S. HRG. 113–472

DREAMS DEFERRED: YOUNG WORKERS AND RECENT GRADUATES IN THE U.S. ECONOMY

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING THE CURRENT ECONOMIC CONDITIONS FACING YOUNG AMERICANS, FOCUSING ON KEY AREAS OF CONCERN SUCH AS UNEMPLOYMENT, UNDEREMPLOYMENT, AND STUDENT DEBT.

JUNE 25, 2014

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

Available at: http://www.fdsys.gov/

U.S. GOVERNMENT PUBLISHING OFFICE

91–270 PDF WASHINGTON : 2015

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

TIM JOHNSON, South Dakota, *Chairman*

JACK REED, Rhode Island
CHARLES E. SCHUMER, New York
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
JON TESTER, Montana
MARK R. WARNER, Virginia
JEFF MERKLEY, Oregon
KAY HAGAN, North Carolina
JOE MANCHIN III, West Virginia
ELIZABETH WARREN, Massachusetts
HEIDI HEITKAMP, North Dakota

MIKE CRAPO, Idaho
RICHARD C. SHELBY, Alabama
BOB CORKER, Tennessee
DAVID VITTER, Louisiana
MIKE JOHANNS, Nebraska
PATRICK J. TOOMEY, Pennsylvania
MARK KIRK, Illinois
JERRY MORAN, Kansas
TOM COBURN, Oklahoma
DEAN HELLER, Nevada

CHARLES YI, *Staff Director*
GREGG RICHARD, *Republican Staff Director*

DAWN RATLIFF, *Chief Clerk*
TAYLOR REED, *Hearing Clerk*
SHELVIN SIMMONS, *IT Director*
JIM CROWELL, *Editor*

SUBCOMMITTEE ON ECONOMIC POLICY

JEFF MERKLEY, Oregon, *Chairman*
DEAN HELLER, Nevada, *Ranking Republican Member*

JOHN TESTER, Montana
MARK R. WARNER, Virginia
KAY HAGAN, North Carolina
JOE MANCHIN III, West Virginia
HEIDI HEITKAMP, North Dakota

TOM COBURN, Oklahoma
DAVID VITTER, Louisiana
MIKE JOHANNS, Nebraska
MIKE CRAPO, Idaho

ANDREW GREEN, *Subcommittee Staff Director*
SCOTT RIPLINGER, *Republican Subcommittee Staff Director*

C O N T E N T S

WEDNESDAY, JUNE 25, 2014

DREAMS DEFERRED: YOUNG WORKERS AND RECENT GRADUATES IN THE U.S. ECONOMY

WEDNESDAY, JUNE 25, 2014

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY,
Washington, DC.

The Subcommittee met at 3:15 p.m., in room SD–538, Dirksen Senate Office Building, Hon. Jeff Merkley, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIRMAN JEFF MERKLEY

Chairman MERKLEY. I call this hearing of the Economic Policy Subcommittee of the Committee on Banking, Housing, and Urban Affairs to order. Growing up, I know my parents shared the same hopes of most American parents, that in America, their children have a chance to go farther than they had. That vision of each generation doing better than the last was and is a fundamental part of the American dream.

It is what led my father, a millwright and a mechanic, to believe that his son could do just about anything if, as he said, you go through the doors of the schoolhouse and you work hard.

Today, however, young Americans and their families worry about whether, in this postrecession economy, there will be the same kinds of opportunities for this generation. And their concerns are not unfounded. Graduating in a bad economy can negatively impact graduates' income for many years to come, a statistic that is all the more alarming in an era of exploding student loan debt.

A recent failure to pass relief for those striving to pay off student debt has left young people continuing to struggle under high interest rates without necessarily being able to find the good, middle-class jobs they were counting on. Workers under the age of 25 have unemployment rates slightly over twice as high as the national average. By some estimates, including those who have given up looking for work, the rate may be over 18 percent.

The picture is not all doom and gloom. The generation that is now graduating and entering the workforce is creative and resourceful. The key is for us to create the strong economy and good jobs that will allow them to fulfill their potential. As policy makers, we owe it to young Americans to hear their concerns and seek to develop policies that will better empower them to succeed, and when they succeed, our whole economy does better.

We have with us today a panel of experts who will discuss the economic challenges facing young Americans and their impact on the economy as a whole. So I am delighted to have all of you with us today. Would you like to make any opening statement, Senator Warren?

STATEMENT OF SENATOR ELIZABETH WARREN

Senator WARREN. Thank you very much, Mr. Chairman. The only thing I would add to what you say is that young people do everything they are supposed to do. They go out, they get an education, they try to hold their expenses down and their loan debts down, but at the end of the day when they graduate, they have to count on a robust economy and an opportunity to earn a living and pay back their debt.

The policies we make here in Washington really can be the difference between success and just getting crushed. We will make decisions here in Washington that will determine how much college costs in terms of the student loans, what happens to the rising cost of college, but also the kind of economy that young people enter and what kind of opportunities they will have.

So I am particularly pleased that you called this hearing, Mr. Chairman, and it will give us an opportunity to think about these issues in a systematic way what it means for each wave of young people who graduate from college, what kind of opportunities they face, what kind of difficulties they face, and how it is here in Washington. We should be shaping policy to create a fighting chance for everyone. Thank you.

Chairman MERKLEY. Our hearing today is titled “Dreams Deferred: Young Workers and Recent Graduates in the U.S. Economy”. And to help address these questions, we have four terrific experts. I will go ahead and introduce all of you and then ask each of you to give your testimony.

Emma Kallaway is Executive Director of the Oregon Student Association, a statewide student-led advocacy nonprofit which was established in 1975 to represent, serve, and protect the interests of students in postsecondary education in Oregon. Ms. Kallaway holds a B.A. in business administration from the University of Oregon where she served as President of the Associated Students of the University and OSA Board of Directors Chair.

Rory O’Sullivan is Deputy Director at Young Invincibles, an organization dedicated to giving young adults a stronger voice and expanding economic opportunity, focusing on employment, higher education, and health care. He holds a Bachelor’s degree in philosophy, politics, and economics from Pomona College and a joint J.D./ Master’s in public policy from Georgetown.

Dr. Heidi Shierholz is an economist at the Economic Policy Institute. She holds a B.A. in mathematics from Grinnell College, an M.S. in statistics from Iowa State University, and a Ph.D. in economics from the University of Michigan. She has researched and spoken widely on the economy and economic policy as it affects middle- and low-income families.

Dr. Keith Hall is a Senior Research Fellow at the Mercatus Center at George Mason University. He received his B.A. from the University of Virginia and his Ph.D. in economics from Purdue. Dr. Hall has a distinguished career in public service and academia, including service as the 13th Commissioner of the Bureau of Labor

Statistics and as Chief Economist for the White House Council of Economic Advisors.

I would like each of you to try to hold your testimony to about 5 minutes and then we will turn to questions and dialogs. Ms. Kallaway.

STATEMENT OF EMMA KALLAWAY, EXECUTIVE DIRECTOR, OREGON STUDENT ASSOCIATION

Ms. KALLAWAY. Good afternoon, Members of the Committee. My name is Emma Kallaway. I graduated from the University of Oregon in 2010. I am the Executive Director of the Oregon Student Association. Our nonprofit represents about 120,000 students across the State of Oregon. Our organization fights for a more affordable and accessible postsecondary education. And we also engage students in one of the largest voter registration drives in the country.

Today I would like to share with you the financial impacts that student loan debt has had on my life and students across Oregon. During my time at the University of Oregon, tuition went up 50 percent. Even with academic scholarships, working two jobs, taking classes full-time, I still left school with $25,000 in student loan debt. I pay $200 a month. I bring in about $2,000 a month in income after taxes. I have very little discretionary income and it is nearly impossible for me to save for my future.

My story is the story of thousands of young people across the United States. My degree is in business administration, I graduated with honors, I served as student body president. On paper, it looked like I was on a solid path to employment and prosperity.

It was not until my second year out of college that I was faced with the economic impacts of student debt. In 2012, I needed to fix my car. I realized I did not have enough flexible income to pay off my car, maintain it, as well as pay my student loans that month. I borrowed more money, went into further debt, and without the help of my family, I would not have stayed afloat.

Another awful reality for many young Americans is going into student loan delinquency. For me, what sent me into delinquency was not my car repair; it was when the Federal Government sold my loans to Sallie Mae. That month I had already sent my check to the U.S. Government and in the process of selling my loans, my check was not forwarded to Sallie Mae.

It took me about 6 months to figure out how to get out of delinquency, where I was supposed to be sending my checks, how much the checks were supposed to be for. This negatively impacted my credit score, which has taken a great amount of work to correct.

Others often ask me why I have not moved to income-based repayment. I tell them, first, that I did not know that was an option for about 2 years out of college, and secondarily, that I do not necessarily trust the Government's current system to support me through that process and keep a good credit score at the same time.

The reason that we are here today is to discuss how student loan debt impacts, specifically, housing. My student loans harshly impact my financial mobility. Once I graduated, got through delinquency, started making regular payments again, and got a raise, I looked into some of the options that would allow me to improve my financial security.

In Portland where I live in a low-income neighborhood, there are grants and programs for young women who want to own their own condo or house. I meet all the criteria necessary. I have good credit, I have a little savings, I have minimal expenses, I am low-income, and I do not have credit card debt.

I went through the whole process and I was told I was an ideal candidate, but that my debt-to-income ratio was too high. My student loans are my only debt. I pay rent each month now and I could be paying off a small condo and creating security for my future. But my student loans keep me from that option.

Student loan is crushing the American dream that higher education was meant to foster. Young Americans are drowning in student loan debt and we do not really—we do not just face dreams deferred, we face dreams that are destroyed. And when I think about how student loan severs the options of so many tenacious young people, I think about one colleague in particular.

This young woman started at a community college and is now about $20,000 in debt. She left out of necessity to pay off private loans. She did not want to leave school. Then an unexpected expense in her life created a default on her loan that sent her into a collection agency and eventually wage garnishment, leaving her on that edge.

This woman is smart, she is Native American, she can juggle the mentorship of 13 community college campus leadership centers, and she would prefer to be in school. But she cannot work toward that degree because tuition is too high and her debt load is too great.

And I work with another student who is a current student. She is very passionate. She works with mentor LGBT youth and lobbies our State legislature on behalf of students who deserve a more affordable education. But this student will not be working with us anymore because she needs to pick up an extra job to cover her increased costs.

She grew up in the foster care system in central Oregon. She was homeless for a time. She needs to spend time in college building trusting relationships and networking with an organization like us, but she will not be doing that. And she looked at me and cried just this past weekend. She said, I am done with my sophomore year, I have $15,000 in debt, I will have $40,000 in debt by the time I am done, and I am just not sure this is worth it.

And she would be a great social worker. She is one of the people that has the experience and the intelligence and the tenacity to be great in that field, but she probably should not spend 20 years paying back $400 in loans per month and making $40,000 a year.

I hear a lot of push-back to stories like these and I will just close by saying that anyone who thinks these stories are the minority, frankly, insults the level to which this crisis, the student loan debt crisis in this country has risen. Debt relief is only part of the solution. Our Federal and State governments should be reinvesting in education, capping tuition prices so that this wound stops growing.

And we should be creating policy at the Federal Government that limits administrative bloat and further makes education more affordable. The concerns and challenges that are facing my generation are pretty broad, but one that is clear for most of us is student loan debt, and we would like to work together to find solutions. With that, I will close and I will say I am happy to take any questions and thank you for the opportunity to testify.

Chairman MERKLEY. Thank you very much for sharing your story and that of others. Mr. O'Sullivan.

STATEMENT OF RORY O'SULLIVAN, DEPUTY DIRECTOR, YOUNG INVINCIBLES

Mr. O'SULLIVAN. Good afternoon, Chairman Merkley. Thank you very much for the opportunity to testify before you today about issues that are critical to young workers and the U.S. economy. I am grateful to represent Young Invincibles. We are a national nonprofit organization dedicated to expanding economic opportunity for young adults across the country, and committed to identifying economic solutions that work for our generation.

I would like to add one more story to the many compelling ones that Emma shared of a man named Dustin

Taylor who grew up in Washington, DC. He is 33 years old and is burdened by $50,000 in student loan debt. Now, Dustin is another example of a young person who worked hard, did things the right way, got a Bachelor's degree, got a Master's degree, in fact, from Johns Hopkins University, but is now stuck waiting tables at a comedy club to pay the rent.

Dustin did all the things the right way, but because of the economic challenges facing young people, has struggled to get ahead despite his effort, and I think—we think that it really exemplifies, or Dustin's story really exemplifies a lot of the challenges that our generation is facing.

If you can think, just one-third of young people out there actually have even a Bachelor's degree, young people without a Bachelor's degree or a 2-year degree are struggling even more than those with more education. And there is really three points that I would like to make to you today about some of the major trends that we are seeing with young people in the economy as well as some of the policy solutions that are out there. We think that we can get our generation back on track.

So the first one to realize is that we are seeing both short-term and long-term challenges right now. I think everyone is well-aware that the Great Recession really dealt a blow to young adults more than anyone else, and unemployment rates for young people ages 18 to 29 are still in double digits several years after the recession officially ended.

But this is not the whole story. In fact, for younger workers, unemployment rates are much, much higher, and particularly for young workers of color. So just last month, in May of 2014, African Americans ages 16 to 24 were facing a stunning 23.8 percent unemployment rate. But it gets even worse than that and the reason is that we are seeing these problems that have been building for quite some time that have been massed by the onset of the Great Recession.

The Congressional Research Service did a study and they found that about 60 percent, so about six in ten, young adults ages 16 to 24 back in year 2000 had some kind of job at all. And then when you take a look at the chart, you realize that that number starts to fall pretty dramatically during the dot-com crash and it never really recovers in the decade leading up to the Great Recession and then it falls off a cliff.

So today, well under half, only 46 percent of young people ages 16 to 24 have any kind of job, 14 percentage points lower than it was just over a decade ago. So there are just a lot fewer job opportunities out there for the young people that are not even captured in the unemployment rate, and we think the longer trend that is driving that is that there is just more skill and education that you need to get that first foothold in the labor force than you ever have. It is that much harder for our generation to just get ahead.

And this brings me to the second key point, is that even as it is more important than it has ever been to get some kind of credential after high school, whether it is a 2-year or a 4-year degree, it is getting that much harder because of the rising cost of college and skyrocketing student loan debt.

We know that public college tuition, on average, has tripled since 1981, accounting for inflation, and this is a big reason why you are seeing skyrocketing student loan debt of $1.2 trillion. Another big contributor to that is that States have cut their budgets—all but two, in fact, did—during the Great Recession that has put more emphasis on students and families that take out student loans to be able to finance higher education.

While this certainly has a big impact on individuals, if we do not fix this problem we are all going to pay for it in the long run. The Young Invincibles did a report just a few months ago where we calculated what the cost is to State and Federal budgets of having so many young people out of work at one time, and we figured out that we are losing $25 billion a year, almost entirely in tax revenue, because of extreme levels of youth unemployment. So we are all really in this together and we all have a stake in this problem.

Briefly, I would just like to close on the third major point about a lot of the opportunities that are out there, there really are a number of initiatives that Congress could take to give our generation a hand-up and help get back on track. Obviously, protecting Pell grants is a core foundation of Federal financial aid. It helps make tuition affordable for millions of young people out there and that should be a huge priority.

Incentivizing States to up the investment they make and hold down college tuition is another big opportunity that Congress could take in the Higher Education Act re-authorization hopefully coming up this year that we think could have a big effect. Obviously, as Senator Warren has taken a big leadership role on, making sure that borrowers who currently have that debt can afford their monthly payments is a huge priority as well.

And then finally, I would just close. There are—you know, you do not have to get a 4-year degree to be successful. There are lots of credentials in 2-year degrees and apprenticeship opportunities that have been shown over and over again, if it is in an in-demand field, a field that is growing, it can actually lead to some very good wages. It is often cheaper on the front end for young people to afford and a lot of opportunity for Congress to invest in some of these alternative pathways that can help get our generation back to work.

So I will close there. Thank you again for having me and very much looking forward to taking your questions.

Chairman MERKLEY. Thank you very much, Mr. O'Sullivan. Dr. Shierholz.

STATEMENT OF HEIDI SHIERHOLZ, ECONOMIST, ECONOMIC POLICY INSTITUTE

Ms. SHIERHOLZ. Thank you, Chairman Merkley, Senator Warren, I appreciate the opportunity to be here today to discuss young workers. The Great Recession officially ended 5 years ago this month, but the labor market has made agonizingly slow progress toward full employment, and the slack that remains in the labor market continues to be devastating for workers of all ages.

The labor market is headed in the right direction. It is improving, but the job prospects for young workers remain dim. And I think it is important to note that there has actually been little evidence that young workers have been able to shelter in school from the labor market effects of the Great Recession. Enrollment rates are no higher now than they were before the recession hit, and before the recession, they had been increasing for decades.

Given the ongoing weakness of job opportunities, this lack of a Great Recession-induced increase in enrollment means there has been a large increase in the share of young workers who have been idled by the Great Recession. They are neither employed nor enrolled. It is sort of both paths, both key paths that you think of young people can take. A job or more school to set them up to continue preparing for their futures have been cut for a large share of young workers.

For young high school graduates, the share who are neither employed nor enrolled in college is now 17.7 percent. For young college graduates, it is 11.2 percent. These high rates of idleness of young adults represent an enormous loss of opportunities.

Another key point is that college does not necessarily protect young people from high un- and underemployment and weak competition growth. So as with basically all groups, unemployment of young graduates is generally improving—young college graduates is generally improving, but very slowly and remains very high relative to where it was in 2007.

Furthermore, many college graduates are working in jobs that do not require their college degree. And even further, the wages of young workers with a college degree, while higher than those without one, have declined dramatically since 2007 and, in fact, have not seen any growth for over a decade. A college degree is no guarantee protection against either the increasing income inequality since 2000, or today's weak demand for work to be done.

One thing, the large increase since 2007 in un- and underunemployment of young college grads tells us is that today's unemployment crisis is not being caused by workers lacking the right education or skills. There are a huge number of newly minted college grads, even many with stem degrees that employers simply do not need.

What this says is that unemployment among young workers is not about them not having the right credentials. It stems from weak demand for goods and services which makes it unnecessary for employers to significantly ramp up hiring.

Another key point that others have mentioned is that graduating in a bad economy has long-lasting economic consequences. Research shows that entering the labor market in a severe downturn can lead to reduced earnings for the next 10 to 15 years. This means that because of their unlucky timing, through no fault of their own, the cohorts entering the labor market after 2007 will likely face at least another decade of weak labor market outcomes.

Furthermore, the effects of the Great Recession have meant that more young people are strapped with greater student debt. Between 2007 and 2012, median family income dropped 8.4 percent, which likely means more dependence on loans to cover the cost of education. Additionally, there was a huge loss of wealth when the housing bubble burst, making many parents no longer able to take out home equity loans to help their college-educated kids pay for college.

At the same time, higher education costs increased to make up for funding cuts during the downturn. For example, between 2007 and 2012, State appropriations for higher education per student fell by 27.7 percent. And in response, public colleges and universities have had to steeply increase tuition.

And then finally, I think it is useful to note, as others have, that the unemployment rate of workers under age 25 right now is around twice as high as the overall unemployment rate. But a key thing to note is that that is actually always true. In good times and bad, the unemployment rate of people under age 25 is about twice as high as the overall unemployment rate.

What that means is that the unemployment of young workers is extremely high today, not because of something about the current economy that is hurting them in particular, but because young workers always have unemployment rates substantially higher than the overall unemployment rate, and this happens to be the longest and most severe downturn that this country has experienced in three generations.

So what that means is that one thing that will quickly bring down the unemployment rate of young workers is strong job growth overall. The reason that is not happening right now is actually really simple: Employers have not seen demand for their goods and services pick up in a way that would require them to bring on additional workers.

Employers are smart. They will hire exactly when they see demand for their stuff, pick up in a way that would require them to have more people. So to help young workers, policy makers should focus on policies that will generate demand for U.S. goods and services. In the current moment with interest rates near zero, these are policies such as fiscal relief to States, substantial additional investment in infrastructure, expanded safety net measures, and direct job creation programs in communities particularly hard hit by unemployment.

To give young people a fighting chance as they enter the labor market during the aftermath of the Great Recession, a key thing we should be focusing on is boosting demand.

Chairman MERKLEY. Thank you very much. Dr. Hall.

STATEMENT OF KEITH HALL, SENIOR RESEARCH FELLOW, MERCATUS CENTER AT GEORGE MASON UNIVERSITY

Mr. HALL. Chairman Merkley, Ranking Member Heller, and Members of the Committee, thank you for the opportunity to discuss the economic conditions facing young workers and recent graduates. The Great Recession officially ended 5 years ago this month. Unfortunately, since the end of the recession, we have seen one of the weakest economic recoveries on record.

This morning's GDP release was an unfortunate reminder, as we just found out that GDP declined by 2.9 percent in the first quarter of this year, a bigger decline than at the start of the Great Recession, in the first quarter of 2008. Unless growth recovers and job creation improves significantly, we are years away from a full labor market recovery.

For youth, there has been essentially no improvement in the labor market over the past 5 years. Today the employment rate for those aged 18 to 29 is just 63.9 percent. This is actually lower, much lower than it was at the end of the recession. Not the beginning, but at the end of the recession. It is lower than that. To fully recover, we need an additional $3 million new jobs for the young.

I want to talk about three things briefly today in my testimony. First, I want to talk about the importance of stronger economic growth. The labor market problems that youth face do not primarily stem from a lack of education or inadequate skills. Although wage growth has been inadequate and many working youth are underemployed relative to their job skills, their number one problem remains a lack of jobs. The lack of jobs, the inadequate wage growth, and significant underemployment have all resulted from inadequate economic growth.

Second, I want to talk about disengagement from the labor force. The unprecedented disengagement that we have seen from the labor force is the biggest ongoing economic challenge that we face today. Labor force participation is at its lowest level in 35 years and it is not just baby boomers. The youth are a major part of this.

I believe that we cannot have robust economic growth and maintain our standard of living without getting millions of workers back into the labor force. If youth in particular do not reenter the labor force soon, we may wind up with a permanently smaller workforce and a lower standard of living in the future.

Third, I want to talk about economic policy in the young. We need to consider the impact of any economic policy change on the young, particularly the millions that have never worked, because labor markets discriminate against those who have no work experience, and policies that raise the cost of hiring to businesses are particularly counterproductive to youth employment.

This also goes for policies that incentivize those who have dropped out of the labor force to remain disengaged. As the Congressional Budget Office and others have estimated, the impact of things like raising the minimum wage and implementing the Affordable Care Act may push millions out of the labor force.

The labor market situation in the young will never be back to where it should be without stronger economic growth and stronger job growth. The young are always far more affected by an employment crisis than older workers. Improved labor market performance by the young cannot happen without a stronger labor market.

The large number of long-term unemployed, including many who have never worked, remains historically high and is unlikely to improve significantly without stronger job creation. Today, just 63.9 percent of youth are employed and job prospects remain so bad that many have withdrawn from the labor force and do not even show up in the official unemployment rate statistics.

This decline in participation since 2007 means that there are about 2 million young workers, young workers, missing from the labor force. If not left uncounted in the official unemployment rate—and they probably should be counted this way—but if they were not left out of the unemployment rate, these 2 million would raise the youth unemployment rate from its current 10.9 percent to 15.4 percent, well above their highest rate in over 65 years.

It is well-established that the longer an individual is not—is out of the labor force, the less likely they are to return to employment, or in this case, ever enter the workforce. Currently 1.2 million of the unemployed are trying to find work for the first time in their lives. Worse, a shocking 400,000 of the long-term unemployed have never worked before.

If the labor market does not improve and many of the long-term jobless youth do not enter the workforce soon, they may never work. This youth disengagement from the labor force poses a real problem and not just for the young, but for the future performance of the U.S. economy. A permanently small workforce would impact economic growth, income growth, possibly even lower our future standard of living.

Economic forecasters have, for years, predicted a slowing of the U.S. economic growth as baby boomers retire. If youth labor force participation does not improve and take up the slack when baby boomers retire, the forecast of declining growth will be even more dramatic.

The solution for youth, of course, must, of course, include stronger economic growth and a stronger labor market. While a stronger economy is necessary, it may not be sufficient to achieve a full labor market recovery for the young, because besides just generally good economic policy, I do support the idea of focusing some policy attention on the young and on the long-term unemployed, and this is for two reasons.

If youth participation in the labor force remains low, we are in danger of having a large number of young that will never work. And second, there is plenty of evidence that those unlucky enough to be graduating into a poor labor market, but lucky enough to have work of some sort in the past have experienced lower earnings for a decade or longer.

If this happens again with this generation, they will have lower levels of income, lower levels of spending, lower home ownership, and be less prepared when retirement comes.

Chairman MERKLEY. Thank you all very much for your testimony and touching on so many points that our youth are facing. As you were talking, it sounds like the perfect storm in a way, a recession that has eliminated many living wage jobs, that reduced the ability of parents to help pay for college, that reduced State support for schools so schools start charging more tuition.

So therefore, not only does student debt start out as a substantial source of the way to pay for college, but it increases as a result of the fact that tuition is higher and parent support is lower. Then to come out of that situation and face low job prospects or modest wages is certainly a challenge.

Emma, I want to start with your story. You noted that income-based repayment was not a solution, in part, because you were concerned it might hit your credit score. It was not a new thought for—I had not heard that expressed before. But I wanted to ask a broader question about income-based repayment.

There is a concept that a group of students proposed in Oregon called Pay it Forward, which is a form of income-based repayment. It basically says, instead of a loan, you get a grant, but in exchange for the grant, you make a commitment to contribute to a fund for the next generation, and the amount you contribute is a percentage of your future earnings. Therefore, it is very similar to adjusting your loan payments based on your income.

The thing that strikes me about that is that it relieves the anxiety of being trapped, the potential of being trapped by high monthly loan payments and modest wages, the very trap that so many find themselves in right now.

That anxiety seems to be based on—it is not a groundless fear. It is a fear well-grounded in the real impact or structure of our economy right now. But not only does it affect students when they come out of school, it affects the aspirations of students who are enroute to, say, higher education who are pondering whether or not they should pursue that course. And one of you shared a story about that.

So let me start here and I will ask each of you to respond. Does expanding an income-based repayment structure where loans are, the monthly payments are adjusted downwards if your future income is low, or a pay it forward grant concept, does that hold some promise for addressing the concerns over this student loan debt trap?

Ms. KALLAWAY. I am happy to start, Senator.

Chairman MERKLEY. Thank you.

Ms. KALLAWAY. We worked on the Pay it Forward program in Oregon and I think that—I think it is one of a few good, short-term options. I think that the biggest trap is the debt-to-income ratio that leaves students from being able to take out car loans, being able to make other purchases, and especially related to housing.

That debt-to-income ratio is the biggest impact. So a pay it forward grant type system would possibly circumvent that. It depends on how you write the policy, and, of course, that is being discussed. I personally do not think that that is the long-term solution. I think that more affordable education—and this is what students in Oregon will tell you—that more affordable education up front is what is right, that we should stop making money off of Federal student loans.

It should not be a form of income for the Federal Government. And that more affordable education allows for students to pursue graduate degrees, to pursue further education, to move quickly into fields that are right for them, as opposed to ones that are the highest paying.

Right now we have students who are choosing not to become social workers and firefighters and nurses because their debt-to-income ratio will just be too high. And so, I think that we need to focus on making education more affordable, not just find a way to pay for expensive education.

Chairman MERKLEY. Thank you. Anyone else want to jump into that conversation?

Mr. O'SULLIVAN. Yeah, I would love to jump in. First, just to start off, I want to thank you, Mr. Chairman. I know you have a bill that would dig deeper into these issues and start to study how the Federal Government could support some of these programs at the State level, and we appreciate your work on that.

And we also think that there are some options at the Federal level, as you noted, some opportunities to expand income-based repayment. I think Emma is absolutely right. It is not going to solve the issue of college costs. That is a separate one, but we do have the repayment challenge as well.

You know, about one in seven borrowers right now are defaulting within 3 years of when they leave school on Federal student loans, which is a pretty shocking statistic, and it goes even higher when you consider people who are delinquent on their loans. So obviously something is not working.

And we think that one of the challenges, as Emma pointed out, a lot of students, we hear, all the time are surprised to learn that there are some of these income-based repayment options and that in a lot of cases, the flexibility of paying back based on your income would help a lot more borrowers than automatically putting them in a 10-year standard plan that assumes that they do not graduate during a recession, that they get a good job, you know, within 6 months of leaving school, and never have anything happen in life that would make them lose that job.

And so, we actually at Young Invincibles would support, with some adjustments to the formula, putting everyone into an income-based repayment plan at the Federal level, including making sure that we have the right safeguards in place so that we take care of any unintended consequences, but think that would be a much more flexible system actually than the one that we currently have.

Chairman MERKLEY. Do you believe that that would have an impact on the inspirations of students in high schools?

Mr. O'SULLIVAN. We do and there is actually some really limited research on this, the few people that know about this. There is a study that came out on some changes that we have made to repayment programs and comparing it to changes in interest rates, and found out that—or the theory is, at least, if you tell students, Look, no matter what, when you come out of school, you are going to be able to afford your loans, and we make an adjustment to make sure that you can do that to your repayment plan that actually increases college access more than, you know, changing interest rates and things like that—on the front end, I should say. So I think that your instincts are right, Mr. Chairman, that it could communicate a message that actually encourages more people to attend school.

Chairman MERKLEY. I will just expand on this a little bit. I live in a working class community and in that sense, as your kids participate in sports and so forth, you are talk with a lot of parents and hear what other students are thinking. I have heard a number of parents say, I am not sure I should encourage my son or daughter to go to college because I do not want them to suffer from debt the size of a home mortgage. They may never escape that.

That sentiment crushes aspirations because students who absorb that lesson, it is the opposite of what I heard from my working class father which was, Go through those school doors and work hard. There is an opportunity to do—basically pursue anything in America. That is the vision our young folks should have and what we are sorely missing. Dr. Shierholz.

Ms. SHIERHOLZ. I will just be quick. I think along those exact same lines, when students decide to go to college and they are making this big investment in time and money and work, they are—I mean, work in college—they are entering into kind of a contract that they are going to do all of this and then on the other end there is going to be a job there that will let them pay off those loans and it will be worth it.

So an income-based repayment plan shares the risk. It means if you are unlucky on the other side, if you happen to enter during a recession, that it will not—that there is something about that contract that still gets upheld. So I think it is an excellent idea and should be expanded.

Chairman MERKLEY. And it seems like it has, perhaps, a different impact if people know early on that that might be an option versus just something they later discover, Oh, maybe I can—now I am trapped. Can I reduce my payments, in terms of the aspirations of students.

Mr. HALL. You know, I do not want to dismiss the problems of student debt and high rising tuition. It is a real problem. But keep in mind that these are symptoms of a disease. The disease itself is a lack of job growth. All right? The reason for students to go get these loans is because they anticipated that they would get jobs, that they would have a reasonable labor market to move into.

And until you solve this labor market problem and get the young reengaged back in the labor force and get hiring going again, this problem is not going to go away. You are going to have this continuing symptom.

Chairman MERKLEY. A point taken, and one of the things we have seen is that in the last recession, 60 percent of the jobs we lost were living wage jobs and only 40 percent of the jobs we got back were living wage jobs. So even though we have gotten—we are now back up to about the number of jobs we had before the 2008 crash. A lot of them are minimum wage jobs, near minimum wage, low to no benefits, part-time, and not a solid foundation for raising a family or, for that matter, for paying down your student loans.

But this point, and I may have been mispronouncing your name, Dr. Shierholz?

Ms. SHIERHOLZ. Yes.

Chairman MERKLEY. Got it. OK, great. You talked about how demand drives the economy, and we have had these competing theories of, Well, if the money goes to those at the very top, they will be the job creators and they will create jobs. I feel like if that were true, we would have all the jobs we could possibly want right now since that is where an enormous concentration is, at the very top.

Your point was, companies are not going to crank up manufacturing or services if there is not the demand, and that there is kind of a downward cycle, the opposite of what we saw after World War II. World War II, we had increasing consumer demand, employment cranked up, increased consumer demand per cycle.

And so, Dr. Hall, you are also weighing in on this core challenge, which is probably broader than the context of this hearing, but very—because it affects not just the young out of college. I mean, it is affecting our whole society, but very, very relevant and lots that we need to be concerned about, because no Government program can compare to the value of a good living wage job.

So let us turn to home ownership. You mentioned, Ms. Kallaway, from your personal story that you sought to buy a home, but as you put it, the debt-to-income ratio did not allow it. So we are seeing a delay in home ownership. And so, this is a hidden factor that will affect the wealth of an entire generation, because when folks become home owners early, their equity increases over time as they pay down their loan. Their house improves in value, and that becomes, for many, many middle class families, a major source of savings.

But if people delay home ownership, you buy it at a higher price, you pay it down later. That affects all of that. Do any of you want to speak to kind of the statistics in which we are seeing lower rates of home ownership, in part, because of the burden on the—well, one, the lack of living wage jobs for students combined with the student debt?

Mr. O'SULLIVAN. I would be more than happy to, and do appreciate the question. I think one of the more shocking trends that we have seen, it used to be that if you had student loan debt, you were actually more likely to own a home than folks who did that not and that was because—you were more likely to have gone to college and, you know, had the wage or being able to command the wage that would enable you to afford a house. And that, the Federal Reserve, has recently shown has now switched and you can just see the chart. It is pretty shocking.

Now people who are age 30 who have student loan debt are actually less likely to own a home than people who do not, and a pretty significant difference, I think, speaks exactly to your point, that we would expect to see some major economic consequences as a result.

Ms. SHIERHOLZ. I can add just on the statistics front. There is a paper by researchers at the New York Fed who show that with the rise of student loan debt and the rise in delinquency, that that has been associated with a decrease in mortgage borrowing. So they are suggesting that there has indeed been some crowd-out of mortgage—of other investments by young people due to rising student debt.

Mr. HALL. I can tell you a little bit about the statistics on home ownership. First of all, according to the Federal Reserve, when the recession hit between 2007 and 2010, for those aged 35 and under, they lost 41 percent of their wealth over that time period. It was a huge wealth hit for the young.

And what we have got right now is for those 35 and under, we have the lowest home ownership rate ever recorded since—and they have been keeping this data since 1994. So it is probably the lowest home ownership rate for the young ever. And that is clearly a consequence of wealth loss and then, of course, the poorly functioning labor market.

Chairman MERKLEY. So, because—I apologize that we started late because of the votes scheduled this afternoon. I am going to turn this over to Senator Warren, but we both have an event coming up in the very near future, so keep your answers crisp for her so she can cover as much territory as possible. I am going to close my participation now just by saying thank you so much. We are just scratching the surface of this.

We have a big turn-out of young adults in the audience. How many of you have student loan debt that you are concerned about paying off?

[Hands of audience raised.]

Chairman MERKLEY. Yeah, yeah. This is affecting an entire generation, this is very relevant, and we are going to continue this conversation because these issues are not going away. There is no silver bullet or short-term fix and we are going to have to keep striving. One of the individuals who is really helping push the U.S. Senate to address this, and particularly to take on the high cost of student loans, is my colleague, Senator Warren.

Senator WARREN [Presiding]. So thank you very much, Mr. Chairman. I apologize as well. The schedule has just gotten torn up today, and so we are kind of stacking events here.

So let me start with this: Several of you have highlighted the impact of student loan debt on young workers and the fact that data is starting to show, studies are starting to show that the mountain of student loan debt is keeping young people from moving out on their own, from buying houses, from starting businesses, and helping our economy grow.

Recent graduates are the hardest hit. Not only do they have record-breaking debt levels, they also graduated into a weak economic labor market, and so they get hit with high unemployment and low wages. Now, Dr. Shierholz, you already noted that economists predict that this is not a short-term problem, that these young graduates will feel the financial effects for a very long time to come.

So the question I want to ask and what I want to be sure that we get on the record here is, if a generation of young Americans is launching their careers later, facing lower wages, and struggling to keep up with student debt payments, what is the impact on the economy as a whole? Dr. Shierholz, could I start with you?

Ms. SHIERHOLZ. Sure. So the impact on them themselves is obvious. You have this reduced——

Senator WARREN. Right.

Ms. SHIERHOLZ. ——earnings for 10 to 15 years. But what that means is you are having people that are not working up to their potential. That reduced earnings for 10 to 15 years becomes, because of greater employment instability, people not being on the trajectory that maximizes what they do well and what they want to do.

So you are having people who are not working up to their potential and that is a drag on the larger economy. So you are just operating below potential when you have a cohort of people who have not gotten the job opportunities that they would have gotten if they had entered during a boom time.

Senator WARREN. That is right. Dr. Hall, would you like to add anything to this?

Mr. HALL. Sure. All the problems of the young are real and they are there.

Senator WARREN. I am sorry to hear that.

Mr. HALL. Yeah. I know I am just reiterating things, but——

Senator WARREN. No, but it is important that we get it out there. It is fine.

Mr. HALL. But it does stem from a poorly functioning economy. And the young are not alone. I think I mentioned there are about 3 million young missing from the labor force. There are probably 4.5, 5 million people overall missing from the labor force who ought to be in the labor force right now. So the participation rate is very low.

And you are just not going to get the sort of wage growth and sort of job progression that you would like to see with the young in a bad labor market. I will give you a really good example. Every couple of years, the Bureau of Labor Statistics and the Congressional Budget Office, they forecast jobs by industry, by occupation.

One of the things that they found is two-thirds of job creation are replacement jobs. There are people who are moving on in their career, moving on to retirement. So most jobs created for the young are people moving along a sort of career ladder. One of the things we have yet to see in this economy is the quit rate. It is still very, very low.

So people are not quitting jobs they would normally quit to move on in their careers. In a sense, you have got this career ladder that is all getting all backed up because older workers have stopped moving and middle-aged workers have stopped moving and everybody has stopped moving, and the young are sort of getting the second hit in terms of movement through a career.

Senator WARREN. Right. But as we talk about the impact on the overall economy, there is a question about whether this weak labor force participation and low wage jobs is cause or effect or if it is both. That is, people who do not have jobs do not drive up demand. They do not buy as many things, they do not start their own households, they do not need to get out and shop.

And if there is no demand, then there is no reason to hire extra workers. And if you have not hired extra workers, then there are fewer workers with jobs to drive up demand. So it sounds like to me what we are talking about here is we are talking about a spiral that slowly, over time, keeps going further down. Is that a fair description, Dr. Hall?

Mr. HALL. Oh, I think it is, I think it is. And the reason I said the biggest problem we face, I think, the whole economy is labor force participation, because I think labor force participation is low enough now that we have to wonder if we can have strong economic growth with this level of participation in the labor force if we do not get people back in participating in the labor force and getting some more job creation.

Senator WARREN. So let us talk then, let us just connect it up a little bit. To the extent you have got high student loan debt loads and those students are paying high interest rates on those loans, is the Government exacerbating the problem? Is it making it worse by collecting more from these students who are already in difficult circumstances, and therefore, cannot spend the money in stores creating demand?

Mr. HALL. That actually might be the case, and if you are going to think about student loans in the future, you might think about the notion that sometimes student loans occur in bad times and you need to make some adjustments for that. You need to think that in a sense, you have given a loan to somebody who anticipates a better labor market than they are going to have and you need to think about how you are going to recover from that.

Senator WARREN. OK. And Dr. Shierholz, would you like to add to that?

Ms. SHIERHOLZ. Yeah, just a quick thing. So when you are thinking about the impact of debt, you want to think about not just the debt, but also income, in other words, people's ability to repay. And so, that is where the backdrop of job opportunities and wages really matter. When you enter into a labor market like this where job opportunities are so weak, your ability to repay that loan is not going to be what it would be if the job opportunities were strong.

Senator WARREN. So I apologize, but I have just been handed three notes in a row that we are going to have to wrap up here, that we have all been called somewhere else. But I want to thank you all for coming. I want to thank you for highlighting, once again, the importance of dealing with student loan debt, the importance of thinking about, in a systematic way, what we are doing to young people economically in this country by driving up the cost of college, by loading them up heavier with debt, and then by producing this very weak economy where it is hard for them to get their economic footing.

At least part of this we know how to solve. We can bring down the interest rate on student loans, put more money into students' pockets, let them get out and spend a little more money, which could help that economy go in another direction. This is about the choices we are going to make as a country, whether or not we are going to keep loopholes open for billionaires or whether it makes more economic sense to spend that same money to bring down the interest rate on student loans.

I appreciate your being here today. I am sorry that we have got to clip this and make it short. But as I said, the schedule got a little tangled up and we are all being pulled away.

We will hold the record open for 7 days, so there may be additional questions which I hope you will be able to answer as promptly as possible and we will get them into the record. And again, thank you very much for being here. This hearing is closed. Thank you.

[Whereupon, at 4:28 p.m., the hearing was adjourned.]

[Prepared statements and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR DEAN HELLER

Thank you, Chairman Merkley, for holding this hearing today.

As a father of four, all of my children have experienced college, and my youngest began last fall. I know firsthand the financial burdens on students and the difficult job market our youth is currently facing.

Having the proper education or skills set is a key to success in this country. During these tough economic times, Americans find it increasingly difficult to pay for college, and graduates find themselves burdened with high levels of debt.

The unemployment rate for 16–24 years olds is twice as high at the national unemployment rate, and in one survey, 63 percent of young adults felt the American Dream is impossible for them to achieve.

Mr. Chairman, the best way to help the youth in this country is to create jobs. While the solution is so obvious, this Administration continues to push a job killing agenda. Washington, DC, is broken and has failed not only the graduating classes of 2014, but all the graduates in this recession.

Young Nevadans are frustrated, and they want Washington to start enacting policies that will instill confidence in hard-working people all across this great Nation. It is not too late to foster an economic recovery that will restore confidence back into our youth so they can achieve their goals of having a good paying job, buying a home, and building their savings.

Mr. Chairman, last year I was pleased to work with my colleagues to find a long-term solution to lower student loan interest rates by supporting the bipartisan Student Loan Certainty Act. This law lowered rates for all students from 6.8 percent to 3.86 percent for the coming year by tying student loan rates to the 10-year Treasury note. It would be my hope that instead of partisan posturing, a real bipartisan debate on how to address student debt could occur.

I want to thank all of our witnesses for attending today's hearing and look forward to their testimonies. I am hopeful that our witnesses will not only assess the current issues our youth are facing but also offer reasonable proposals on how we can solve our current problems.

Thank you Mr. Chairman.

PREPARED STATEMENT OF EMMA KALLAWAY

EXECUTIVE DIRECTOR, OREGON STUDENT ASSOCIATION

JUNE 25, 2014

Good afternoon Members of the Committee, my name is Emma Kallaway. I graduated from the University of Oregon in 2010 with $25,000 in student loan debt. I am the Executive Director of a nonprofit in Oregon called the Oregon Student Association. OSA represents more than 120,000 college students across the State. Each student pays dues into this statewide organization fighting for a more affordable postsecondary education. We focus on the leadership development of Student Body Presidents and new student leaders who advocate for affordable tuition, increased financial aid, limited administrative bloat, and other cost cutting measures.

Today I would like to share with you the financial impacts that student loan debt has had on my life and what affordable education advocacy looks like for students in Oregon.

My education has always been colored by my diagnosed dyslexia. When I wanted to go to college there was only one teacher who thought I could go and only one school on the west coast that could support my seemingly impossible desire for a college degree. Luckily, the University of Oregon has one of the top disability services programs in the country.

During my tenure at the University of Oregon, tuition went up at least 50 percent for in-State students. Out of State students saw an even greater and unforeseeable increase. I received academic scholarships, worked two jobs on campus, and took classes full time. Still I left school with $25,000 in debt. I pay $200 a month in student loans and I bring in $2,000 a month in income after taxes. My story is pretty typical.

My degree is in business administration, I graduated with honors, and served as Student Body President my senior year. On paper it looked like I was on a solid path to employment. I chose a career in the nonprofit sector because I could gain considerable responsibility and a quick path to management. I accepted the lower salary in exchange for the experience I was seeking.

I grew up in a traditional Catholic home, my Ma is Italian and my Dad is Irish, culturally we don't talk about money and debt is shameful. So I didn't start talking about debt management with any of my friends until recently. It wasn't until my second year out of college that I was faced with the first negative impacts of my financial choices. In 2012, I needed to get my car fixed, many young people's first real surprise cost if you're lucky like me. I realized I didn't have enough flexible income to pay off and maintain my car, and pay my student loans that month. I borrowed more money and leaned on my family to stay afloat. I will note here that more than half of my full-time staff live with their family in multigeneration homes because their full time salary and student loan payments don't allow them money enough to pay rent and other expenses.

What is also becoming all too common is going into delinquency. What sent me into delinquency wasn't my car breaking down, it was when my Federal Government loans were sold to Sallie Mae, a private company, which notified me via postmail. Like many low-income students, I moved every 9 months in college and the fact that the letter eventually got to me was a miracle. That month I had already sent my check to the U.S. Government, which was in the process of selling my loans, and my check did not make it to Sallie Mae. It took me 6 months to figure out how to get out of delinquency and where I was supposed to be sending checks each month and for how much they were supposed to be. This negatively impacted my credit score, which I now have to work hard to improve. Others often ask me whether I would move to income based repayment and I tell them that I didn't know that was an option for years and I wouldn't trust the Government's current system to support me in keeping a good credit score in that process.

The reason we are here today is to discuss how student loan debt impacts the economy and specifically housing. My student loans impact my financial mobility. I was the first of my cousins on the Irish side to graduate from college. My dad received his degree nontraditionally while I was a kid so although my parents were amazing and went to every parent training available there was still very little experience to help me figure out school, let alone the level of unanticipated debt I would accrue.

Once I graduated, got through delinquency, started making regular payments, and got a raise, I started looking into options to improve my own financial security. In Portland, there are grants and loan programs for young women who want to own their own condo or house. I meet all the criteria necessary. I have good enough credit, I have a little savings, I have minimal expenses, I am low income and I don't have credit card debt. I went through the whole process and I was told I am an ideal candidate for these programs, but my debt to income ratio each month is too high. My student loans are my only debt. I have to pay rent each month when I could be paying off a small condo and creating security for my future, but my student loans keep me from that opportunity.

In Portland, the average home owner makes $60,000 annually. I don't see how my situation can change unless I go back to school, choose to leave public service, or move out of Oregon. I can get creative, I have family to support me, but I can feel myself constantly teetering on the edge of security and poverty.

There is a tipping point that I have narrowly escaped so far. The difference in my life when making $30,000 a year and someone making $27,000 a year is that the person making $27,000 a year in Portland, Oregon, has about $300 a month in disposable income. If you left school with about $20,000–$25,000 in debt depending on your payment plan and interest rates you will spend at least $200 of that on student loans. That means you have $100 a month for birthday gifts, a donation to the charity of your choice, to match the measly amount I can give to my church, to pay for medical expenses, to fix a car, deal with theft, etc. It doesn't mean you make it home on a $75 bus ride to see your family in central Oregon. Young people don't need things to be easier. We know that our generation has a reputation of having it easy. I think if you talk to most young people you'll find we don't want a hand out, we dream of a world where mobility is even an option.

When I think about how student loan debt severs the options of so many tenacious young people I think of one employee of the Oregon Student Association in particular. This young woman started at a community college, didn't find a clear educational path right away so she took credits she didn't need and now has part of a Russian language B.A., but no degree and more than $20,000 in debt. She left school out of necessity, not by choice. She needed to find work to live and start paying some of her private loans back. Working at OSA she makes about $26,000 a year and when she had an unexpected expense she defaulted on her loan. Without her knowledge the loan company sent her loan through a collection agency which resulted in wage garnishment. This woman is smart, she is Native American, she can juggle the mentorship of 13 campus student leadership centers, and she would prefer to be in school. She would prefer to be working towards a degree but she can't. This story is compounded by the fact that an accident this week will saddle her with considerable medical debt. When I arrived at the hospital, one of the first on the scene, I brought all her health insurance paper work with me because I knew that if we didn't get this process started she might not have any life to wake up to. Debt can cripple a person's freedom, satisfaction for life, and ability to share their professional gifts with the world. The god send of a nurse we worked with asked me what I do and she responded by saying, "I wish I didn't have $1,000 of student loan debt to pay each month, I'll never get out of this." A nurse making at most $60,000 a year and $1,000 in student loan payment means her flexible income is almost nonexistent. She is not buying a home and if anything happens to her she will be in the same boat, just trying to figure out which loan to pay first and which collection agency to dodge calls from every month.

I work with another young person, a current student; she is a very passionate young student who works with OSA to mentor other youth and lobbies our State legislature of behalf of LGBT students who deserve a more affordable education. This student won't be working with us anymore because she needs to pick up an extra job to cover her increasing costs. Her external employment and community mentorship experience were also a distraction from her studies and thus she lost her financial aid, meaning she may need to take on a third job. She grew up in foster care system in Central Oregon. She needs to spend time in college building trusting relationships and a network of people like us who could help her get through school. She is not the first or last student I will work with that will cry and say, "I am done with my sophomore year, I have $15,000 in debt, I'll have $40,000 by the time I am done and I just don't see the point." She would be a great social worker; she has the experience and the intelligence to sustain a long career in that field. But she can't spend 20 years paying back these loans at $400 a month making $40,000 a year. This student may never buy a home, she will mostly definitely not by a new car, she will never move into an income bracket that contributes State or Federal taxes that build enough to create quality public education for the future. There are long term losses to allowing tuition to rise at this level and if you think that high tuition works then you have never met students who can't pay it. And honestly as much as I believe in a college education I could not look this student in the eye and tell her education was going to be worth it. We can't guarantee that and baby boomers wonder why young people are wandering through their 20s.

Many of you might also be curious about student parents. A student parent with a child under the age of five, who are often younger parents, will pay as much as 10,000 annually for childcare. That is equivalent to paying tuition twice to provide childcare while a parent is in class. In Oregon we can barely provide 25 percent of the most needy student parents a small childcare grant.

The last story I will share is of a young woman named Alex.

What's far more important than my story are the stories of students who can't finish, those who take on debt with no degree, those first generation children of color who need more than a few good teachers to get through. Alex is a board member with OSA; she is bright, emotionally intelligent, and politically strategic. Alex is a first generation college student, raised by a single mother, and she identifies as a woman of color. OSA has a board dedicated to the needs of students of color and Alex was the chair this past year. She has close to $15,000 in debt and won't be finishing because this last year has become far too expensive to continue. Alex is going to take a job making about $30,000 a year with hopes of going to back to school, but the fact is that too few students return to school. Leaving and coming back is one of the hardest things a person can do. Once you have debt and leave school you have to start making payments. Going to school and finding a way to make those payments without full time employment is nearly impossible.

Now I have heard the pushback to stories like these. I will say that anyone who thinks these stories are the minority insults the level to which the crisis of student loan debt has risen in this country. Debt relief is only part of the solution. Our Federal and State governments should be capping tuition prices so that this wound stops growing. A young person, maybe working in an office here in D.C., who tells you their $200 student loan payment each month is a reasonable investment in their education, is only describing the payment each month. What I want you to see is that the payment is a problem as a percentage of flexible income to deal with the rest of their life. The percentage of flexible income you have is a person's ability to see a doctor, to participate in church, take a day off from work when a 2-year-old is home sick. There is a significant difference between $40,000 a year and $30,000 a year and $27,000 a year when loan payments range from $200 to $2,000 a month.

You might be thinking that income-based repayment is a great solution except that the hoops are unclear. I don't trust the Federal Government to facilitate my loans in a way that won't destroy my credit score, and income-based repayment ultimately extends the life of my loan, furthering me from financial mobility.

The answer to improving our economy and housing market is to stop making money off Federal loans. Stop treating students as a source for Federal income, fund education federally and force our States to fund our schools in such a way that drives down administrative bloat and maintains a quality education. This means sending Federal directives to our States which I hear is uncomfortable politically. This means making education a funding priority. This means finding ways to describe to the American people why a generation drowning in debt is an emergency impacting everyone. I can bring you stories but you are responsible for communicating this economic crisis. I hope today is just part of a narrative about how the U.S. Government saw the warning shots and sent a defense missile to eradicate the impending strike on our economy before the student loan bubble bursts.

I am happy to take any questions and thank you for your time.

PREPARED STATEMENT OF RORY O'SULLIVAN

DEPUTY DIRECTOR, YOUNG INVINCIBLES

JUNE 25, 2014

Chairman Merkley and Ranking Member Heller, I thank you for inviting me to testify before you today about issues central to young workers in the U.S. economy. Young Invincibles is a nonprofit organization dedicated to expanding economic opportunity for young adults, and we are committed to coming up with economic solutions that work for young people everywhere.

In our recent report on the cost of youth unemployment, *In This Together,* we profiled Jonea, a 26-year old from Maryland. Jonea had to halt her pursuit of an associate's degree because of her mother's diagnosis with breast cancer.[1] After her mother passed, she attempted to finish her degree online, but had to stop again when the costs became prohibitive. She worked at a grocery store, but has been turned away from retail jobs after being told she was either under- or over-qualified. While looking for work, she applied for unemployment benefits, but her application was lost in the system. Her story is just one example of the millions of hard-working young people who lack basic options for economic security through no fault of their own.

At Young Invincibles, we regularly hear the struggles and anxieties of young people like Jonea firsthand. Our generation entered the job market during the worst economy since the Great Depression, creating the possibility that we could be the first generation in American history to end up worse off than our parents. The numbers do not lie: the national unemployment rate has dipped down under 7 percent, but the unemployment rate for 18 to 29 year olds remains at 10.1 percent.[2] Younger workers have even fewer prospects. Young men ages 16 to 24 and young women ages 16 to 24 face unemployment rates of 14.2 percent and 12.2 percent, respectively. For young African Americans the rate is a stunning 23.8 percent. Young people experience our Nation's economic recovery very differently; it's just not working for us.

I'll begin my testimony by explaining how these challenges stem not only from the Great Recession, but also from long-term structural changes that threaten our economic prosperity. I'll then discuss how the rising cost of postsecondary education and skyrocketing student debt further hamper our economic prospects. If we do not address these issues, the long-term implications for our Nation's future are dire. Finally, I will introduce several specific reforms that work for young people and our country. I urge the Subcommittee to focus on the lived experiences of young adults as we improve the economic prospects of our generation.

The Short and Long Term Challenges

There are two essential issues confronting young workers today. First, the Great Recession disproportionally impacted young people because we are often "first fired and last hired." As mentioned above, youth unemployment has remained significantly higher than the national average even during the economic recovery, hovering in the double digits. Even for those who have secured employment, more than 40 percent of recent graduates are underemployed or need more training to get on

---

[1] Young Invincibles, "In This Together: The Hidden Cost of Young Adult Unemployment" (Washington, DC: 2014), accessed June 24, 2014, *http://younginvincibles.org/wp-content/uploads/2014/01/In-This-Together-The-Hidden-Cost-of-Young-Adult-Unemployment.pdf.*

[2] Young Invincibles, "Jobs Report Shows College Affordability Key to Fighting Unemployment", last modified June 6, 2014, *http://younginvincibles.org/jobs-report-shows-college-affordability-key-to-fighting-unemployment/*.

a career track.[3] It's significantly worse for youth of color, who face unemployment rates seemingly permanently stuck in the double digits and as high as 25 percent among African Americans.[4] Those figures also do not take into account the number of incarcerated youth of color.

Research done at Ohio State University showed that the number of young adults ages 20 to 34 who lived with their parents jumped from 17 percent in 1980, to 24 percent during the Great Recession.[5] That trend was strongest in large metropolitan areas with high living costs and high unemployment.[6] However, it would be a mistake to chalk up these figures to the lasting effects of the Great Recession. They are emblematic of a larger problem that has developed over decades.

This second challenge is created by the increasing demand for skills and educational attainment, placing young people in precarious positions. Young adults often have less skills and experience than other members of the workforce, reducing their early job prospects. In fact, the unemployment rates discussed above underestimate the problem. Another metric favored by economists to evaluate the American employment situation is employment to population ratio, which measures the proportion of individuals in a certain age group that are employed. According to the Congressional Research Service, the employment to population ratio of youth 16 to 24 years of age was 60 percent in 2000.[7] That figure eroded throughout the subsequent decade, and by 2012, it was down to 46 percent.[8] Early youth unemployment has negative effects on incomes, and young people who enter the labor market during severe downturns have relatively lower wages in the longer term.

Furthermore, young people who are less educated than their peers suffer the harshest consequences. A joint report by Demos and Young Invincibles entitled *The State of Young America* found that a young man with a high school diploma today makes 75 cents on the dollar his father made in 1980.[9] According to a 2013 report, 18 to 24 year olds without high school degrees face unemployment rates of more than 27 percent, and underemployment rates of more than 41 percent.[10] The same age cohort with only a high school degree face unemployment rates of almost 20 percent and are underemployed at roughly 35 percent.[11] The numbers for 25 to 34 year olds are marginally better, but still in the double digits.[12]

It's an oft-cited statistic, but one worth repeating: according to the Census Bureau, the difference in earning potential between a high school graduate and a college graduate is roughly $1 million.[13] Young people know the benefits of higher education, and they know that a postsecondary degree makes sense in our modern economy. However, rising college costs threaten their ability to get ahead.

Rising Colleges Costs Exacerbate the Problem

As the economy has changed, demanding more skills and educational attainment, America's higher education system has not kept up. Young people understand the essential nature of a postsecondary degree, as evidenced by a recent Fed report that showed that the benefits of a degree still outweigh the cost.[14] Aggregate numbers

---

[3] Patricia Reaney, "Youth Employment: Recent U.S. College Graduates Disillusioned, Underemployed Says Poll", *The Huffington Post,* April 30, 2014, accessed June 24, 2014, *http://www.huffingtonpost.com/2013/04/30/youth-employment-recent-us-college-graduates_n_3186651.html.*

[4] Young Invincibles, "Jobs Report Shows College Affordability Key To Fighting Unemployment".

[5] Ohio State University, "Great Recession Caused More Young Adults To Live With Parents", last modified August 2, 2012, accessed June 24, 2014, *http://artsandsciences.osu.edu/news/greatrecession.*

[6] Ibid.

[7] Adrienne L. Fernandes-Alcantara, "Youth and the Labor Force: Background and Trends" (Washington, DC: 2013), accessed June 24, 2014, *http://www.law.umaryland.edu/marshall/crsreports/crsdocuments/R42519_07112013.pdf.*

[8] Ibid.

[9] Demos and Young Invincibles, "The State of Young America: Economic Barriers to the American Dream" (New York, NY: 2011), accessed June 24, 2014, *http://www.demos.org/publication/state-young-america-databook.*

[10] Matt Bruenig, "The Horrible Youth Labor Market", April 5, 2013, accessed June 24, 2014 *http://prospect.org/article/horrible-youth-labor-market.*

[11] Ibid.

[12] Ibid.

[13] Tiffany Julian, "Work-Life Earnings and Occupation for People With a Bachelor's Degree: 2011", October, 2012, accessed June 24, 2014, *http://www.census.gov/prod/2012pubs/acsbr11-04.pdf.*

[14] Katherine Peralta, "Benefits of College Still Outweigh Costs, Study Says", *U.S. News & World Report,* June 24, 2014, accessed June 24, 2014, *http://www.usnews.com/news/articles/2014/06/24/benefits-of-college-still-outweigh-costs-fed-study-says.*

of graduates are the highest they've ever been and are projected to grow.[15] However, average public college tuition is three times higher than it was in 1980,[16] and every State but three is spending less on higher education than they were 5 years ago.[17] Students and families have made up the difference of the cost of college with mountains of debt. We're now at $1.2 trillion dollars of student debt as a Nation, and growing.[18]

$60,000 of that national student loan debt belongs to Daniel Tello, who graduated from the University of Scranton in 2008, where he got a bachelor's degree in political science. Despite being one of the lucky young people able to find work these days, Daniel has struggled with his student loan debt. Because he had to rely partially on private loans, which do not qualify for income-based repayment, Daniel's payments are close to $1,000 a month. And while he is thankful to have a job, his salary working in claims litigation at Geico does not pay him enough to afford his extremely high debt payment every month. That's why Daniel ended up defaulting on his loans and moving back in with his parents. He had no other option. That was the only way he could get current on his loans. In the longer term, his debt may result in the postponing or abandoning of important hallmarks of adulthood, like home ownership or starting a family.

Debt like Daniel's is having effects on the broader economy. Young people with student debt used to be able to afford to buy homes and cars, but the tides have turned. Now, young people with student debt buy homes at a lower rate than young people without student debt.[19] We're also hearing that young adults have stalled important decisions, like moving out of their parents' homes, getting married, and starting a family, simply because they feel they cannot afford to.[20]

Part of the problem is that we're investing less in our generation when we need to be investing more. State disinvestment in higher education is the main driver of increasing tuition at public universities, where the majority of students attend college. Nationwide, State higher education funding was down 40 percent in 2011 from 1980.[21] The decreases that we have seen in State investment in higher education have led to more debt for millions of students, and a lack of funding for alternative pathways to success has cut many young people off from opportunities that previous generations used to have. Compounding the problem is the increase in merit aid given out as a tool to attract high-achieving students, at the expense of cutting aid for needy students.[22] Additionally, the Federal Government cut $1 billion from job training for disadvantaged youth over the past decade, and the current training programs reach fewer than 5 percent of the nearly seven million disconnected youth in America.[23]

Another problem is that the higher education system as currently comprised does not do enough to provide students with real-world experience that they and employers desire. When polled, 79 percent of employers expect real-world experience from college graduates when evaluating potential hires.[24] A recent Pew Research survey

---

[15] Ibid.

[16] Demos and Young Invincibles, "The State of Young America: Economic Barriers to the American Dream".

[17] Ry Rivard, "The Slow Climb", *Inside Higher Ed,* April 21, 2014, accessed June 24, 2014 *http://www.insidehighered.com/news/2014/04/21/few-states-are-spending-more-higher-ed-recession-hit-sthash.lF6lh3eJ.dpbs.*

[18] Dan Friedman, "Americans Owe 1.2 Trillion in Student Loans, Surpassing Credit Card and Auto Loan Totals", *Daily News,* May 17, 2014, accessed June 24, 2014, *http://www.nydailynews.com/news/national/americans-owe-1-2-trillion-student-loans-article-1.1796606.*

[19] Dina Elboghdady, "Student Debt May Hurt Housing Recovery by Hampering First Time Buyers", *The Washington Post,* February 17, 2014, accessed June 24, 2014, *http://www.washingtonpost.com/business/economy/student-debt-may-hurt-housing-recovery-by-hampering-first-time-buyers/2014/02/17/d90c7c1e-94bf-11e3-83b9-1f024193bb84_story.html.*

[20] Hadley Malcolm, "Millennial's Ball-and-Chain: Student Loan Debt", *USA Today,* July 1, 2013, accessed June 24, 2014, *http://www.usatoday.com/story/money/personalfinance/2013/06/30/student-loan-debt-economic-effects/2388189/*.

[21] Thomas G. Mortenson, "State Funding: A Race to the Bottom", American Council on Education, Winter 2012, accessed July 24, 2014, *http://www.acenet.edu/the-presidency/columns-and-features/Pages/state-funding-a-race-to-the-bottom.aspx.*

[22] Lumina Foundation, "Restricted Access: Merit-Based vs. Need-Based Aid", accessed June 24, 2014, *http://www.luminafoundation.org/publications/focus_archive/focus/merit_based1.html.*

[23] Young Invincibles, "A Fight for the Future: Education, Job Training, and the Fiscal Showdown" (Washington, DC), November, 2011, accessed June 24, 2014, *http://younginvincibles.org/wp-content/uploads/2012/11/11-14-12-KS-1.pdf.*

[24] Thomas P. Miller and Associates, "Moving Toward an Experiential College Work Study Program", (Indiana: 2012), accessed November 12, 2013, *http://www.in.gov/ssaci/files/TPMA_Work_Study_Program_Analysis_Report_Final_(9_19_12*).pdf.

asked students what they wish they had done differently in college to prepare them for the job they wanted, and 50 percent they had "gained more work experience."[25]

Young people who graduate in a recession face persistent earning losses in their careers.[26] This is also the time when young people are struggling to pay down their student debt. Defaults and delinquency are common, and the relief that is available, like Income-Based Repayment, is not always available or known to young people. Young people have seen their families refinance their mortgages but we cannot refinance our student debt. We also cannot discharge our debt in bankruptcy, when our credit is already ruined and we have little other options for addressing this debt.

The long-term implications of this are staggering, because every American has a stake in our generation's success. The unemployment of young adults nationwide affects everyone: other generations as taxpayers, State governments, and the Federal Government. In a recent Young Invincibles report, we estimate that the Federal Government loses over $4,100 in potential income taxes and FICA taxes per 18- to 24-year-old, and almost $9,900 per 25- to 34-year-old.[27] In total, the Federal Government and State governments lose $25 billion each year in predominately forgone tax revenue.[28] That's like each taxpayer footing an additional $170 bill for high young-adult unemployment each year.[29]

Solutions

Ultimately, we need to find a way to make sure more of our generation is able to gain work experience and an affordable, quality postsecondary credential. We need bold solutions that address the rising cost of college, create pathways to success for all young people, tackle the problem of debt for existing borrowers who are struggling, and improve the economy for all of us. Young Invincibles recommends several immediate Federal policy reforms that would benefit young people and our economy both now and in the future:

Bolster and Protect Pell: Pell grants are an essential investment the Federal Government makes to provide higher education access to millions low income students.[30] However, as the cost of college rises, the purchasing power of Pell continues to diminish. Only 30 percent of the costs of attending a 4-year university are covered by the average Pell Grant, leaving students and families to make up the difference with loans.[31] Making Pell mandatory sends a strong message that we refuse to leave our most vulnerable young people behind, and that further cuts to aid given to deserving students are not acceptable.

Address State Disinvestment: A prominent cause of rising tuition rates has been the gradual State disinvestment across the country in higher education. The national funding effort in 2011 was down 40 percent from what it was in 1980.[32] This is an unsustainable trend across the vast majority of States that is making college less and less affordable for millions of students and families, forcing them to take on increasing levels of debt. The Federal Government must incentivize States to put more money back into their ailing systems to halt and then reverse this pattern of trading disinvestment with debt.

Also of note, African American young adults suffer from higher unemployment and lower wages than their white peers. In an upcoming report entitled "Closing the Gap", YI discusses how investments made in our educational system can disproportionately help young African Americans and mitigate disparities in unemployment and wages. Increasing educational attainment across the board has a larger effect on African Americans than white youth. Policy makers can expand college opportunities for all through various reforms designed to simplify and fund aspects of the higher education system that benefit disadvantaged youth.

Simplify the Federal Financial Aid Application and Repayment Process: The financial aid system is hopelessly complex from application to repayment, and in dire

---

[25] Eleanor Barkhorn, "What College Graduates Regret", *The Atlantic,* February 13, 2014, accessed February 14, 2014, *http://m.theatlantic.com/education/archive/2014/02/what-college-graduates-regret/283808/.*

[26] "Graduating in a Recession", (no date), accessed June 24, 2014, *http://www.econ.ucla.edu/tvwachter/papers/grad_recession_vonwachter_oreopoulos_heisz_final.pdf.*

[27] Young Invincibles, "In This Together: The Hidden Cost of Young Adult Unemployment".

[28] Ibid, p. 6.

[29] Ibid. p. 6.

[30] Arnold Mitchem, "Pell Grants Boost College Access for Low-income Students but Money Is Only Half the Story", *The Hechinger Report,* October 11, 2012, accessed June 24, 2014, *http://hechingerreport.org/content/pell-grants-boost-college-access-for-low-income-students-but-money-is-only-half-the-story_9915/.*

[31] Sara Goldrick-Rab, "The Real College Barrier for the Working Poor", *Inside Higher Ed,* December 10, 2013, accessed June 24, 2014, *http://www.insidehighered.com/views/2013/12/10/federal-aid-needy-students-inadequate-essay-sthash.V2Jbf5cY.dpbs.*

[32] Thomas G. Mortenson, "State Funding: A Race to the Bottom".

need of simplification. We often hear that borrower confusion leads to default and delinquency on their loans. That is unacceptable in a country that prides itself on making it possible for every young person to have access to higher education to better his or herself. We urge Congress to make the necessary technical changes to streamline the student loan repayment process, such as making entry into income-based repayment or pay as you earn automatic for the borrower and using payroll deductions to pay down student debt.

Reconnect Opportunity Youth: With over 6 million opportunity youth in this country—youth who are not working and not in school—we must work harder to come up with innovative alternative pathways to help reconnect them to education and job training.[33] As we look toward the 21st century, we have to address the looming deficit of three million workers with associate's degrees or higher.[34] There are federally funded programs like YouthBuild and Job Corps, as well as nonprofits like YearUp doing valuable work to equip young people with viable, marketable skills. The Federal Government must halt the pattern of policy making that has seen a billion dollars cut from vital job training programs and invest in America's future.

Apprenticeships: Apprenticeship is a great means by which the Federal Government can encourage private–public partnerships to help develop America's workforce. Apprentices graduate from their programs with gainful employment, an accredited degree, money in the bank, and no debt.[35] They are a bipartisan means of involving private business, institutions of higher education, and young people in the work of building America's capacity to stay a world leader.[36]

Alternative Pathways and Innovation: Congress should do its part by incentivizing institutions, organizations, private companies, and communities to join together and think creatively about specific tactics that meet youth where they are and work for them. In a Young Invincibles briefing, we highlighted partnerships like that of IBM and City University of New York. Together, they recognized an opportunity to serve youth in their community from grades 9 to 14, providing these young people with high school diplomas, postsecondary training, and exposure to industries they wouldn't otherwise have. Updates to programs like Federal Work Study and support for quality work experiences by State and local governments and institutions of higher education is essential to responding to the concerns of employers and young people. By incentivizing everyone in communities to join together for our generation, action from our leadership in Congress could lead to more programs through partnerships that provide 21st century opportunities to today's youth.

Institutional Accountability: We must encourage our institutions of postsecondary education to do better. One of the most concerning problems for us is that young people often leave school with debt and no degree. The Federal Government should not be funding institutions that do a poor job of offering access to low-income students, graduate students at severely low rates, or see a majority of graduates fail to secure jobs that allow them to service their debt. Continuing to support the worst of the worst is a poor investment for American taxpayers, and has deleterious effects on our generation's ability to get credentialed and move fully into adulthood. In addition to restricting funds to repeat offenders, incentive structures can be designed to reward and highlight the best actors within the American higher education community. Congress must find a way to ensure that institutions are serving their students responsibly and preparing them for the jobs that they need, without saddling them with unnecessary debt.

Relief for Existing Borrowers: With over 40 million people in this country with student debt, the time for relief for existing student loan borrowers is now. Income-based repayment plans are essential tools toward giving our generation badly needed debt relief, but there is still more we can do. We hear stories of young parents trying to pay down their debt and finding it impossible to save for college for their children, young adults moving back in with their parents to afford their monthly payments, and young entrepreneurs finding it too hard to start a business because of their debt. The irony is that young people have seen their families refinance their mortgages but cannot refinance our own student debt. And, borrowers who are really struggling can declare bankruptcy on credit card debt, car loan debt, or even gam-

---

[33] Tulane University Cowen Institute for Public Education Initiatives, "Reconnecting Opportunity Youth", May 2012, accessed June 24, 2014, *https://www.aacu.org/meetings/diversityandlearning/DL2012/documents/CS11.pdf.*

[34] Reid Setzer, "An Alternative to Debt: Apprenticeships", February 5, 2014, accessed June 24, 2014, *http://younginvincibles.org/an-alternative-to-debt-apprenticeships/.*

[35] Ibid.

[36] Young Invincibles, "Young Invincibles Hails Bill To Expand Apprenticeships, Connect Young Adults to the Workforce", April 9, 2014, accessed June 24, 2014, *http://younginvincibles.org/young-invincibles-hails-bill-to-expand-apprenticeships-connect-young-adults-to-the-workforce/.*

bling debt, yet cannot declare bankruptcy on their student loans.[37] Refinancing and bankruptcy are commonsense solutions that would help get us all on a pathway toward more meaningful economic recovery.

I thank the Committee for giving me the opportunity to share what Young Invincibles has learned from working directly with young people. I look forward to the discussion.

PREPARED STATEMENT OF HEIDI SHIERHOLZ

ECONOMIST, ECONOMIC POLICY INSTITUTE

JUNE 25, 2014

Good afternoon Chairman Merkeley, Ranking Member Heller, and other distinguished Members of the Subcommittee. My name is Heidi Shierholz, and I am a labor market economist at the Economic Policy Institute in Washington, DC. I appreciate the opportunity to appear before you today to discuss young workers in the U.S. economy.

The Great Recession officially ended in June 2009, five years ago this month. However, the labor market has made agonizingly slow progress toward a full recovery and the slack that remains continues to be devastating for workers of all ages. The U.S. labor market still has a deficit of nearly 7 million jobs, and the unemployment rate has been at 6.3 percent or higher for more than 5½ years. (In comparison, 6.3 percent was the highest the unemployment rate ever got in the early-2000s downturn, for 1 month in 2003.) Though the labor market is headed in the right direction, it is improving very slowly, and the job prospects for young high school and college graduates remain dim.

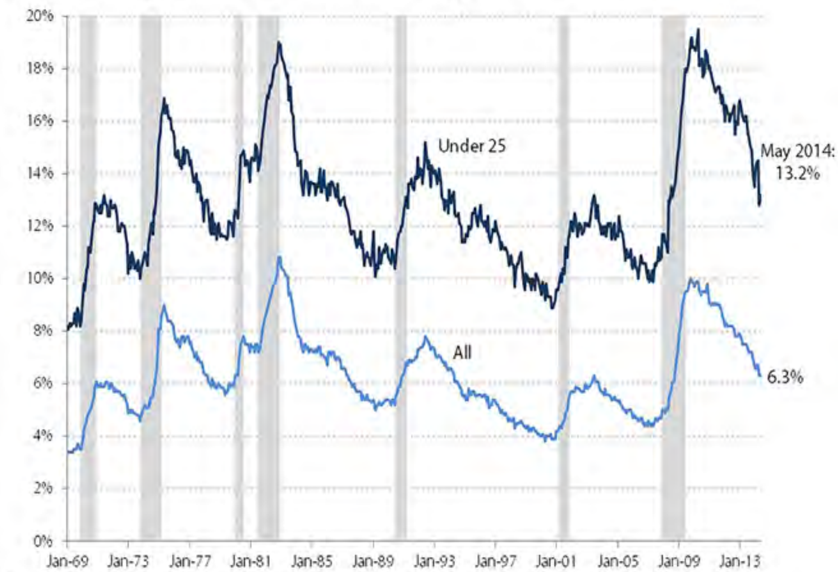
In Good Times and Bad, Unemployment Rate About Twice as High for Young Workers

In economic recessions as well as expansions, the unemployment rate of young workers (those under age 25) is typically a little more than twice as high as the overall unemployment rate. On average between 1989 and 2007, the unemployment rate of workers under age 25 was 2.2 times as high as the overall unemployment rate (see Figure A). This trend persists over time because young workers are relatively new to the labor market—often looking for their first or second job—and they may be passed over in hiring decisions due to lack of experience. As for young workers who are already employed, their lack of seniority makes them likely candidates for being laid off if their firm falls on hard times or is restructuring. Young workers also tend to be more mobile than older workers, moving between employers, careers, or cities, and thus spend a larger share of their time as job seekers.

---

[37] Kayla Webley, "Why Can't You Discharge Student Loans in Bankruptcy?" February 9, 2012, accessed June 24, 2014, *http://business.time.com/2012/02/09/why-cant-you-discharge-student-loans-in-bankruptcy/*.

Figure A: Unemployment rate of workers under age 25 and all workers, 1969–2014



Note: Shaded areas denote recessions. Data are seasonally adjusted.
Source: Economic Policy Institute analysis of Bureau of Labor Statistics Current Population Survey public data series

The historical fact that the unemployment rate of young workers tends to be a little more than twice the overall rate continues to be true today. In May, the overall unemployment rate was 6.3 percent, and the unemployment rate of workers under age 25, at 13.2 percent, was 2.1 times as high.

This raises two key points. First, because the unemployment rate of young workers is typically slightly more than twice as high as the overall rate, young workers experience much greater-than-average increases in unemployment during economic downturns. When the overall unemployment rate is elevated by 1 percentage point, the unemployment rate of young workers will likely be elevated by around 2 percentage points.

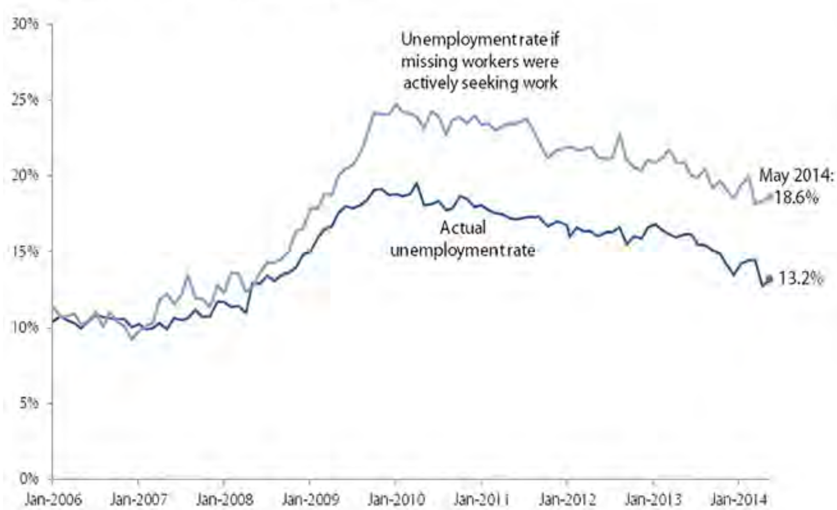
Second, the dire situation young workers face today is not unexpected given overall labor market weakness. In other words, unemployment of young workers is extremely high today not because of something unique about the Great Recession and its aftermath that has affected young people in particular. Rather, it is high because young workers always experience disproportionate increases in unemployment during downturns—and the Great Recession and its aftermath is the longest, most severe period of economic weakness in more than seven decades.

"Missing" Young Workers

At 13.2 percent, the unemployment rate of workers under age 25 is far higher than it was before the recession began; in 2007 their unemployment rate was 10.5 percent. However, in today's labor market, the unemployment rate—as elevated as it is—drastically understates the weakness of job opportunities. This is because there are currently a huge number of "missing workers"—potential workers who are neither employed nor actively seeking work simply because job opportunities remain so scarce. Because jobless workers are only counted as unemployed if they are actively seeking work, these missing workers are not reflected in the unemployment rate. The number of young missing workers shot up to 1.6 million between early 2007 and early 2010, and has since declined slightly to its current level of 1.4 million. It is important to note that this calculation of missing workers takes into account long-run trends in labor force participation, such as lower labor force participation of young people due to increasing college enrollment over recent decades. (The methodology for calculating the number of missing workers is described in EPI 2014.) But it is also true that today's missing young workers have not been able to "shelter in school" from the labor market effects of the Great Recession. Increases in college and university enrollment rates between 2007 and 2012 were no greater than the increases seen before the recession began—and since 2012, college enrollment rates have dropped substantially. This is discussed in more depth in the section "Young people are not 'sheltering in school.' "

Figure B shows that if the missing young workers were in the labor force looking for work—and thus counted as unemployed—the unemployment rate for young workers would be 18.6 percent instead of 13.2 percent. In other words, the unemployment rate in today's recovery greatly understates how difficult it is for workers to find a job.

Figure B: Unemployment rate of workers under age 25, actual and if missing workers* were looking for work, January 2006–May 2014



* Potential workers who, due to weak job opportunities, are neither employed nor actively seeking work

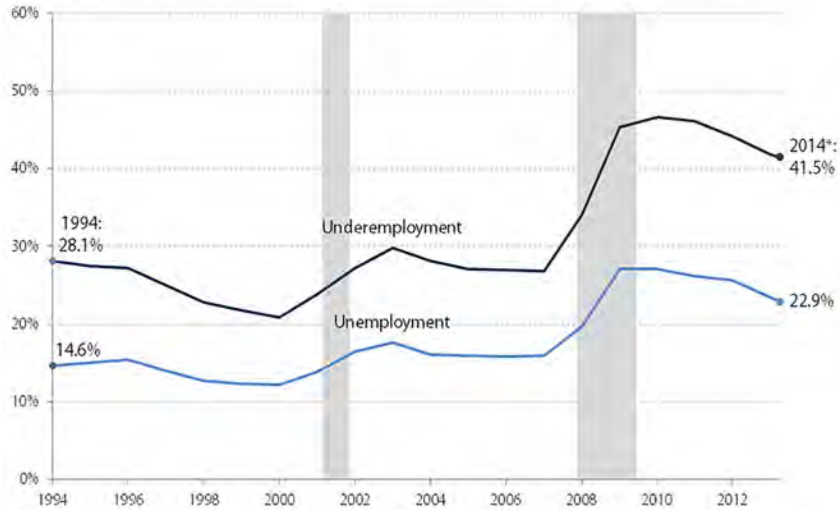
Source: EPI analysis of Mitra Toossi, "Labor Force Projections to 2016: More Workers in Their Golden Years," Bureau of Labor Statistics Monthly Labor Review, November 2007; and Current Population Survey public data series

For Young High School Graduates, Very High Unemployment and Underemployment

Another more comprehensive measure of labor market slack than the unemployment rate is the "underemployment rate" (officially, the U-6 measure of labor underutilization). In addition to the unemployed (jobless workers who report that they are actively seeking work), the underemployment rate also includes those who work part time but want full-time work ("involuntary" part timers), and those who want a job and have looked for work in the last year but have given up actively seeking work ("marginally attached" workers).

Figure C presents data on both unemployment and underemployment among young high school graduates (those age 17–20 who are not enrolled in further schooling). Currently, while the unemployment rate of young high school graduates is 22.9 percent, their underemployment rate is above 40 percent (41.5 percent). In other words, in addition to the officially unemployed, a significant share of young people either want a job but have simply given up looking for work, or have a job that does not provide the hours they need.

Figure C Unemployment and underemployment rates of young high school graduates, 1994–2014*



*Data for 2014 represent 12-month average from April 2013–March 2014

Note: Shaded areas denote recessions. Underemployment data are only available beginning in 1994. Data are for high school graduates age 17–20 who are not enrolled in further schooling.

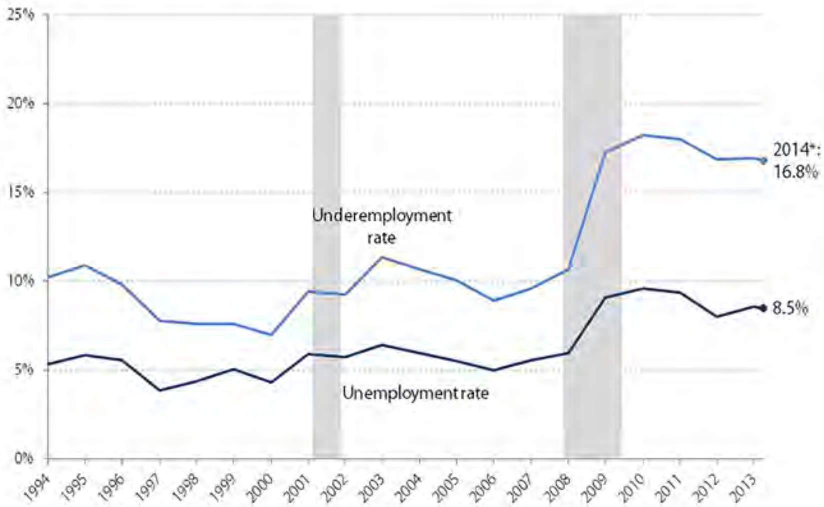
Source: Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group microdata

Young College Graduates Also Struggle To Find Work, Often End up in Jobs That Don't Require a College Degree

By attending and finishing college, young college graduates have made a significant down payment on their career in terms of both time and money, and they typically have very high labor force participation. And because a college degree affords more opportunities in the labor market—not least of which is the fact that college graduates are often more competitive relative to noncollege graduates when it comes to landing jobs not requiring a college degree—unemployment among young workers with a college degree is substantially lower than among other young workers. However, young college graduates' job prospects have deteriorated dramatically since the start of the Great Recession.

Figure D presents unemployment and underemployment data for young college graduates age 21–24 who are not enrolled in further schooling. Currently, while the unemployment rate of this group is 8.5 percent, the underemployment rate is almost twice that, at 16.8 percent. In other words, in addition to the substantial share who are officially unemployed, a large swath of these young, highly educated workers either have a job but cannot attain the hours they need, or want a job but have given up looking for work.

Figure D Unemployment and underemployment rates of young college graduates, 1994–2014*



*Data for 2014 represent 12-month average from April 2013–March 2014

Note: Underemployment data are only available beginning in 1994. Data are for college graduates age 21–24 who do not have an advanced degree and are not enrolled in further schooling. Shaded areas denote recessions.

Source: Economic Policy Institute analysis of Current Population Survey microdata

Although the measure of underemployment used in Figures C and D—the U-6 measure of labor underutilization—includes hours-based underemployment (i.e., part-time workers who want full-time work), it does not include "skills/education-based" underemployment (e.g., the young college graduate working as a barista). A recent paper by researchers at the Federal Reserve Bank of New York (Abel, Deitz, and Su 2014) offers insight into skills/education-based underemployment of recent college graduates. They categorize occupations according to whether the U.S. Department of Labor's Occupational Information Network (O*NET) characterizes them as requiring a 4-year college degree, and calculate what share of recent college graduates with jobs are working in jobs that actually require a college degree. First, it is important to note that even in good economic times, a surprisingly high share of young college graduates work in jobs that do not require their college degree. For example, in 2000—when jobs were plentiful and the unemployment rate was 4.0 percent—36 percent of employed college graduates age 22–27 worked in jobs that did not require a college degree. No matter how strong the labor market is, recent college graduates often require some time to transition into the labor market.

However, the share of young college graduates working in jobs not requiring a college degree increased over the weak 2000–2007 business cycle, increased further in the Great Recession, and has not yet begun to improve. In 2007, 38 percent of employed college graduates under age 27 were working in a job that did not require a college degree, and this share increased to 44 percent by 2012. Furthermore, the "noncollege" jobs that workers with a college degree are ending up in are of lower quality now than they used to be. In 2000, half of recent college graduates who were in a job that did not require a college degree were nevertheless in a "good" job that tended to be career-oriented and fairly well compensated—such as electrician, dental hygienist, or mechanic. That share has dropped substantially, while at the same time, there has been an increase in the share of recent college grads who are in very low-wage jobs, such as bartender, food server, or cashier. The bottom line is that for recent college graduates, finding a good job has become much more difficult. These findings are consistent with other research finding that among the workforce as a whole, there has been a decline in the demand for "cognitive skills" since 2000 (Beaudry, Green, and Sand 2013).

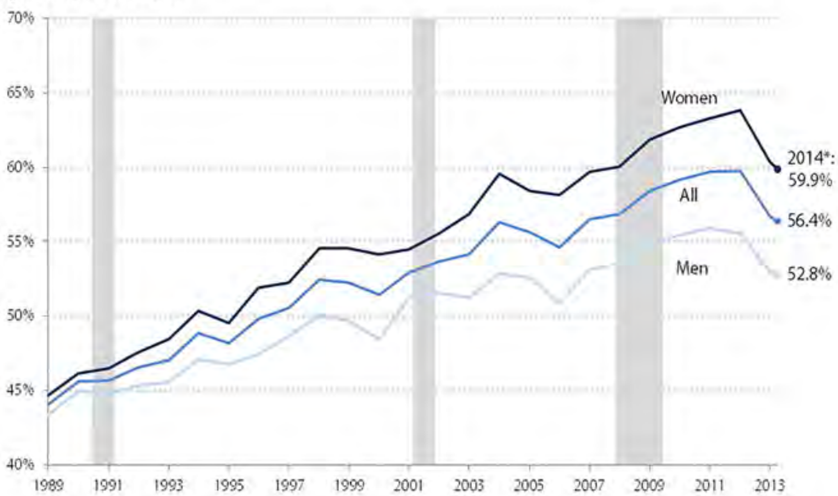
These trends also underscore that the unemployment crisis since 2007 among young workers more broadly did not arise because young people today lack enough education or skills. Rather, it stems from weak demand for goods and services, which makes it unnecessary for employers to significantly ramp up hiring. For more on the fact that today's labor market weakness is due to weak demand and not workers lacking the right skills or education, see Shierholz (2014).

Young People Are Not "Sheltering in School"

Educational opportunity is often identified as a possible silver lining to the dark cloud of unemployment and underemployment that looms over today's young graduates. The assumption is that a lack of job opportunities propels young workers to "shelter" from the downturn by attaining additional schooling, which may improve their long-run career prospects. However, there is little evidence of an uptick in enrollment due to the Great Recession, and since 2012 college enrollment has plummeted.

Figure E shows the share of young high school graduates (age 17–20) enrolled in college or university. This share has greatly increased over time (from 44.1 percent in 1989 to 56.4 percent most recently), with particularly steep increases for women (44.6 percent to 59.9 percent) compared with men (43.4 percent to 52.8 percent). Notably, increases in enrollment between 2007 and 2012 were no greater than what had been happening before the Great Recession began. The overall enrollment rate increased 0.7 percentage points per year on average between 2000 and 2007, and it also increased 0.7 percentage points per year between 2007 and 2012 (for women, the increase was 0.8 percentage points per year for both periods, while for men, the increase in the two periods was 0.7 percentage points per year and 0.5 percentage points per year, respectively). In other words, there is little evidence of a Great Recession-induced increase in enrollment. And since 2012, enrollment rates for both men and women have dropped substantially.

Figure E Share of young high school graduates enrolled in college or a university, by gender, 1989–2014*



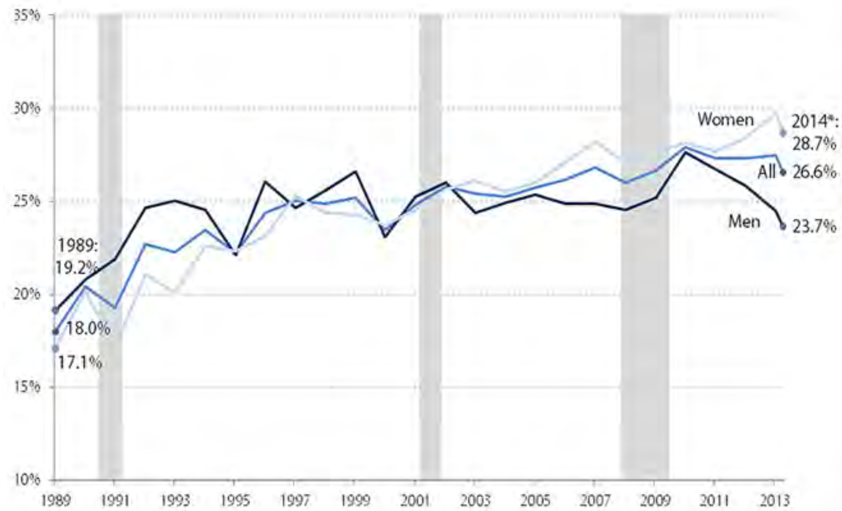
*Data for 2014 represent 12-month average from April 2013–March 2014

Note: Shaded areas denote recessions. Data are for high school graduates age 17–20 who may have previous college experience.

Source: Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group microdata

Figure F shows the share of young college graduates (age 21–24) enrolled in additional schooling (for example, to get a master's degree). This share has also greatly increased over time (from 18.0 percent in 1989 to 26.6 percent most recently), also with particularly steep increases for women (17.1 percent to 28.7 percent) compared with men (19.2 percent to 23.7 percent). The trends in Figure K are quite volatile due to small sample sizes, but they show that increases in enrollment of college graduates since 2007 were no greater than what had been happening before the Great Recession began. The overall enrollment rate increased 0.5 percentage points per year on average between 2000 and 2007, while it did not increase at all on average since 2007 (for women, the average increase was 0.6 percentage points per year from 2000 to 2007 and 0.1 percentage points per year since then, while for men, the average increase from 2000 to 2007 was 0.3 percentage points per year while their enrollment declined by an average of 0.2 percentage points per year since 2007). Again, there is little evidence of a Great Recession-induced increase in enrollment.

Figure F Share of young college graduates enrolled in further education, by gender, 1989–2014*



*Data for 2014 represent 12-month average from April 2013–March 2014
Note: Data are for college graduates (Bachelor's degree only) age 21–24. Shaded areas denote recessions.
Source: Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group microdata

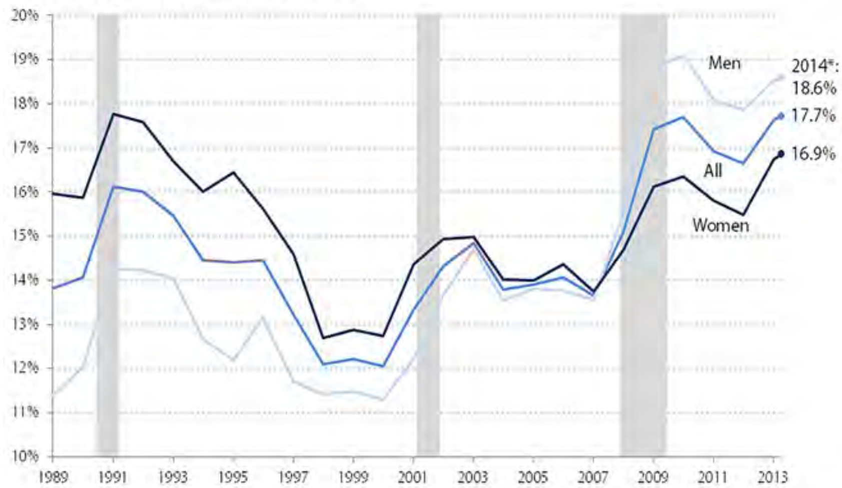
That enrollment has not meaningfully increased above its long-run trend despite the lack of job opportunities in the Great Recession and its aftermath is likely due largely to an often-overlooked fact: Students and workers are not distinct groups. Many students must work to pay for school or cover living expenses. In 2007, before the recession began, more than half (51.2 percent) of college students under age 25 were employed. By 2013, the share had dropped to 44.7 percent. For students who must work to afford school, but cannot find work due to the poor labor market, "sheltering in school" is not an option. Furthermore, many students depend on the support of their parents to get through college, and if their parents saw the value of their home drop when the housing bubble burst, or have had bad labor market outcomes in the aftermath of the Great Recession, that avenue to college may also be unavailable (see, for example, Lovenheim and Reynolds 2013). In this downturn, certainly some students have had the financial resources to take shelter in school. However, the lack of a Great Recession-induced increase in enrollment suggests this group has been more than offset by students who have been forced to drop out of school, or never enter, because the effects of the bursting of the housing bubble and the ensuing Great Recession meant they could not afford to attend.

Number of Young Workers Neither Enrolled nor Employed Rises

The lack of a Great Recession-fueled increase in college or university enrollment, combined with the lack of job prospects, means a large share of young graduates are now idled, or "disconnected"—that is, neither enrolled nor employed. These young graduates are disconnected from two main paths—work experience or further education—that they could follow to begin setting themselves up for their future. Figure G shows the share of young high school graduates age 17–20 who are neither enrolled nor employed. In 2007, 13.7 percent of young high school graduates fell into this category, and that share spiked to 17.7 percent in 2010. It declined between 2010 and 2012, but because of the drop in enrollment since 2012, has shot back up to 17.7 percent. In other words, the share of young high school graduates who are now idled has made no sustained improvement in this recovery. The increase since 2007 was larger for young male high school graduates (from 13.6 percent to 18.6

percent) than young female high school graduates (from 13.8 percent in 2007 to 16.9 percent).

Figure G Share of young high school graduates not enrolled in college or a university and not employed, by gender, 1989–2014*



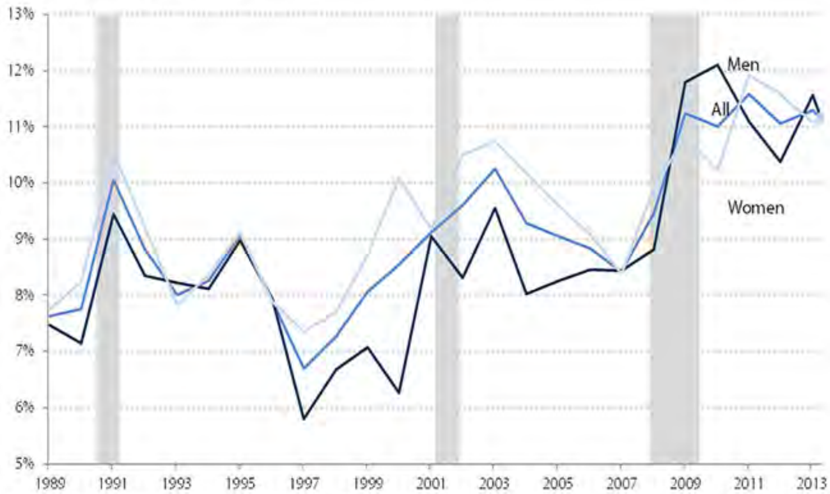
*Data for 2014 represent 12-month average from April 2013–March 2014

Note: Shaded areas denote recessions. Data are for high school graduates age 17–20 who may have previous college experience. "Not employed" includes those who are unemployed and those who are not in the labor force.

Source: Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group microdata

Figure H shows the share of young college graduates age 21–24 who are neither enrolled nor employed. In 2007, 8.4 percent of young college graduates fell into this category, and that share spiked to 11.6 percent in 2011. It has since declined only modestly, to 11.2 percent. The pattern was quite similar for men and women, though the male share peaked in 2010 while the female share peaked in 2011. The "disconnection rates" for both young high school graduates and young college graduates remain 1.3 times as high as they were before the recession began. The increase in the share of disconnected young people represents an enormous loss of opportunities for this cohort, as the loss of work experience or further education will have a lasting negative impact on their lifetime earnings. The long-term scarring effects of the Great Recession and its aftermath on young graduates are discussed in depth below.

Figure H Share of young college graduates not enrolled in college or a university and not employed, by gender, 1989–2014*



*Data for 2014 represent 12-month average from April 2013–March 2014

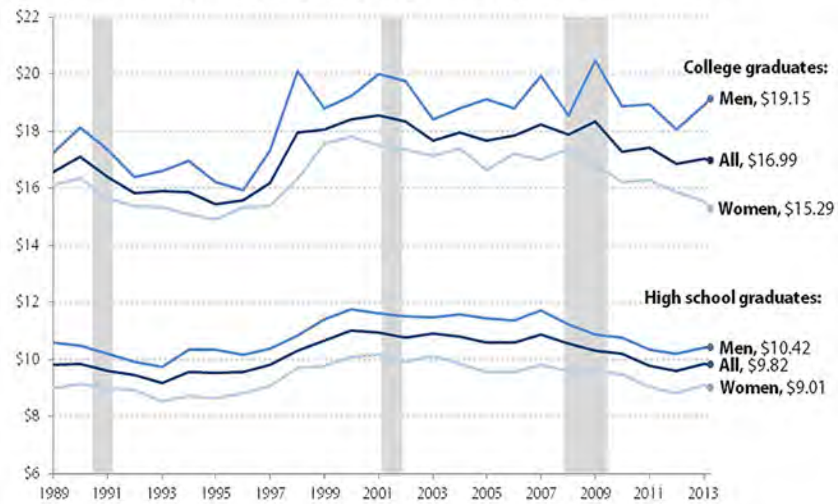
Note: Shaded areas denote recessions. Data are for college graduates (Bachelor's degree only) age 21–24. "Not employed" includes those who are unemployed and those who are not in the labor force.

Source: Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group microdata

Wages of New High School and College Graduates Have Fallen for More Than a Decade

Figure I presents average hourly wages of young high school graduates (age 17–20) and young college graduates (age 21–24) who are not enrolled in further schooling; the underlying data for key years are provided in Table 1. It should be noted that these data include salaried workers (their earnings are converted to hourly rates based on the number of hours they work). On average, young high school graduates had an hourly wage of $9.82 in the latest data. This wage rate would yield an annual income of roughly $20,400 for a full-time, full-year worker. Young college graduates had an average hourly wage of $16.99, which would translate into an annual income of roughly $35,300 for a full-time, full-year worker. On average, wages of young female graduates remain far less than those of young male graduates, regardless of educational attainment. Among young high school graduates, women earn 13.5 percent less than men, while among young college graduates, women earn 20.2 percent less than men.

Figure I Real average hourly wages of young workers, by education, 1989–2014*



*Data for 2014 represent 12-month average from April 2013–March 2014

Note: Data are for college graduates age 21–24 who do not have an advanced degree and are not enrolled in further schooling and high school graduates age 17–20 who are not enrolled in further schooling. Shaded areas denote recessions.

Source: Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group microdata

The wages of all groups of young graduates have fared extremely poorly during the Great Recession and its aftermath, as shown in Table 1. The real (inflation-adjusted) wages of young high school graduates have dropped 9.8 percent since 2007 (the declines were larger for men, at 11.0 percent, than for women, at 8.1 percent). The wages of young college graduates have also dropped since 2007, by 6.9 percent (for young college graduates, the declines were much larger for women, at 10.1 percent, than for men, at 4.0 percent).

TABLE 1

Real average hourly wages of young workers, 1989–2014*

	Young high school graduates			Young college graduates		
	All	Men	Women	All	Men	Women
1989	$9.82	$10.57	$9.00	$16.59	$17.24	$16.12
1995	9.54	10.33	8.65	15.45	16.21	14.91
2000	11.01	11.77	10.09	18.41	19.24	17.82
2007	10.89	11.72	9.81	18.24	19.95	17.00
*2014**	9.82	10.42	9.01	16.99	19.15	15.29
1989–2000	12.1%	11.3%	12.1%	10.9%	11.6%	10.5%
1989–1995	-2.9	-2.3	-3.9	-6.9	-6.0	-7.5
1995–2000	15.4	13.9	16.6	19.1	18.7	19.5
*2000–2014**	-10.8	-11.4	-10.7	-7.7	-0.5	-14.2
2000–2007	-1.1	-0.5	-2.8	-0.9	3.7	-4.6
*2007–2014**	-9.8	-11.0	-8.1	-6.9	-4.0	-10.1

* Data for 2014 represent 12-month average from April 2013–March 2014.

Note: Data are for college graduates age 21–24 who do not have an advanced degree and are not enrolled in further schooling, and high school graduates age 17–20 who are not enrolled in further schooling. Wages are in 2013 dollars.

Source: Authors' analysis of Current Population Survey Outgoing Rotation Group microdata

As Figure I shows, however, the wages of young graduates fared poorly even before the Great Recession began; they saw virtually no growth over the entire period of broad wage stagnation that began during the business cycle of 2000–2007. Since 2000, the wages of young high school graduates have declined 10.8 percent (11.4 percent for men and 10.7 percent for women), and the wages of young college graduates have decreased 7.7 percent (0.5 percent for men and 14.2 percent for women). These drops translate into substantial amounts of money. For full-time, full-year workers, the hourly wage declines since 2000 represent a roughly $2,500 decline in annual earnings for young high school graduates, and a roughly $3,000 decline for young college graduates.

The wage declines since 2000 stand in sharp contrast to the strong wage growth for these groups from 1995 to 2000. During that period of low unemployment and strong overall wage growth, wages rose 15.4 percent for young high school graduates and 19.1 percent for young college graduates. The stark difference between these two economic periods illustrates how the wages of young graduates vary considerably depending on whether the overall economy is experiencing low unemployment and strong wage growth, or high unemployment and wage stagnation. Young graduates who enter the labor market during periods of strength (e.g., 1995–2000) face much stronger wage prospects than young graduates who enter the labor market during periods of weakness (e.g., 2001 to the present).

Downturn Affects Young Workers' Futures

Young workers who have the bad luck to enter the labor market during a downturn not only have worse outcomes in the short run than if they had entered in a healthy labor market; these negative effects can last a very long time. Research shows that entering the labor market in a severe downturn can lead to reduced earnings, greater earnings instability, and more spells of unemployment over the next 10 to 15 years. Unsurprisingly, given the data presented earlier on underemployment, the evidence suggests that part of the decline in earnings is due to the fact that young workers entering the labor market in a downturn often have to settle for jobs at less-attractive employers or in lower-level occupations than they otherwise would have (this is often referred to as "cyclical downgrading"). This initial effect does tend to fade over time as workers find better jobs or move up within their companies, but that process can take well over a decade. In short, the labor market consequences of graduating in a bad economy are not just large and negative, but also long-lasting (Oreopolous, von Wachter, and Heisz 2013; Kahn 2010;

Hershbein 2012). Because of their unlucky timing—in other words, through absolutely no fault of their own—the cohorts entering the labor market since 2008 are very likely to fare poorly for at least the next decade.

The High Cost of Education, and Not Enough Money To Pay for It

The high cost of college is one likely reason that college enrollment rates did not increase above their long-run trend despite the lack of job opportunities during the Great Recession and its aftermath, and have dropped since 2012. In the 2013–2014 school year, the total cost of attendance for an on-campus student—including in-State tuition, books, room and board, and transportation expenses—at a 4-year in-State public school averaged $22,826. For a 4-year private school, it was $44,750. The cost of higher education has risen faster than family incomes, making it harder for families to pay for college. From the 1983–1984 enrollment year to the 2012–2013 enrollment year, the inflation-adjusted cost of a 4-year education, including tuition, fees, and room and board, increased 125.5 percent for private school and 129.1 percent for public school. Median family income only increased 15.6 percent over this period, leaving families and students unable to pay for most colleges and universities in full (College Board 2013; CPS ASEC).

As tuition costs have risen at rates vastly exceeding income growth, it is not surprising that many students have to take on debt to pay for college. Using the Survey of Consumer Finances, Fry (2012) shows that in 2010 (the latest data available) about one in five of the Nation's households owed money on student debt, a proportion that has more than doubled since 1989. For households with student loan debt, the average amount was $26,682 in 2010, and the median was $13,410. The average amount, which has nearly tripled since 1989, is higher than the median because of very high amounts of debt owed by some: 10 percent of households owe $61,895 or more. Among households headed by adults age 35 and younger, 40 percent held outstanding student debt in 2010 (Fry 2012).

Using the Federal Reserve Board of New York's Consumer Credit Panel, Brown et al. (2014) find that between 2004 and 2012, the number of student debt borrowers increased by 70 percent, and average debt per borrower also increased by 70 percent. The Great Recession contributed to this increase. Between 2007—the start of the Great Recession—and 2012, median family income dropped by 8.4 percent (CPS ASEC Table F-5), and this loss of income likely caused more dependence on loans to cover the cost of education. Furthermore, many parents saw the value of their home drop when the housing bubble burst, making them less able to take out a home equity loan to provide tuition assistance for their college-age children (see, for example, Lovenheim and Reynolds 2013). At the same time, higher education costs increased to make up for asset losses (at private universities) and funding cuts (at public universities) during the downturn. For example, between the 2007–2008 school year and the 2012–2013 school year, State appropriations for higher education per full-time enrolled student fell by 27.7 percent, and in response, public colleges and universities have had to steeply increase tuition (Oliff et al. 2013).

Recent graduates who do not find a stable, decent-paying job may be forced to miss a payment or default altogether on their loans. Default can ruin young workers' credit scores and set them back years when it comes to saving for a house or a car. Researchers at the Federal Reserve Bank of New York find that more than 30 percent of student loan borrowers who are not in deferment or forbearance were at least 90 days past due on their educational debt in the fourth quarter of 2012. They also find that the recent growth in student loan balances and delinquencies was accompanied by a decrease in mortgage and auto loan borrowing for younger age groups, suggesting that student loan debt is indeed crowding out other investments (Brown et al. 2014).

Conclusion: Strong Overall Job Growth Is Needed To Boost Young Workers' Employment

Although the labor market is slowly improving, job opportunities remain extremely weak. The dramatic increase since 2007 in unemployment among new college graduates underscores that today's unemployment crisis among young workers did not arise because workers lack the right skills. Instead, the weak labor market is due to weak demand. Employers simply haven't seen demand for their goods and services pick up enough to require them to significantly ramp up hiring.

It doesn't have to be this way. The most direct way to quickly bring down the unemployment rate of young workers is to institute measures that would boost aggregate demand. In the current moment this can best be accomplished through expansionary fiscal policy: large-scale ongoing public investments, the reestablishment of public services and public-sector employment cut in the Great Recession and its aftermath, and strengthening safety net programs. One of the most effective policies available to help the economy would be to simply reinstate the emergency unemployment insurance benefits program that was allowed to expire last December.

Policies that would spread the total hours of work across more workers could also bring down unemployment from the supply side. Work sharing would encourage employers who experience a drop in demand to cut back average hours per employee instead of cutting back the number of workers on staff. While layoffs are no more prevalent now than before the recession began, there are currently around 1.5 million layoffs every month, meaning a work-sharing program could avoid many layoffs and significantly reduce unemployment. Another possibility is to allow earlier entry into Social Security and Medicare for those workers wishing to move up their retirement. Early, voluntary retirements would decrease the labor supply while holding labor demand fixed, thereby allowing the unemployment rate to fall. Finally, mandatory paid leave policies could reduce the average annual hours worked. An obvious place to start would be providing paid sick days to the almost 40 percent of private-sector workers who lack the right to even a single day of paid sick leave so that they can stay home when they or their children are sick (Lafer 2013). The bottom line is that policies that will generate demand for U.S. goods and services (and therefore demand for workers who provide them), or policies that would spread the total hours of work across more workers, are the keys to giving young people a fighting chance as they enter the labor market during the aftermath of the Great Recession.

References

This entire statement borrows heavily from Shierholz, Heidi, Alyssa Davis, and William Kimball. 2014. "The Class of 2014: The Weak Economy Is Idling too Many Young Graduates". Economic Policy Institute, Briefing Paper No. 377. *http://www.epi.org/publication/class-of-2014/*

Abel, Jaison, Richard Deitz, and Yaquin Su. 2014. "Are Recent College Graduates Finding Good Jobs?" *Current Issues in Economics and Finance,* vol. 20, no. 1. Federal Reserve Bank of New York. *http://www.newyorkfed.org/research/current__issues/ci20-1.html*

Beaudry, Paul, David A. Green, and Benjamin M. Sand. 2013. "The Great Reversal in the Demand for Skill and Cognitive Tasks". National Bureau of Economic Research, Working Paper No. 18901. *http://www.nber.org/papers/w18901*

Brown, Meta, Andrew Haughwout, Donghoon Lee, Joelle Scally, and Wilbert van der Klaauw. 2014. "Measuring Student Debt and Its Performance". Federal Reserve Bank of New York. *http://www.newyorkfed.org/research/staff—reports/sr668.pdf*

Bureau of Labor Statistics. "Job Openings and Labor Turnover Survey" [database]. Various years. *http://www.bls.gov/jlt/#data*

College Board. 2013. "Trends in College Pricing". College Board, Advocacy and Policy Center. Excel file accompanying report accessed March 2014 via *http://trends.collegeboard.org/college-pricing*

Congressional Budget Office (CBO). 2014. "CBO's April 2014 Baseline Projections for the Student Loan Program". *http://cbo.gov/sites/default/files/cbofiles/attachments/44198-2014-04-StudentLoan.pdf*

Current Population Survey Annual Social and Economic Supplement (CPS ASEC). Historical Tables, "Table AD-1, Young Adults Living at Home". Various years. *http://www.census.gov/hhes/families/data/adults.html*

Current Population Survey Annual Social and Economic Supplement (CPS ASEC). Historical Tables, "Table F-5, Race and Hispanic Origin of Householder—Families by Median and Mean Income". Various years. *http://www.census.gov/hhes/www/income/data/historical/families/*

Current Population Survey Annual Social and Economic Supplement (CPS ASEC) microdata. Various years. Survey conducted by the Bureau of the Census for the Bureau of Labor Statistics [machine-readable microdata file]. Washington, DC: U.S. Census Bureau. *http://www.bls.census.gov/ftp/cps__ftp.html#cpsmarch*

Current Population Survey basic monthly microdata. Various years. Survey conducted by the Bureau of the Census for the Bureau of Labor Statistics [machine-readable microdata file]. Washington, DC: U.S. Census Bureau. *http://www.bls.census.gov/cps__ftp.html#cpsbasic*

Current Population Survey Outgoing Rotation Group microdata. Various years. Survey conducted by the Bureau of the Census for the Bureau of Labor Statistics [machine-readable microdata file]. Washington, DC: U.S. Census Bureau. *http://www.bls.census.gov/cps__ftp.html#cpsbasic*

Current Population Survey public data series. Various years. Aggregate data from basic monthly CPS microdata are available from the Bureau of Labor Statistics through three primary channels: as Historical "A" Tables released with the BLS

Employment Situation Summary *(http://www.bls.gov/data/#historical-tables)*, through the Labor Force Statistics database *(http://www.bls.gov/cps/#data)*, and through series reports *(http://data.bls.gov/cgi-bin/srgate)*.

Economic Policy Institute (EPI). 2014. "Missing Workers: The Missing Part of the Unemployment Story". Economic Indicator, updated April 4, 2014. *http://www.epi.org/publication/missing-workers/*

Fry, Richard. 2012. "A Record One-in-Five Households Now Owe Student Loan Debt: Burden Greatest on Young, Poor". Pew Research Center on Social and Demographic Trends. *http://www.pewsocialtrends.org/files/2012/09/09-26-12-Student__Debt.pdf*

Gould, Elise. 2013. "Employer-Sponsored Health Insurance Coverage Continues To Decline in a New Decade". Economic Policy Institute, Briefing Paper No. 353. *http://www.epi.org/publication/bp353-employer-sponsored-health-insurance-coverage/*

Hershbein, Brad J. 2012. "Graduating High School in a Recession: Work, Education, and Home Production". *The B.E. Journal of Economic Analysis and Policy*, vol. 12, no. 1. *http://www.degruyter.com/view/j/bejeap.2012.12.issue-1/1935-1682.2599/1935-1682.2599.xml*

Kahn, Lisa B. 2010. "The Long-Term Labor Market Consequences of Graduating From College in a Bad Economy". *Labour Economics,* vol. 17, no. 2.

Lafer, Gordon. 2013. "One by One, States Are Pushing Bans on Sick Leave Legislation". Economic Policy Institute, Economic Snapshot, November 6. *http://www.epi.org/publication/states-pushing-bans-sick-leave-legislation/*

Lovenheim, Michael, and C. Lockwood Reynolds. 2013. "The Effect of Housing Wealth on College Choice: Evidence from the Housing Boom". *Journal of Human Resources,* Winter 2013, vol. 14, no. 1, 3–37.

Oliff, Phil, Vincent Placios, Ingrid Johnson, and Michael Leachman. 2014. "Recent Deep State Higher Education Cuts May Harm Students and the Economy for Years To Come". Center on Budget and Policy Priorities. *http://www.cbpp.org/files/3-19-13sfp.pdf*

Oreopolous, Philip, Till von Wachter, and Andrew Heisz. 2013. "Short- and Long-Term Career Effects of Graduating in a Recession". *American Economic Journal: Applied Economics*, vol. 4, no. 1, pp. 1–29.

Shierholz, Heidi. 2014. "Is There Really a Shortage of Skilled Workers?" Economic Policy Institute commentary. *http://www.epi.org/publication/shortage-skilled-workers/*

Toossi, Mitra. 2007. "Labor Force Projections to 2016: More Workers in Their Golden Years". Bureau of Labor Statistics Monthly Labor Review, November 2007.

PREPARED STATEMENT OF KEITH HALL

SENIOR RESEARCH FELLOW, MERCATUS CENTER AT GEORGE MASON UNIVERSITY

JUNE 25, 2014

Young Americans and the Current U.S. Labor Market

Chairman Merkley, Ranking Member Heller, and Members of the Committee: thank you for the invitation to discuss the economic conditions facing young workers and recent graduates.

Introduction

The young are always far more affected by an employment crisis than older workers. Today, however, they face one of the worst labor markets of any generation. Not only have they experienced the Great Recession, but 6 years later they still face a poorly performing labor market. Their employment level is down, earnings and earnings growth are lower, wealth is lower, and millions of the young have yet to even enter the labor force. In fact, they are a large part of the biggest ongoing economic challenge we face today—the shrinking labor force.

If this continues and we have a permanently smaller labor force, we will have slower economic growth and a diminished standard of living in the future.

Part of the solution is, of course, policies that promote stronger economic growth and stronger job creation. Another part of the solution is to focus on youth, particularly those that have not participated in the labor market. This means doing what we can to lower the cost of hiring for companies and raising the incentive to work for the young.

The Growing Problem of Youth Disengagement From Work

The gloomy job environment has implications for the young far beyond the bad news contained in the high unemployment rate for their age cohort, which is twice that of older Americans.

Today, just 63.4 percent of youth aged 18 to 29 are employed. Job prospects have been so bad that many have withdrawn from the labor force and do not even show up in the official unemployment rate statistics. This decline in participation since 2007 means that there are about 2 million young workers missing from the labor force. If not left uncounted in the official unemployment rate, these 2 million would raise the youth unemployment rate from its current 10.9 percent rate to 15.4 percent—well above their highest rate in over 65 years (see Figure 1).

It is well established that the longer an individual is out of the labor force, the less likely they are to return to employment. Or, in this case, ever enter the workforce. Currently 1.2 million of the unemployed are trying to find work for the first time in their lives. Worse, a shocking 400,000 of the long-term unemployed have never worked before (see Figure 2). If the labor market doesn't improve and many of the long-term jobless youth don't enter the workforce soon, they may never work.

This youth disengagement from the labor force poses a real problem—and not just for the young but for the future performance of the U.S. economy. A permanently smaller future workforce would impact income growth and possibly even lower our future standard of living. To maintain economic growth, we need the two "Ps"—participation and productivity. That is, we need to have an active labor force that is educated and skilled. Economic forecasters have for years predicted a slowing of U.S. economic growth as baby boomers retire. If youth labor force participation doesn't improve, the decline will be even more dramatic.

Household Impact of Unemployment and Underemployment

The labor market difficulties of the young go beyond finding work. The young today face a multitude of difficulties: lower household wealth, lower income, and significant underemployment.

For families where the head of the household is younger than 35 years old, the Federal Reserve found that household wealth fell by an average of $45,000—that is, by about 41 percent—during the recession.

Further, research shows that those unlucky enough to graduate during a recession but lucky enough to find a job will take a 9 percent pay hit right off the bat compared to other cohorts. Further, they will likely experience slower earnings growth for a decade or more. This will impact any young worker's ability to repay student debt, buy a house, and save for retirement.

There is almost certainly a great deal of youth underemployment. The share of the employed that are just part-time workers remains elevated well above the prerecession level. In addition to lower starting pay, there are indications that many new graduates are underemployed relative to their skills and education. Job creation occurs not only when the economy expands and the number of jobs grows but also when workers leave their occupations and need to be replaced. In most occupations, many more job openings occur when workers leave their occupations to advance in their careers or to simply retire. So far, the level of voluntary job leavers—those moving on to advance their careers and those retiring—remains low. This slows the career advancement for the young.

Solutions

The solution is, of course, economic growth and a stronger labor market. Employment and income growth for the young has lagged because the economic recovery has been one of the weakest in U.S. history. Besides just generally good economic policy, we need to focus on helping to reduce the cost of hiring the young and increasing the incentive for them to enter the workforce.

Policies that raise the cost of hiring or reduce the incentive to work particularly impact the young and are counterproductive. For example, there is a considerable amount of economic research that finds that raising the minimum wage only works at the expense of jobs and hours worked for the least experienced workers. Wage growth is important, particularly for those earning near minimum wage—but raising the cost of hiring may result in the perverse and unintended effect of reducing youth employment. The Congressional Budget Office recently agreed that raising the cost of hiring with a huge 39 percent increase in the minimum wage would result in significant job loss. And, as I said, for some it may mean never entering the labor force.

Conclusion

A full 6 years after the start of the Great Recession, the young today continue to face one of the worst labor markets of any generation. Not only is unemployment and underemployment a real problem, but our current very low rate of youth labor force participation may mean that millions of youth never become fully active in the labor market. This potentially affects everyone's future income growth and standard of living. Raising the rate of labor force participation needs to be a central focus of Federal policy makers, in order to strengthen our economy and raise the prospects of low-income Americans. To do this, we need to make it easier, not harder, for companies to increase hiring. We also need to encourage individuals to reenter the labor force, not discourage them. Government assistance for the jobless is important, but the reemployment of the jobless is what we need to reduce poverty and lower income inequality.

Figure 1. Youth unemployment rate.

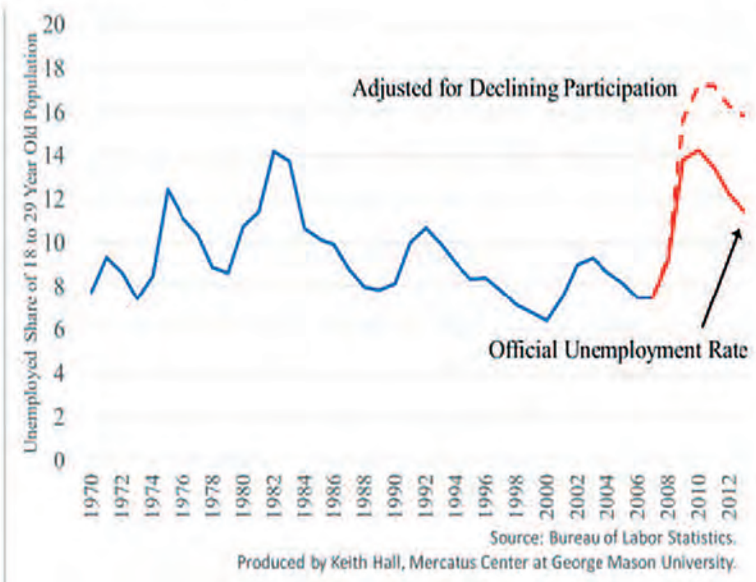
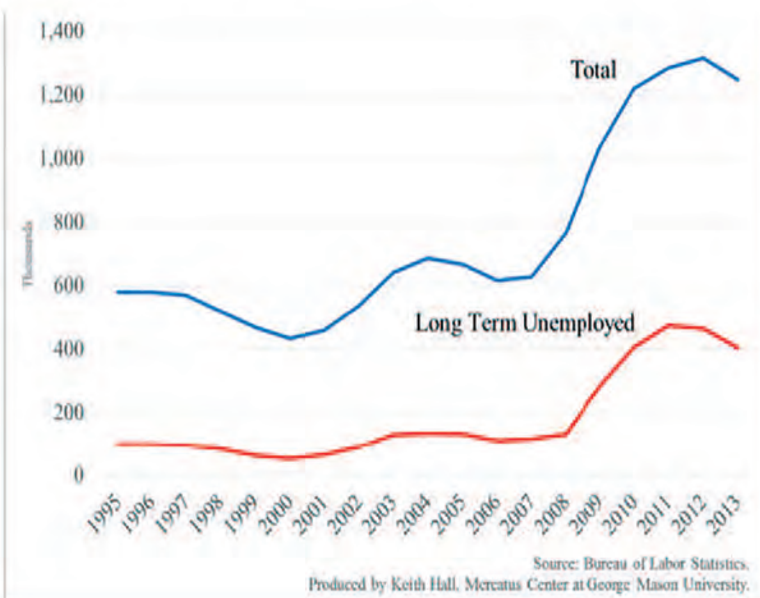


Figure 2. The number of unemployed with no work experience.



ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

LETTER SUBMITTED BY STEVE BROWN, PRESIDENT, NATIONAL ASSOCIATION OF REALTORS

NATIONAL ASSOCIATION *of* REALTORS®

Steve Brown, ABR, CIPS, CRS, GREEN
2014 President

Dale A. Stinton
Chief Executive Officer

GOVERNMENT AFFAIRS DIVISION
Jerry Giovaniello, Senior Vice President
Gary Weaver, Vice President
Joe Ventrone, Vice President
Scott Reiter, Vice President
Jamie Gregory, Deputy Chief Lobbyist

June 24, 2014

The Honorable Jeff Merkley
Chairman
Subcommittee on Economic Policy
Senate Committee on Banking, Housing, & Urban Affairs
313 Hart Senate Office Building
Washington, DC 20510

The Honorable Dean Heller
Ranking Member
Subcommittee on Economic Policy
Senate Committee on Banking, Housing, & Urban Affairs
324 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Merkley and Ranking Member Heller:

On behalf of the one million members of the National Association of REALTORS®, thank you for scheduling tomorrow's hearing on "Dreams Deferred: Young Workers and Recent Graduates in the U.S. Economy." As advocates for our communities, REALTORS® witnessed first-hand the pain faced by many families throughout the most recent economic recession. As our neighbors aimed to provide for their families and their futures, many unfortunately were faced with increasing debt of all types. It is how this debt impacts the future of homeownership in this country which concerns our membership and why ballooning student loan debt is increasingly a threat to the future of homeownership.

For decades, the purchase of a first home was the hallmark of middle class arrival and the foundation of financial security for aspiring families. Steadily growing homeownership rates were seen as a proxy for the nation's progress in making the American Dream a reality for as many Americans as possible. Moreover, broad-based homeownership exemplified the uniquely American sentiment that ordinary people could control their own destinies and move ahead through hard work and responsibility. Today, young professionals and working families face a number of challenges that previous generations did not, including rising student loan obligations. In particular, the traditional path that college graduates follow from graduation to shared apartments to saving money for their first home is becoming harder and harder to traverse.

REALTORS® are seeing the real world impact of increasing levels of student debt on our communities. Historically, first time homebuyers have been the lynchpin of the housing market, comprising roughly 40 percent of homebuyers in the market place. Unfortunately, this number has been declining at an alarming pace. At this same time, student loan debt has significantly increased. The rapid increase in student loan debt may be a significant factor in these potential first time homebuyers' decisions to delay a home purchase since student loan payments may have hindered their ability to save the downpayment necessary to purchase a home. According to a recent NAR survey, 20 percent of first time home buyers in today's market indicated that saving up for a downpayment delayed the purchase of their home. Of those, 53 percent stated that student loan debt was a key factor for that delay. We are very concerned that these numbers may continue to rise in the future. In addition to increased debts, prospective first time homebuyers face a weak job market and income growth potential, which may further delay their entry into the housing market.

As our housing market continues to heal from the economic crisis of the last several years, current and prospective homeowners are faced with the reality of an increasingly tight regulatory space that is contributing to a constriction of credit in the housing finance area. We believe that rising student debt may impact consumer access to mortgage credit, their ability to save for downpayments, and more broadly, attain homeownership. More specifically, a significant aspect of the recently finalized Qualified Mortgage (QM) standard is a requirement that borrower payments on all debts, including those for their mortgage, car and student loan payments, be 43 percent or less of their total income. Though it may be a reasonable standard in many instances, the continued rise in student debt and the weak labor market may have a long term impact on the ability of many first time homebuyers to qualify under this standard, particularly lower income consumers. Many of these potential borrowers will find their student loan payments are a significant portion of their total monthly debt burden. As a result, many community banks and lenders will choose not to approve mortgage loans to a large number of these responsible and otherwise qualified borrowers. This scenario impacts not only those hoping to purchase their first home, but also homeowners looking to trade up to larger homes or refinance their existing mortgages.

The pending Qualified Residential Mortgage (QRM) rule could also have a significant impact on mortgage availability and is of great concern to REALTORS®. Recently, the six regulators responsible for finalizing the definition of a QRM proposed an alternate definition which includes a 30 percent downpayment requirement. We believe that should regulators adopt this flawed definition, consumers unable to save for a downpayment due to growing debt burdens will be denied access to reasonable and affordable mortgages. Although a vast majority of these prospective borrowers are responsible and diligent in making their student loan payments, the ability of today's borrowers to save may become more difficult due to medical expenses, downpayments, and the need for emergency savings. We estimate that it would take average consumers over 20 years to meet this requirement and it would be extremely damaging to the housing market and homeownership overall. We will continue to work with regulators to ensure a sound and viable housing finance regulatory system is in place which allows for all qualified Americans to attain the dream of homeownership.

We look forward to working with you in protecting the dream of homeownership for responsible young Americans, including those with rising student debt. We are committed to being a resource to Congress as it continues to work on this issue and others that will help protect our real estate markets and continue to rebuild our economy.

Sincerely,

Steve Brown
2014 President, National Association of REALTORS®

cc: Members of the Subcommittee on Economic Policy