

What Does the Recession Mean for Young People?

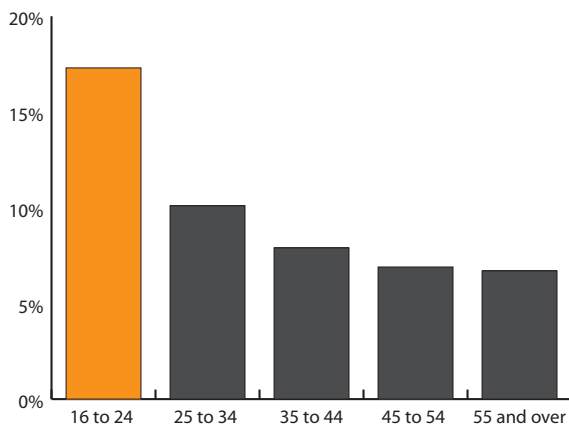
Today's young adults are the first generation in a century who are not likely to be better off than their parents. Stagnant wages, job insecurity, the decline in employer-sponsored health insurance and retirement benefits, rapid increases in the cost of basic expenses, soaring debt, and minimal savings have diminished the prospects for opportunity and mobility. Not only has government policy failed to cushion the blow of these longer-term trends, which have affected Americans of all ages, young adults are trying to complete their educations and enter the job market in the midst of the longest economic crisis since the Great Depression. The current recession jeopardizes not only their immediate prospects but also their long-term chances for economic security and success.¹ Given that today's young people are our nation's future, it is imperative that we understand how the recession is affecting them now as well as in the years to come.

EMPLOYMENT AND EARNINGS

The recession has already had a devastating toll on young workers. Their unemployment and underemployment rates are higher than for any other age group. Young people of color and those without college degrees have been the hardest hit. What's more, entering the labor market under such harsh conditions can have long-term effects on wages, even among college graduates.

The national unemployment rate for June 2009–9.5 percent—was the highest in 26 years,² but this figure masks the dismal labor market conditions faced by young workers. During the second quarter of 2009, the unemployment rate for workers under age 25 was 17.3 percent; in contrast, the unemployment rate for workers ages 45 to 54 was 6.9 percent.³ Young African Americans face the highest unemployment rates of all—29.1 percent for the second quarter of 2009.

UNEMPLOYMENT RATE BY AGE: SECOND QUARTER 2009



Source: Bureau of Labor Statistics of the U.S. Department of Labor: Unemployment rate. Seasonal Adjusted

The situation facing young jobseekers is even more grim when taking underemployment into account—the “underemployed” include workers who want full-time work but can find only part time hours, people who have given up looking for work, and the unemployed. The overall rate of underemployment doubled between 2007 and 2009, but again, young workers have been hardest hit. During the first quarter of 2009, young workers under 25 had an underemployment rate of 31.5 percent. Underemployment for workers ages 25 to 34 was 17.3 percent and 13.5 percent for workers ages 35 to 54.⁴

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

POST SECONDARY EDUCATION

Recessions have different effects on college enrollment depending on income. Young people with greater financial means are more likely to enroll in school when unemployment is high. But young people from low- and moderate-income families with few assets are less likely to enroll in school when economic conditions are tough: they are more likely to feel pressure to work and less able to take on student debt.⁷

Students from households with limited financial means face the largest amounts of unmet financial need even after financial aid is taken into account. Despite lower tuition at community colleges, young community college students (those under age 24), are particularly likely to face gaps between the cost of college attendance (including living expenses) and available resources. Not only more than half of young community college students are low to middle income, financial aid awards favor students at four-year institutions and are increasingly based on merit rather than financial need. Further, federal and state financial aid levels have not kept pace with tuition increases.

For students with inadequate financial support, employment is an indispensable strategy for attending school. Yet this often requires students to enroll part time instead of full time, extending the amount of time they spend in school, but more importantly, decreasing their chances of finishing their degrees. In 2007, roughly three quarters of students under age 25 who were enrolled part time at public colleges—whether two- or four-year institutions—worked more than 20 hours a week.⁸ Young community college students are far more likely to be enrolled part time and face pres-

tures to work, which disproportionately affects low income and first-generation college students and students of color.

Not only does high unemployment further jeopardize the chances of such students attending college and completing their degrees, these are the very students who are more likely to be credit constrained during recessionary times.⁹

DEBTS AND ASSETS

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

In 2008, two-thirds of undergraduates at four-year institutions left college with debt. The latest data show that between 2006 and 2007, the average debt of students graduating with loans rose over \$1,000, from \$18,976 to \$20,098.¹⁰ As delinquencies and defaults rise, the federal government has taken action to decrease student loan payments.

Between 2006 and 2008, the overall homeownership rate decreased from 68.8 percent to 67.8 percent.¹¹ While the subprime debacle affected all age groups, younger Ameri-

cans experienced the largest drop in homeownership. The most recent data show that there were 4.8 percent fewer homeowners among adults under age 25 and 4.3 percent fewer among 25 to 29 year olds.¹²

CONCLUSION

A quick recovery from the current recession is important for young people not only for their immediate economic livelihood but also for their ability to build the necessary economic foundation for their future. New policies must work to maximize the potential for young people—especially for those from less advantaged financial backgrounds and young people of color—to complete their educations, obtain decent jobs when they enter the labor market, and to save and build assets for the future. The current recession provides an opportunity to redress decades of declining economic opportunity and mobility that have left younger Americans struggling. Only bold policy reforms will make it possible for higher education to become affordable for all who wish to pursue it, for the job market to provide adequate wages and benefits, and for hard working young people to build assets for the future rather than drown in debt. Not only does the recession threaten the economic well-being of today's young adults, their economic insecurity threatens us all.

NOTES

1. Pew Research Center Once Again, The Future Ain't What It Used to Be May 2, 2006
2. Bureau of Labor Statistics of the U.S. Department of Labor: Unemployment rate
3. The unemployment rate for workers ages 25 to 34 was 10.1 percent, which is just a little more than half a percentage point above the overall rate of 9.5 percent. Economic Policy Institute tabulations; Bureau of Labor Statistics.
4. Economic Policy Institute tabulations; Bureau of Labor Statistics
5. Kahn, Lisa. "The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy." Working Paper, electronic version. (2008) Yale School of Management. 12 June 2009 p. 18.
6. The 15-year effect is an average 2.5 percent decline in wages for each extra percentage point in the unemployment rate. See Kahn (2008), p. 3.
7. Michael F. Lovenheim "Housing Wealth, Liquidity Constraints and College Enrollment" SIEPR, Stanford University October 2008; Oxford Economic Papers 59 (2007), 141-169, Oxford University Press 2006
8. Condition of Education 2009, Percent of enrolled students ages 16-24 who work by enrollment status and institution, 2007 (table A-44-1)
9. Michael F. Lovenheim "Housing Wealth, Liquidity Constraints and College Enrollment" SIEPR, Stanford University October 2008; Oxford Economic Papers 59 (2007), 141-169, Oxford University Press 2006
10. Project on Student Debt "Student Debt and The Class of 2007", October 2008 http://projectonstudentdebt.org/state_by_state-data.php
11. US Census Bureau; Housing Vacancies and Homeownership (CPS/HVS); Table 17. Homeownership Rates for the United States, by Age of Householder
12. Ibid



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Contact: Jose Garcia, Associate Director of Policy and Research, Economic Opportunity Program - jgarcia@demos.org
Algernon Austin, Director Program on Race, Ethnicity and the Economy Economic Policy Institute - aaustin@epi.org
Press Contact: Timothy Rusch, Director of Communication - trusch@demos.org