth in other industries are that young.

Table 2

Characteristics of Employed Youth

		Employed in: Hospitality Sector	Other Sectors
Gender			
	Male	57%	56%
	Female	43%	44%
Race			
	White	84%	83%
	Non-White	16%	17%
Age			
	16-19	65%	47%
	20-24	35%	53%
School Status			
	Enrolled	61%	42%
	Non Enrolled	39%	58%
Family Income			
	Less than $15,000	20%	22%
	$15,000-$30,000	43%	38%
	Over $30,000	37%	40%

Source: 1980 National Longitudinal Survey of Youth cross-section

As might be expected of a younger group of workers, most are still attending school. Over 60 percent of the youth employed in the hospitality sector are enrolled in school while working. This suggests the hospitality industry is an especially important source of income for young peo-

ple in school. In this regard, the availability of part-time jobs, irregular hours, and entry level positions is likely to be particularly critical to the student population.

Most notably, however, there are no major differences in the family income of youths who work in the hospitality industry. Somewhat surprisingly, given the relatively low wage structure of the hospitality industry, youths from families with the lowest incomes—less than $15,000 a year—are slightly less likely to work there than in other sectors (these youths compose 20 percent of youth in the hospitality industry, compared to 22 percent of youth in all other sectors). Conversely, youths whose families earn $15,000 to $30,000 are slightly more likely to be found in hospitality employment. Youths from the highest family-income group have industry employment patterns similar to those of the poorest group.

Table 3
School Status and Grade Level

Highest Grade Completed	Percent of Youth Workers: Currently Enrolled	Not Currently Enrolled
Hospitality Youth Workers		
Less than 12 Years	38%	11%
12 Years	10%	21%
Some College	15%	6%
Non-Hospitality Youth Workers		
Less than 12 Years	22%	13%
12 Years	7%	35%
Some College	14%	10%

Source: 1980 National Longitudinal Survey of Youth cross section.

Table 3 provides a more detailed view of school status. Here, both current enrollment status and grade level are shown. More than one out of three youths (38 percent) working in the hospitality sector are currently enrolled high school students. One out of four attend college while employed (either between college and high school or already with some college behind them). This concentration of student workers in the hospitality sector is markedly higher than in other industries.

Wages, Benefits, and Working Conditions

As would be expected for entry-level jobs, wages and benefits tend to be low for young hospitality workers. Roughly one out of four such workers depends on tips for part of their income.[1] Even with tips included, however, half of the youth employed in the hospitality industry earned the minimum wage or less.[2] Within the hospitality industry, wages at or below the federal minimum are more prevalent in the restaurant business than in hotels. Only one-third of the youth employed in other industries are paid at or below the federal minimum.

Relatively few of the hospitality youth receive supplemental compensation in the form of fringe benefits. This is particularly true in the restaurant business, where only one out of four youth workers receive employer-paid health insurance and only one out of seven get subsidized life insurance. Less than half of these workers get vacation pay. The contrast with young hotel and non-hospitality workers is striking, as Table 4 affirms. Much of the difference is likely attributable to the greater incidence of part-time employment in the restaurant business and to the lower age and experience levels of its teenage workers.

1 Respondents to the NLSY survey were asked to report their gross wages, including tips. Those responses are used to compute hourly wage rates.

2 Numerous exemptions to the Fair Labor Standards Act permit wage rates below the federal minimum. Some small firms and students are exempted, as are most tipped employees.

Despite the lower levels of compensation in the hospitality sector, the youth employed therein perceive their jobs as a source of "good income." As panel C of Table 4 shows, this perception of "good income" is shared by roughly two-thirds of all hospitality youth. The apparent contradiction between low wages and the perception of good income may be a reflection of age and experience. Quite simply, hospitality jobs may represent the best opportunities available to these (teenaged) youth.

Table 4
Wages, Benefits, and Working Conditions

	Restaurant Workers	Hotel Workers	Non-Hospitality Workers
A. Hourly wage Rate (1980)			
$3.10 or less	52%	38%	31%
$3.11-$3.99	26%	27%	27%
$4.00-$4.99	11%	18%	18%
$5.00-$5.99	5%	9%	10%
$6.00 or more	7%	8%	14%
Average Wage	$3.64	$3.85	$4.39
B. Fringe Benefits			
Health Insurance	25%	60%	65%
Life Insurance	14%	32%	49%
Vacation	46%	70%	71%
C. Job Perceptions			
Provides Good Income	63%	66%	73%
Gaining Valuable Experience	58%	75%	76%
Job is Dangerous	19%	16%	32%
Job is Secure	78%	88%	84%
Good Chance for Promotion	60%	70%	63%
D. Size of Establishment			
1-29 Employees	72%	46%	71%
30-99 Employees	24%	21%	12%
100 or more Employees	4%	33%	17%
Multiple Locations	61%	74%	56%

Source: 1980 National Longitudinal Survey of Youth cross section, job #1.

Most youthful hospitality workers believe their jobs are secure and their chances for promotion are good. On both measures, however, restaurant workers manifest slightly less confidence than youth employed in the hotel or other industries. On one other measure of working conditions—job safety—hospitality workers also stand out. The perception of dangerous working conditions is much less prevalent in the hospitality industry (16-19 percent) than in other industries where youth are employed (32 percent).

Youth who participate in the labor force are overwhelmingly employed in small establishments. In part, this may be due to the fact that some small businesses are exempt from federal and state minimum-wage legislation. Small businesses may also have greater flexibility in hiring part-time workers. As panel D of Table 4 shows, over 70 percent of all working youth are employed in establishments with fewer than 30 employees. The hotel industry is an exception, but even there, nearly half of employed youth work in smaller motels and hotels.

Although working youth are overwhelmingly employed in small **establishments,** the employing **firms** are not necessarily small. Over half of all employers of youth have multiple establishments. Fast-food outlets are typical of this phenomenon, with multiple small establishments owned or franchised by a much larger entity. As panel D of Table 4 indicates, this phenomenon is not unique to the hospitality industry.

Employer and Industry Attachment

In general, the youth who work in the hospitality sector view their jobs as temporary sources of support rather than as distinct career commitments. Indeed, when asked how long they plan to remain with their current employer, half of the youth employed in restaurants say they plan to stay less than a year. Only one out of eight intend to stay as long as three years. Anticipated employer attachment is much higher in the hotel sector and other industries, as Table 5 indicates.

The longitudinal nature of the NLSY allows one to observe how long these youth actually stay in the hospitality industry (with the same or subsequent employers). Most of these youth continue to hold jobs in the hospitality industry for a number years. In fact, over 40 percent of these youth are still working in the hospitality industry at least four years later.

Table 5
Employer and Industry Attachments

Anticipated Employer Attachment Plan to Stay	Youth Employed in: Restaurants	Hotels	Other Industries
Less than 1 Year	50%	30%	30%
1-2 Years	35%	42%	32%
3 or more Years	13%	24%	38%

(non-responses not shown)

Actual Industry Attachment Number of Years with any Job in Hospitality Industry	Youth Employed in 1980 in: Restaurants	Hotels
1	14%	19%
2	21%	25%
3	18%	16%
4	13%	22%
5	33%	18%

Wage Gains

Whether they remain in the hospitality industry or not, virtually all youth attain substantial wage increases as they acquire work experience. This is to be expected, as youths gain not only job experience and training during their early work careers, but additional schooling as well. Enhanced knowledge of how labor markets work and where their skills best fit also contributes to wage gains over time.

As noted earlier, hospitality youth generally have lower wages than youth employed in other industries. A decade later, however, there is no significant difference between the wage rates for the two subgroups. In 1990, the mean wage for young workers who were employed by the hospitality industry in 1980 was $10.05 per hour, a nearly two-hundred percent increase over their 1980 wage rates. Youth employed in other industries in 1980 experienced wage gains of nearly similar magnitude.

The growth of wages observed in the 1980s suggests there is no particular long-term employment impact associated with early experience in the hospitality industry. Given the preponderance of part-time and transitory affiliations of that early experience, this is not surprising. Nevertheless, this simple wage-growth observation was tested in a multivariate context for confirmation. These statistical tests affirmed that neither the level of wages in 1990 nor the percentage change in wage rates between 1980 and 1990 are significantly affected by early experience in the hospitality sector.

Education Gains

One of the forces driving wages higher over time is the gain in education. Nearly half of the employed youth cohort was still enrolled in school in 1980. Nearly all these students acquired additional years of schooling during the decade. Additionally, nearly one out of five youth who said they had completed their schooling in 1980 actually returned to school during the subsequent decade. Accordingly, continued educational achievement was pervasive for these employed youth.

Continued schooling was particularly evident among youth employed in the hospitality industry. As Table 6 indicates, two-thirds of all youth employed in the hospitality industry in 1980 completed additional schooling in the subsequent ten years. The average schooling gain was significantly larger for the hospitality youth (1.9 years). The income support provided by readily accessible jobs in the hospitality sector may well have contributed to these education gains.

Much attention has been focused lately on the distinction between college-educated youth and those who terminate their schooling prior to college entry. In general, many policymakers have concluded that college is a necessary "ticket" to better jobs and that the wage gap between college-educated and non-college youth is widening.[3] Because of this policy interest, a separate analysis of noncollege-bound youth was conducted in this study. Noncollege-bound youths were identified as individuals who reported finishing school (high school or less) in the early 1980s and had not entered college by 1990.

Table 6

Continued Schooling of Employed Youth

Additional Years of Schooling After 1980	Youth Employed in 1980: Hospitality Industry	Youth Employed in 1980: Other Industries
0	34%	49%
1	15%	16%
2	19%	12%
3	11%	9%
4	9%	6%
5 or more	12%	9%
Average Gain	1.91	1.35

Only 11 percent of all employed noncollege-bound youth held hospitality jobs in 1980. This was substantially below the norm for all youth (18 percent, as shown in Table 1). This suggests that those youth who sought jobs in the hospitality sector were generally more motivated and/or saw such jobs as a key source of (part-time) support for education. Noncollege-bound youth are far more likely to select full-time jobs in other industries than part-time jobs in restaurants or hotels. Even within the hospitality sector, noncollege-bound youth are more likely (46 percent) than college-bound youth (34 percent) to hold full-time jobs. Despite the hospitality industry's stereotypical reputation as the employer of last resort for noncollege-bound youth, it actually serves a more important employment function for youths continuing their education.

Despite their greater tendency to be employed full-time, noncollege-bound youth do not stay in the hospitality industry. Only 15 percent of this group remains in the industry for three years or more, far less than the three-year retention rate (over 65 percent) for college-bound youth.

Conclusion

The picture that emerges from these statistics can be summarized in a few generalizations. The hospitality sector is clearly a major source of employment for youth. Especially important is the availability of part-time opportunities for students. Students, particularly those college-bound or already in college, fill a disproportionately large share of jobs in the hospitality sector. In the provision of such jobs, the hospitality sector stands out.

Although entry-level jobs in the hospitality sector are an important source of income support for students and other youth, relatively few young workers establish careers in the industry. Industry affiliation declines sharply as workers get older. Although many youth (particularly students) have several years of (part-time) experience in the restaurant and hotel industries, few youth remain in the industry. Noncollege-bound youth are even less likely to make longer-term commitments to this sector.

As their work lives evolve, the youth with experience in the hospitality industry follow the average tendency toward rapidly rising wage levels. There is no distinct long-term wage effect from experience

3 For a review, see Frank Levy and Richard Murnane, "U.S. Earnings Levels and Earnings Inequality," *Journal of Economic Literature*, September 1992.

in the hospitality sector. Hence, the jobs provided by the hospitality sector are best viewed as a transitory phase in highly varied career paths.

The youth who hold jobs in the hospitality sector are, however, likely to acquire more additional schooling than youth employed in other industries. Although the availability of part-time jobs may be partly responsible for these schooling gains, this report provides no direct evidence of this relationship.

In summary, the hospitality sector should be viewed as a substantial source of employment opportunity for young workers. It is a particularly important source of part-time jobs for students who are college-bound or already in college.

BIOGRAPHY

Bradley R. Schiller is Professor of Economics in the School of Public Affairs, The American University. He has done extensive work on income distribution, employment, and welfare policy.

RECENT PUBLICATIONS

Employment Policies Institute Foundation

The Consequences of Indexing the Miniman Wage to Average Wages in the U.S. Economy, by David Macpherson, Florida State University, and William Even, Miami University, May 1995.

Earnings Growth and Employment Stability of Workforce Entrants: Does the Point of Entry Matter? by Frederick J. Tannery, University of Pittsburgh and Slippery Rock University, April 1995.

Jobs Taken by Mothers Moving from Welfare to Work: And the Effects of Minimum Wages on this Transition, by Peter D. Brandon, Institute for Research on Poverty, University of Wisconsin -- Madison, February 1995.

Minimum Wage Laws and the Distribution of Employment, by Kevin Lang, Boston University, January 1995.

The Low-Wage Workforce. Statistical analysis of the low-wage workforce from the 1992 *Current Population Survey*, December 1994.

Mandates in Employment: A History of Added Burdens on the Unskilled, by Simon Rottenberg, University of Massachusetts, Amherst, August 1994.

The Effects of High School Work Experience on Future Economic Attainment, by Christopher J. Ruhm, University of North Carolina at Greensboro, May 1994.

The Early Careers of Non-College-Bound Men, by Jeff Grogger, University of California, Santa Barbara, May 1994.

Effects of the Employer Mandate in the Clinton Health Plan, by June E. O'Neill and Dave M. O'Neill, Baruch College, City University of New York, March 1994.

The Effect of Recent Increases in the U.S. Minimum Wage on the Distribution of Income, by John T. Addison and McKinley Blackburn, University of South Carolina at Columbia, March 1994.

Public Policies for the Working Poor: The Earned Income Tax Credit vs. Minimum Wage Legislation, by Richard V. Burkhauser, Syracuse University, and Andrew J. Glenn, Vanderbilt University, March 1994.

The Impact of a Health Insurance Mandate on Labor Costs and Employment, by June E. O'Neill and Dave M. O'Neill, Baruch College, City University of New York, September 1993.

Health Insurance Benefits and Income Support for Poor Families: Report on National Survey of Leading Economists. Conducted by the University of New Hampshire Survey Center, this survey presents overwhelming agreement among economists on the effects of mandated health insurance or a higher minimum wage, June 1993.

The Minimum Wage and the Employment of Teenagers: Recent Research, by Bruce Fallick, University of California--Los Angeles, and Janet Currie, Massachusetts Institute of Technology, June 1993.

The Employment Effect in Retail Trade of a Minimum Wage: Evidence from California, by Lowell J. Taylor, Carnegie Mellon University, June 1993.

The Minimum Wage: Good Social Policy? A landmark guide to understanding the minimum wage, Employment Policies Institute, April 1993.

Employment Effects of Minimum and Subminimum Wages: Recent Evidence, by David Neumark, University of Pennsylvania, February 1993.

Higher Wages, Greater Poverty: Trapping Americans in Poverty, by Carlos E. Bonilla, Employment Policies Institute. Examination of the interaction between minimum wage hikes, earnings, transfer and tax programs in California, February 1992.

Survey of Service Employees, prepared by Frederick/Schneiders Inc. Survey of current and former hospitality industry employees, exploring the developing of important job skills, February 1992.

EMPLOYMENT POLICIES INSTITUTE FOUNDATION
607 14th Street, N.W. • Suite 1110 • Washington, D.C. • 20005 • (202) 347-5178