THE SQUEEZE IS ON: THE IMPACT OF THE RECESSION ON YOUNG PEOPLE

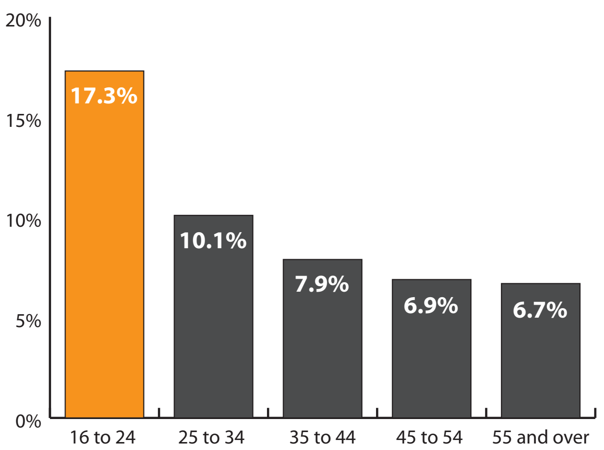
Even before the recession, today's young adults were on track to have the dubious distinction of being the first generation in a century not likely to end up better off than their parents. Stagnant wages, job insecurity, the decline in employer-sponsored health insurance and retirement benefits, rapid increases in the cost of basic expenses, soaring debt, and minimal savings have diminished the prospects for opportunity and mobility. Thirty years in the making, government policy has failed to cushion the blow of these trends.

Although the recession has affected Americans of all ages, adults in their 20s and early 30s entered the downturn at a distinct disadvantage—trying to complete their educations and enter and get ahead in the job market in the midst of the deepest economic crisis since the Great Depression. The current recession jeopardizes not only their immediate prospects but also their long-term chances for economic security and success.[1]

EMPLOYMENT AND EARNINGS

The recession has already had a devastating toll on young workers, whose unemployment and underemployment rates are higher than for any other age group. The national unemployment rate for September 2009—9.8 percent—was the highest in 26 years,[2] but this figure masks the dismal labor market conditions faced by the youngest workers. During the second quarter of 2009, the unemployment rate for workers under age 25 was 17.3 percent; in contrast, the unemployment rate for workers ages 45 to 54 was 6.9 percent (see Chart 1).[3]

CHART 1: UNEMPLOYMENT RATE BY AGE, APRIL-JUNE 2009

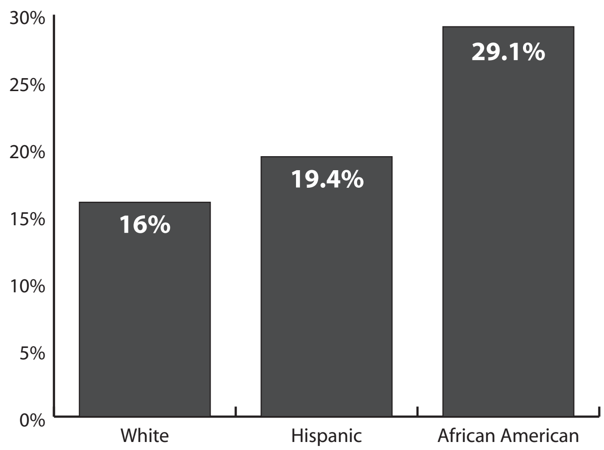


Source: Bureau of Labor Statistics of the U.S. Department of Labor: Unemployment rate, seasonally adjusted.

Young people of color and those without college degrees have been the hardest hit by unemployment. Young African Americans face the highest unemployment rate, at 29.1 percent for the second quarter of 2009 (see Chart 2).

The situation facing young jobseekers is even more grim when taking underemployment into account—the "underemployed" include workers who want full-time work but can find only part-time hours, people who have given up looking for work, and the unemployed. The overall rate of underemployment doubled between 2007 and 2009, but the figures are highest for young workers. During the second quarter of 2009, young workers under 25 had an underemployment rate of 31.9 percent. Underemployment for workers ages 25 to 34 was 17.1 percent and 13.7 percent for workers ages 35 to 44.[4]

CHART 2: UNEMPLOYMENT RATE BY RACE FOR 16-24 YEAR OLDS, APRIL-JUNE 2009



Source: Bureau of Labor Statistics of the U.S. Department of Labor: Unemployment rate, unadjusted.

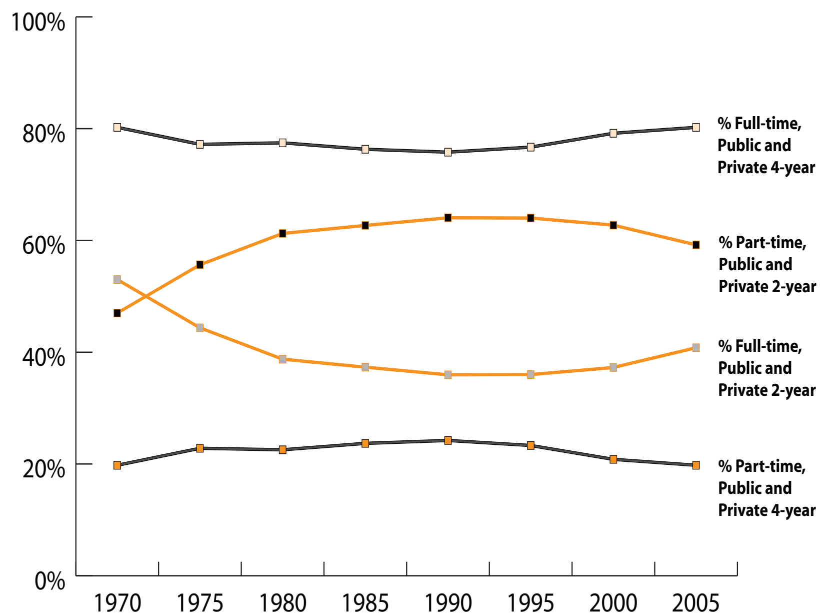
Research has shown that entering the labor force during a recession can suppress initial wages and have long-term consequences for earnings, even among college graduates. A recent study shows that in their first year out of college, white men entering the workforce in a bad economy earn 6 to 8 percent less for each additional percentage point in the national unemployment rate.[5] Although the magnitude of this effect decreases over time, the impact is long term: fifteen years after college graduation, wages are still lower for those who entered the labor market when unemployment was high.[6] Given the depth of unemployment among young people, the wage suppression effect of this recession could potentially have lifelong consequences for a generation of workers.

POST-SECONDARY EDUCATION

Completing a credential beyond high school—whether a professional certificate or an associate's or bachelor's degree—is the best way for young people to increase their earnings and long-term economic prospects. Yet recessions have different effects on college enrollment depending on income—young people with greater financial means are more likely to enroll in school when unemployment is high. But young people from low- and moderate-income families with few assets are less likely to enroll in school when economic conditions are tough: they are more likely to feel pressure to work and less able to take on student debt.[7]

Long before the recession, college graduation rates had stagnated—nearly half of students who enroll in college will drop out before earning a degree. Even among the students most likely to succeed—those who begin college as full-time students at four-year institutions—only three out of five complete a bachelor's degree within six years.[8] Among young students (under age 24) enrolled at community colleges, fewer than two out of five complete some kind of credential within six years.[9]

CHART 3:
ATTENDANCE STATUS OF TWO- AND FOUR-YEAR UNDERGRADUATES



Source: U.S. Department of Education, National Center for Education Statistics, "The Condition of Education, 2009." Indicator 10, Table A-10-2.

Although there are many reasons for what analysts refer to as a college drop-out crisis, financial challenges are paramount. College costs have risen dramatically over the last 25 years, while financial aid policies have increasingly abandoned students with the greatest financial need, forcing students and their families to pay more out of pocket and rely more heavily on loans.

Seldom noted is that low- and moderate-income students are working longer hours and more of them are enrolling only part time, putting them at risk for dropping out. Research clearly indicates that full-time enrollment and part-time employment of less than 15 hours per week provide the optimal situation for young students to concentrate on their studies and finish their degree.[10]

In 1970, 14 percent of full-time college students worked more than part time (20 hours per week or more). More than 30 years later, that percentage had doubled. As student employment and work hours have increased, so have rates of part-time enrollment—a trend that has disproportionately affected young community college students. In 2007-08, nearly 60 percent of young community college students enrolled part time compared to just under 20 percent of students at four-year institutions (see Chart 3).[11]

For students with inadequate financial support, employment is an indispensible strategy for attending school. But when long work hours lead students to enroll only part time, the risk increases that they will drop out and not complete a degree. Even if they are able to stay in school, enrolling part time extends the time it takes to complete a degree.

In short, while the high unemployment of a recession may encourage young people who are financially better off to return to school, lower-income young people are confronted with a double bind—they may find it difficult to find sufficient employment to support themselves and pay for school, yet they are ill-equipped to make up the difference by taking on debt in the form of student loans.[12]

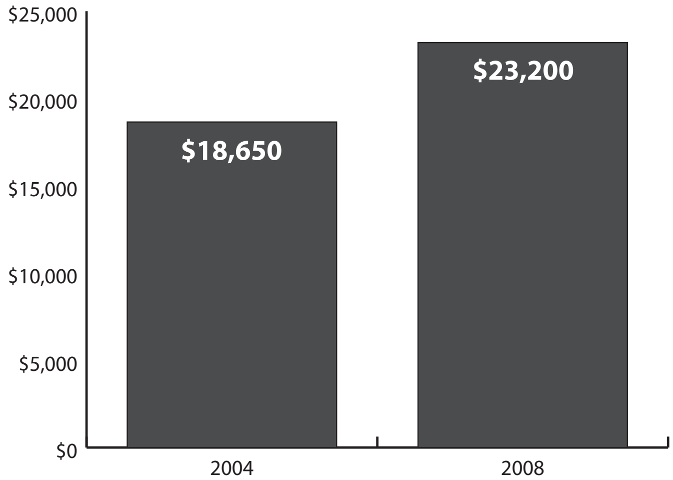
DEBTS AND ASSETS

Young adults entering the labor force tend to have limited savings and other financial assets. The recession—with high unemployment, underemployment, lower salaries for entry-level workers and barriers to college completion—hampers the ability of young people to build assets now and in the future. As more young workers enter the workforce with debt (such as credit card debt, student loans, and car loans), their capacity to save for big-ticket items such as a home is diminished. Falling behind in debt payments threatens their credit scores, jeopardizing future asset building.

The latest data show that 67 percent of graduating students at four-year institutions left college with debt. In 2008, the average debt of students graduating with loans was $23,200, an increase of 24 percent over 2004 when student debt averaged $18,650.[13]

According to a survey on household debt conducted by Dēmos last year, low- and middle-income Americans under age 35 with credit card debt averaged about $9,000 in such debt.[14] Over half (55 percent) of respondents under 35 reported using credit cards to pay for basic living expenses in the past year because they did not have enough cash—whether from earnings or savings—to cover these expenses.[15] Far from being a rare occurrence, those who reported using credit cards for basic expenses did so on average for five months out of the year.[16]

CHART 4: AVERAGE DEBT AMONG GRADUATING SENIORS WITH STUDENT LOANS, 2004 AND 2008

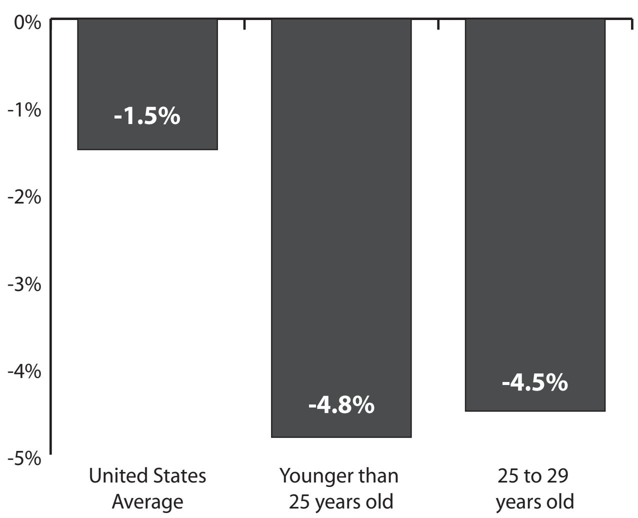


Source: Project on Student Debt "Quick Facts about Student Debt", August 2009, projectonstudentdebt.org/files/File/Debt_Facts_and_Sources.pdf.

Onerous levels of debt pose a serious impediment to financial security for young households. In a 2006 survey of college graduates under 35, more than a third said it will take them more than 10 years to pay off their household's education-related debt.[17] Between student loans and credit card debt, today's young adults must devote an increasing share of their incomes to debt payments.

Stagnant incomes and high-cost debt have affected homeownership among young people. Between 2006 and 2008, the total numbers of homeowners decreased slightly, but declines were much larger for people under age 30—in 2008 there were 4.8 percent fewer homeowners among adults under 25 and 4.3 percent fewer among those 25 to 29 year olds (see Chart 5).[18]

CHART 5: PERCENT CHANGE IN NUMBER OF HOMEOWNERS, 2006-2008



Source: Project on Student Debt "Quick Facts about Student Debt", August 2009, projectonstudentdebt.org/files/File/Debt_Facts_and_Sources.pdf.

CONCLUSION

A quick recovery from the current recession is important for young people not only for their immediate economic livelihood but also for their ability to build a sound economic foundation for the future. At the moment, young adults are facing high unemployment and underemployment, wages suppressed by the recession, increased barriers to paying for school, and high-cost debt—all of which have ripple effects and potential long-term economic consequences. Not only does the recession threaten the economic well-being of today's young adults, their economic insecurity threatens us all.

Yet even if the recession were to end tomorrow, young people face enormous economic challenges as they seek to complete their educations, join the labor market, start families, build assets and plan for the future. Recent policies to end deceptive and abusive credit card practices and proposals to reform health care and invest in higher education will help. But it will take much bolder and more far-reaching policy reforms to redress the decades of declining economic opportunity and mobility that have left younger Americans struggling.

New policies must work to maximize the potential of all young people by ensuring that higher education is affordable for all who wish to pursue it, that our economy provides adequate wages and benefits, and that hardworking young people can build assets and protect themselves from high-cost debt. As we think of these new policies, we need to ensure that young people from less advantaged financial backgrounds and young people of color are able to complete their educations, obtain decent jobs when they enter the labor market, and save for their future. Although the recession provides an opportunity for bold reform, the window for sweeping change will not remain open indefinitely.

NOTES

1. Pew Research Center. "Once Again, The Future Ain't What It Used to Be," May 2006.
2. Bureau of Labor Statistics of the U.S. Department of Labor: Unemployment rate.
3. The unemployment rate for workers ages 25 to 34 was 10.1 percent, which is just a little more than half a percentage point above the overall rate of 9.8 percent. Economic Policy Institute tabulations; Bureau of Labor Statistics.
4. Economic Policy Institute tabulations; Bureau of Labor Statistics.
5. Lisa Kahn. "The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy." Working Paper, electronic version. Yale School of Management, 2008.
6. The 15-year effect is an average 2.5 percent decline in wages for each extra percentage point in the unemployment rate. See Kahn (2008), p. 3.
7. Michael F. Lovenheim "Housing Wealth, Liquidity Constraints and College Enrollment" SIEPR, Stanford University October 2008; Oxford Economic Papers 59 (2007), 141–169, Oxford University Press 2006.
8. Berkner, He, Cataldi, *Descriptive Summary of 1995-1996 Beginning Postsecondary Students: Six Years Later*, U.S. Department of Education, National Center for Education Statistics, 2002.
9. U.S. Department of Education, Beginning Postsecondary Students- BPS:96/01 Data Analysis System, National Center for Education Statistics, 2002.
10. Viany Orozco and Nancy K. Cauthen. *Work Less, Study More and Succeed: How Financial Supports Can Improve Postsecondary Success*. Dēmos, September 2009.
11. Ibid.
12. Michael F. Lovenheim "Housing Wealth, Liquidity Constraints and College Enrollment" SIEPR, Stanford University October 2008; Oxford Economic Papers 59 (2007), 141–169, Oxford University Press 2006.
13. Project on Student Debt. "Quick Facts about Student Debt", August 2009.
14. Jose Garcia and Tamara Draut. *The Plastic Safety Net: How Households are Coping in a Fragile Economy*. Dēmos, July 2009.
15. Dēmos calculations from the 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.
16. Ibid.
17. Anne Marie Chaker "Student Borrow More Than Ever for College Heavy Debt Loads Mean Many Young People Can't Live Life They Expected" Wall Street Journal September 4, 2009.
18. U.S. Census Bureau; *Housing Vacancies and Homeownership (CPS/HVS)*; Table 17. Homeownership Rates for the United States, by Age of Householder.

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