

For Immediate Release

The University of Chicago Press / Journal of Political Economy

Contact: Kevin Stacey / 401-284-3878 / kstacey@press.uchicago.edu

Source Contact: Dr. Greg Kaplan, University of Pennsylvania / gkaplan@sas.upenn.edu

Economist Shows the Value of Moving Back with Mom and Dad

Though many may dread the idea, young adults who move back home with mom and dad after a job loss may benefit from it more than they realize. Research published in the *Journal of Political Economy* finds that returning to the nest can be valuable insurance in a tough labor market, serving as a short-term safety net while also keeping long-term earnings from being stunted by a job loss.

“Intuitively, it makes sense that people move home after an employment shock,” said Greg Kaplan, an economics professor at the University of Pennsylvania and the study’s author. “We’ve seen a lot of anecdotal evidence of this during the latest recession, but there hadn’t been much hard data on how common it is or what the effects might be. This study demonstrates that the option to move home is potentially very important.”

Kaplan used data on nearly 1,500 men born between 1980 and 1984. Surveys tracked the men through their 20s, capturing employment status and living arrangements for each month. By the age of 23, nearly 40 percent of the men in the sample had returned home for at least a month after initially moving away from home. Those who stopped working were 63 percent more likely to back move home in the following three months, compared to those who continued to work. Constraints of the survey data forced Kaplan to limit his sample to men who did not go to college, but an additional dataset suggests that the phenomenon applies to the broader population. “When we look at aggregate state-level data we see a similar pattern,” Kaplan said. “As a state’s unemployment level increases, so do co-residency rates.”

The data show an important long-term advantage to moving home after a job loss. Take for example an average person in Kaplan’s sample who loses his job at the age of 20. People in that situation had earnings at age 26 that were 25 percent lower than someone who did not lose a job. However, this long-term effect was concentrated almost entirely among youths who did not live with their parents and did not return home after their job loss. Those who lost a job and *did* move back home had essentially the same earnings in later years as people who had never lost a job.

Why does living with mom and dad serve as a buffer from the negative earnings effect? Kaplan believes it’s because those living at home can be choosier when looking for a new job. They have the option to wait for a job that offers higher future earning potential. “Jobs with higher growth potential may be harder to find,” Kaplan said. “And they often involve low earnings in the short run but higher earnings in the future—an internship for example. If you’re living at home, you might be able to wait for these better opportunities.”

But if you’re on your own and need to pay rent, you need a decent-paying job quickly. Easier-to-find jobs—like food service or simple labor—have lower long-term growth potential. As a result

people who are pushed into those jobs will have lower earnings down the line compared to those who can live at home and wait it out.

To test this idea, Kaplan used his real-world data to construct a theoretical model that simulates labor market choices. “In the model, I can do counterfactual experiments,” he said. “I can take away the option to move home and see how important it is in different circumstances.”

Using his data, Kaplan modeled how a 23-year-old might evaluate job offers in a world where the option to move home was turned on or off. He created two types of hypothetical jobs. “Safe” jobs come around often, but have lower potential for future earnings. “Risky” jobs are rarer, but have higher future earnings.

According to the model, there would be as many as 15 percent fewer youths working in risky, high-growth jobs if the option to move home is removed entirely, resulting in lower earnings over the long term. The model results echo the long-term income loss found in the real-world data and provide good evidence that the pattern is linked to constrained job choices for those who may be unable to move home.

###

Greg Kaplan, “Moving Back Home: Insurance against Labor Market Risk.” *Journal of Political Economy* 120:3 (June 2012).

One of the oldest and most prestigious journals in economics, the *Journal of Political Economy* has since 1892 presented significant research and scholarship in economic theory and practice. The journal aims to publish highly selective, widely cited articles of current relevance that will have a long-term impact on economics research.