YOUNGINVINCIBLES

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Testimony of Rory O'Sullivan, Deputy Director, Before the Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Economic Policy

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 US 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 seven 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 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 post-secondary degree, as evidenced by a recent Fed report that showed that the benefits of a degree still outweigh the cost.[14] Aggregate numbers 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 five 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 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 four-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. Policymakers 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 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 non-profits 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 gambling 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.

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