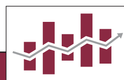

EPI BRIEFING PAPER

ECONOMIC POLICY INSTITUTE • MAY 11,2010 • BRIEFING PAPER #265

THE CLASS OF 2010

Economic Prospects for Young Adults in the Recession

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It will take years for the labor market to recover from the damage induced by the recent recession. While monthly job losses almost surely peaked in 2009, the unemployment rate will likely peak in 2010 (CBO 2010a). In April, the unemployment rate reached 9.9% and the overall economic cause is simple: firms are not hiring quickly enough, as indicated by the 5.6 job seekers per current job opening. The 290,000 jobs gained in April, the largest monthly job gain in three years, represent a baby step in climbing out of the jobs hole of 10.7 million that remains in the recession's wake. For the class of 2010, it will be one of the worst years to graduate high school or college since at least 1983 and possibly the worst since the end of World War II.

This paper documents several aspects of the grim labor market situation facing young graduates. It also discusses ways that government policy both helps and ways that it fails to help young workers damaged by the recession. The class of 2010 is graduating at a particularly bad time, and their poor job prospects are manifestly not their fault. They need a response from policy makers that appreciates these facts.

This paper's main findings are:

- The class of 2010 will be entering a labor market with the highest rates of unemployment in at least a generation; unemployment rates for both college graduates and non-graduates younger than 25 are nearly *double* their pre-recession levels.
- Since the start of the recession, the youth labor force (workers age 16 to 24) has contracted by 1.1 million workers.
- Since the start of the recession, an additional 1.2 million 16-24-year-olds have become disconnected from both formal schooling and work.
- Most young adults that come across hard economic times will fall through the large gaps in the public safety net.

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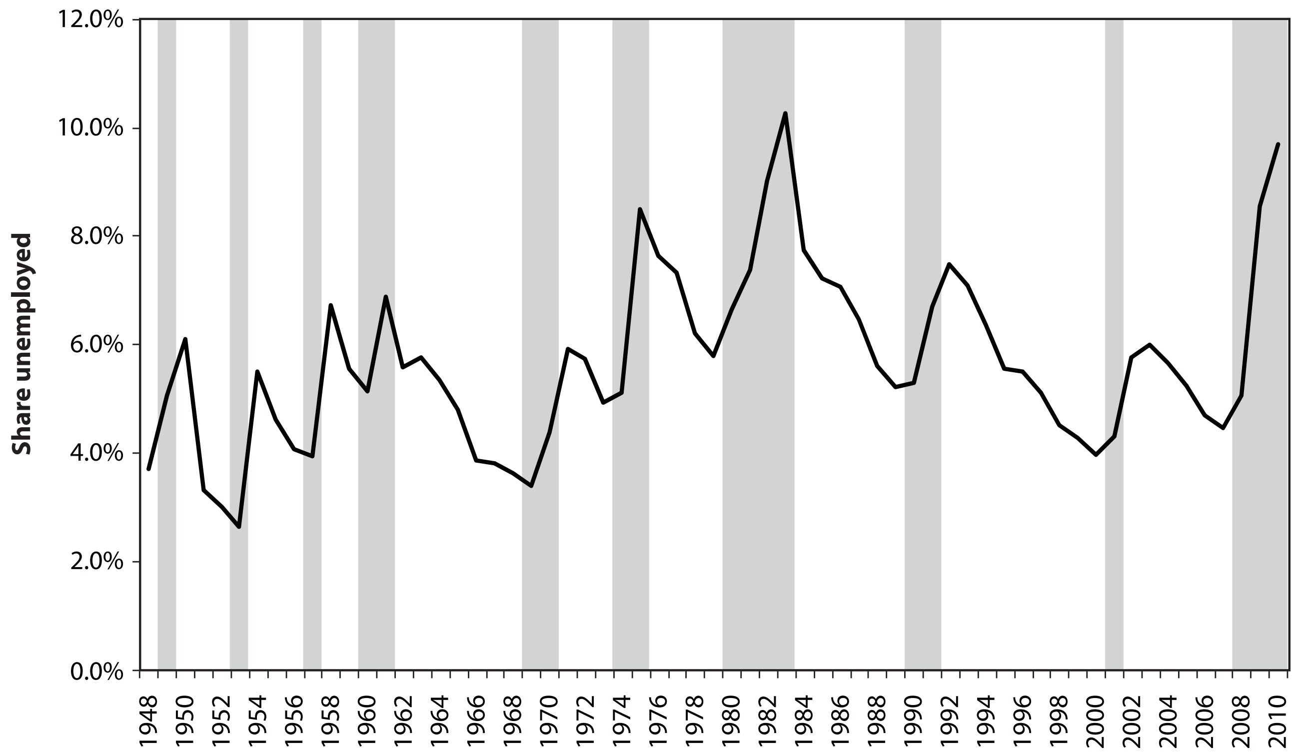
FIGURE A

Spring semester unemployment rates for total population, 1948-present



NOTE: Shaded areas denote recessions.

SOURCE: EPI analysis of Bureau of Labor Statistics data.

- Contrary to arguments that higher federal budget deficits burden future generations, rising public debt that finances efforts to boost economic recovery will minimize the deep economic scarring caused by the recession and increase future earnings for young workers.

Unemployment

The unemployment rate is the most-watched indicator of strength or weakness in the labor market. **Figure A** shows the spring semester (January to May average) unemployment rate for the total population, illustrating the state of the labor market during a student's final semester.

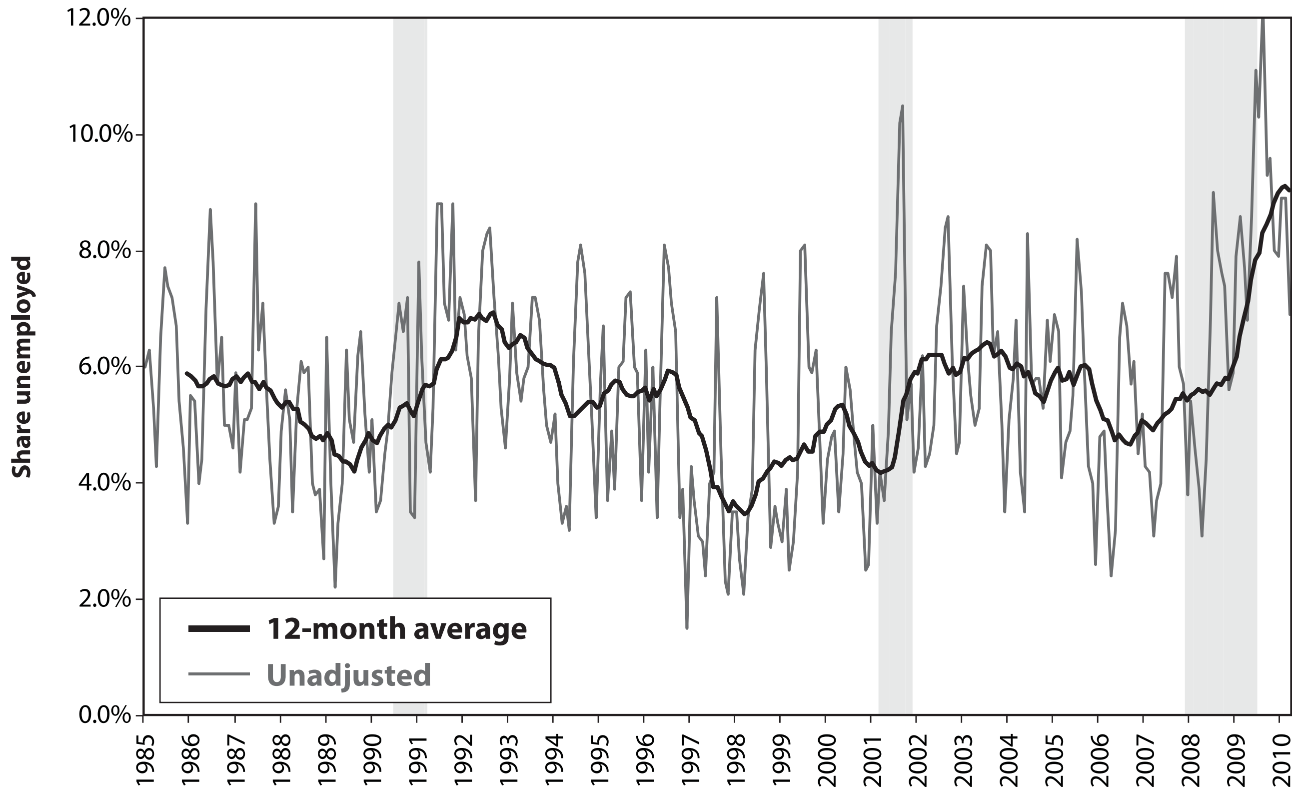
The highest spring unemployment rate was reached in 1983 with an average of 10.2%. The data are not available for 2010, but the current unemployment rate for the total population is 9.9%. The class of 2010, therefore, will be entering a labor market with the highest rates of unemployment in at least a generation. However, this is only a view of the labor market overall. The economic downturn does not affect all groups within the population equally. For that reason, it is important to look at not only how the labor market is performing overall, but also how it is performing for specific groups. This paper will look at three (in some cases overlapping) segments within the 16-24-year-old population: college graduates, high school graduates, and enrolled students.

College graduates

We first look at the unemployment rate of young college graduates, those with at least a bachelor's degree who are under 25 years old. These young workers have made a recent, significant investment in their education and therefore have very strong labor market attachments. Their

FIGURE B

Unemployment rate for college graduates 16-24, with 12-month moving average, 1985-present



NOTE: Shaded areas denote recessions. The data for this series are not seasonally adjusted. In order to account for seasonal factors, the 12-month moving average is included.

SOURCE: EPI analysis of Bureau of Labor Statistics data.

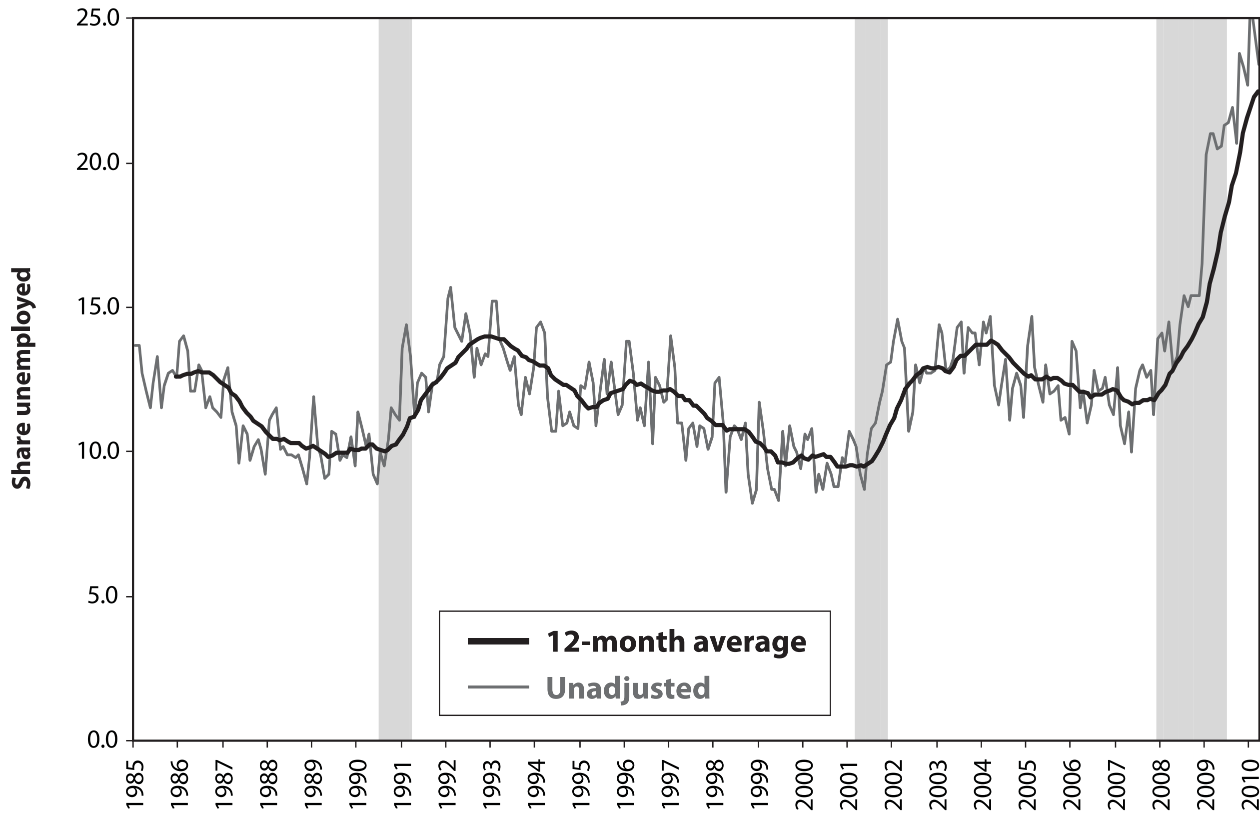
labor force participation—the share of the population that is either employed or actively seeking employment—averaged 92.6% over the last business cycle (between 2000 and 2007). To put that number in context, the labor force participation for college graduates 25 and older averaged 78.3% over the same time period.

Over the past 12 months (April 2009–March 2010), the unemployment rate for college graduates under 25 has averaged 9.0%, while in 2007 this number averaged 5.4%. **Figure B** shows the smoothed rate (12-month seasonally adjusted) since 1985 (the earliest year of data).

Even these unemployment rates, however, may well understate the severity of the labor market problem for young college graduates because they do not indicate whether they are employed in a job that matches their skill level. They could be employed full time, but at a job for which skills and training obtained in college are not put to use. These bad labor market "matches" may not only make it more difficult for less-credentialed workers to compete for those jobs, they may also reduce the earning potential for graduates. Sum et al. (2008) estimated that young adult college graduates working in jobs that do not require a college degree will, on average, earn 30% to 35% less per year than their counterparts employed in jobs that require a college degree. Even worse, Kahn (2009) provides persuasive evidence that just graduating from college during a recession reduces a worker's average lifetime earnings.

FIGURE C

Unemployment rate of high school graduates 16-24 not enrolled in school, with 12-month moving average, 1985-present



NOTE: Shaded areas denote recessions. The data for this series are not seasonally adjusted. In order to account for seasonal factors, the 12-month moving average is included.

SOURCE: EPI analysis of Bureau of Labor Statistics data.

High school graduates

Young high school graduates can be grouped into two categories: those enrolled in post-secondary education and those who are not. More than half of students who graduate from high school this May will likely be enrolled in college in the fall.[1] Those who do not pursue higher education will face a difficult time finding a job, let alone a pathway to a career.

Over the past 12 months (April 2009–March 2010), the unemployment rate for high school graduates who are not enrolled in post-secondary education has averaged 22.5%, while in 2007 it averaged 12.0%. (**Figure C**).

The unemployment rate measures the share of the labor force that does not have a job but is actively seeking employment. It can therefore understate slack in the labor market because it does not include those who have become discouraged and stopped looking for work. **Figure D** shows the employment-to-population ratio for young high school graduates not enrolled in school, that is, the number that has a job as a share of the population.

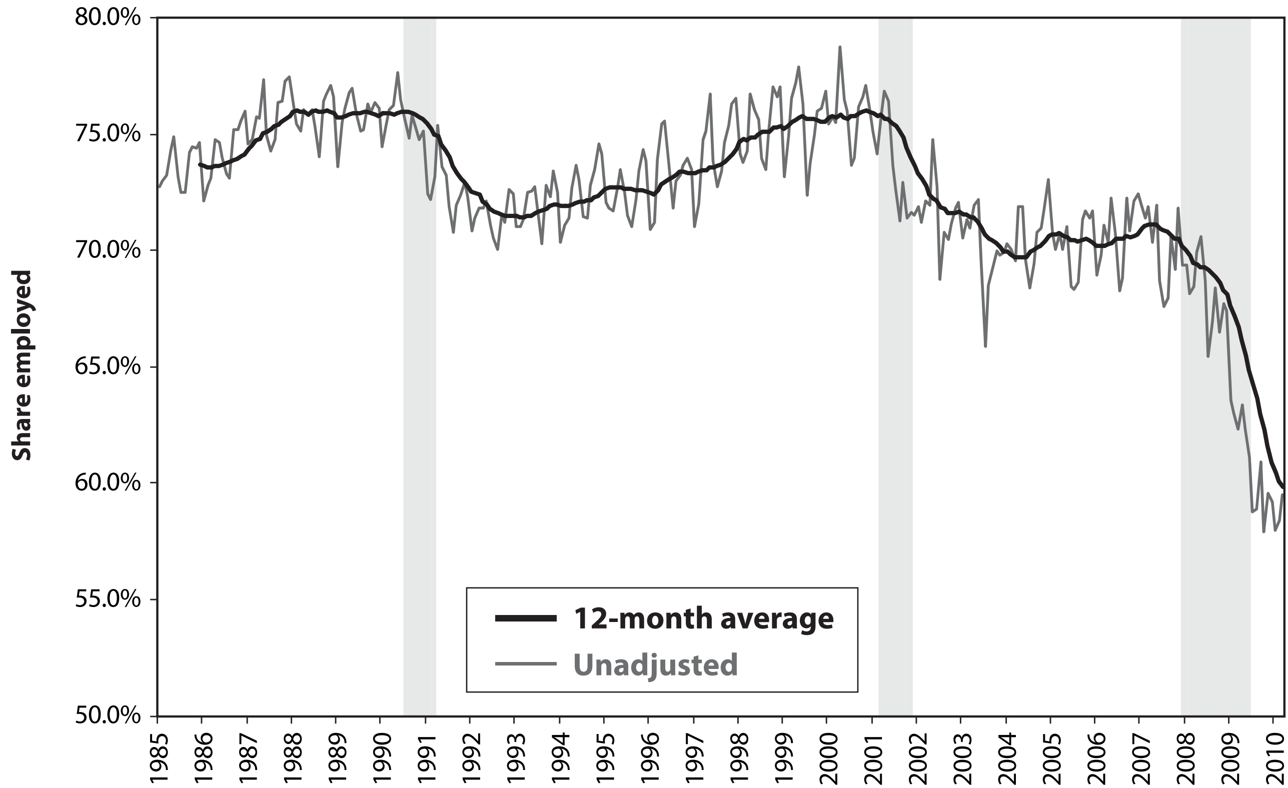
Over the last two business cycles (between 1989 and 2007), an average of 72.8% of young high school graduates who were not enrolled in school were employed. Over the past 12 months, they averaged only 59.5%, a drop of 13.3%.

The teen employment bridge

Employment for young adults is highly path dependent: employment in one period is sensitive to employment in

FIGURE D

Share of 16-24-year-old high school graduates who are employed but not enrolled, with 12-month moving average, 1985-present



NOTE: Shaded areas denote recessions. The data for this series are not seasonally adjusted. In order to account for seasonal factors, the 12-month moving average is included.

SOURCE: EPI analysis of Bureau of Labor Statistics data.

the time period prior. For example, Sum et al. (2006), using data from the Jobs for America's Graduates program, looked at high school graduates not enrolled in college and compared employment rates the summer after graduation for two groups: those who had a job during high school and those who did not. The data show that 75.4% of the former had jobs in the summer, compared to only 42.9% for the latter, an example of how teen employment is very important for post-high school employment.

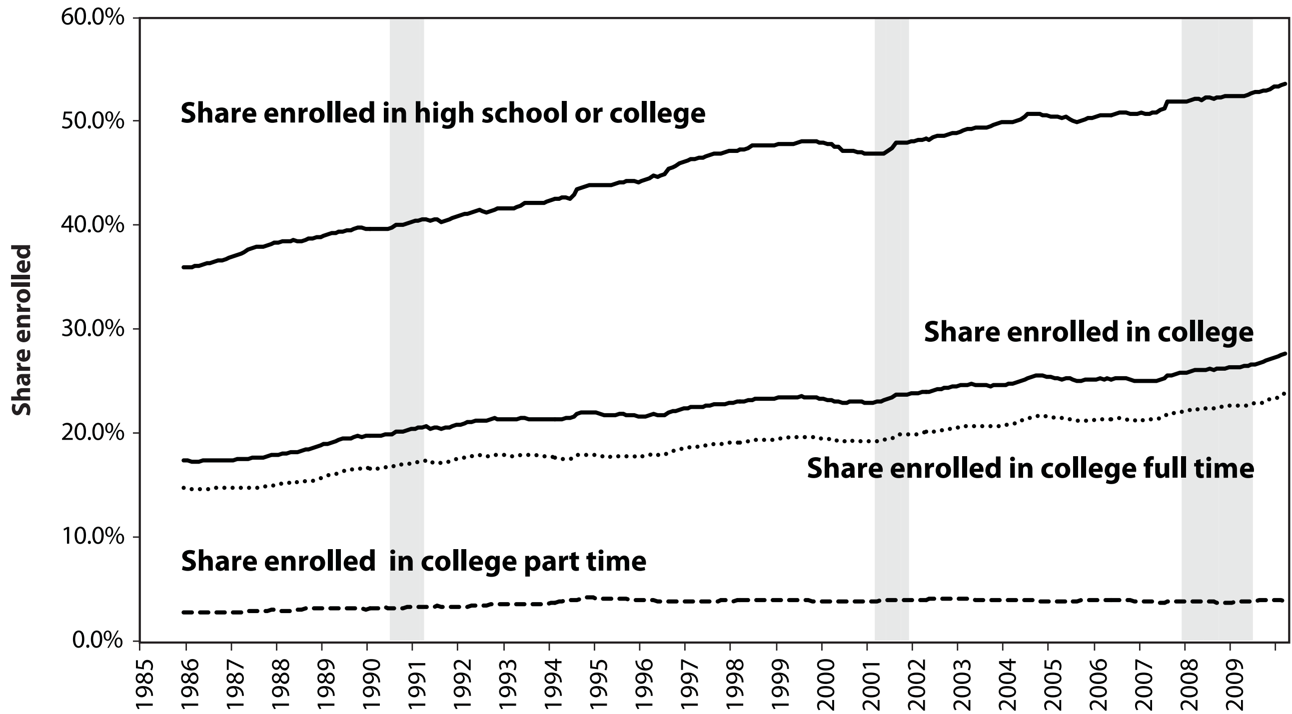
Unfortunately, the teen job market is at a post-World War II nadir. The unemployment rate among 16-19-year-olds was 27.6% in September 2009, a record high (since 1948), and remained high at 26.1% in March. The employment-to-population ratio among 16-19-year-olds was 25.9% in January 2010, a record low (since 1948). It remained low at 26.5% in March.

Enrolled students

Young workers have been leaving the labor market in droves. Since the start of the recession, the size of the youth labor force (workers age 16 to 24) has decreased by 5.0%—a drop of 1.1 million workers—and the labor force participation rate has decreased by 3.6 percentage points, from 59.1% to 55.5%, the largest drop in both measures for any age group in the population. To put these numbers in context, for the total population, the labor force has remained essentially flat (gaining 41,000 workers) and the labor force participation rate

FIGURE E

Enrollment rates among 16-24 year olds in college, full-time and part-time students, or high school, with 12-month moving averages, 1985-present



NOTE: Shaded areas denote recessions. The data for this series are not seasonally adjusted. In order to account for seasonal factors, the 12-month moving average is included.

SOURCE: EPI analysis of Bureau of Labor Statistics data.

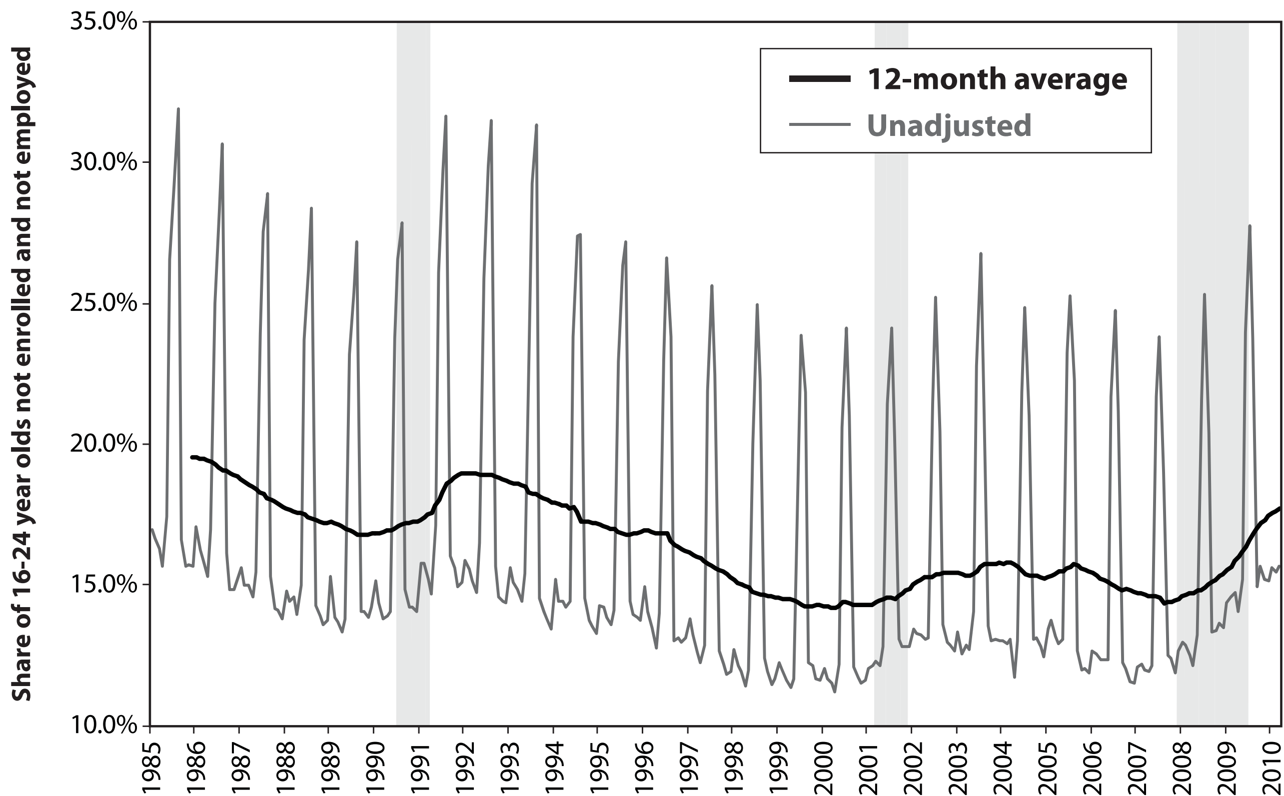
had decreased by 1.1 percentage point, from 66.0% to 64.9%.

In the case of young workers, rising enrollment is often argued to be a silver lining (or at least a shock absorber) of a recession in that a difficult job market encourages students to either stay in school or go back for more education.

Unfortunately, the large recent labor force decline for young adults is not being driven by large-scale voluntary decisions to increase school enrollment. The share of the labor force with a college degree is indeed growing—increasing enrollment is part of a decades-long trend. For example, in 1992, roughly a fourth of the adult workforce (25 years and older) had a college degree or more. By 2010, that number had reached 35%. And more students than ever are pursuing post-secondary education: 68.6% of 2008 high school graduates were enrolled in a college or university that fall, 71.5% of women and 65.9% of men (BLS 2009). **Figure E** shows the share of 16-24-year-olds enrolled in college, both full time and part time, and high school.

All this said, enrollment rates have not spiked over the past 12 months. Between April 2009 and March 2010, an average of 53.6% of 16-24-year-olds were enrolled in either high school (26.0%) or college (27.6%). These are only marginal increases from the 2007 averages of 51.9% enrolled in either high school (26.1%) or college (25.8%). In fact, the recent increases seemed to be explained entirely by the decades-long trend of increasing enrollment. Generally, the number or share of students enrolled in school does not spike up during economic downturns, meaning that there is no evidence that declines in the labor force are explained by an exodus to school.

FIGURE F



NOTE: Shaded areas denote recessions. The data for this series are not seasonally adjusted. In order to account for seasonal factors, the 12-month moving average is included.

SOURCE: EPI analysis of Bureau of Labor Statistics data.

Employment and enrollment: complements as often as substitutes

The idea that education is a backup plan when the labor market is difficult for young workers echoes misunderstandings about the nature of the student/worker relationship. Who goes to school? Who goes to work? Who does both?

Students and workers are not distinct, disparate groups. Over the last two business cycles (between 1989 and 2007), an average of 47.8% of 16-24-year-olds were both enrolled in school and employed. When looking at college students only, this number jumps to 58.0%. In short, most students are workers too—whether to finance education, save for additional education, or cover living expenses. Given that both higher education costs and the financial burdens of students are growing, students are not *insulated* from downturns in the labor market; instead their problems are often *amplified* by them.

Worst-case scenario for young-adults: NENE (not employed and not enrolled)

Rising rates of young adults who are neither working nor enrolled represent the greatest waste of society's resources and are troubling signs of social and economic dysfunction. **Figure F** shows the share of 16-24-year-olds who are neither employed nor enrolled in school.

Unlike enrollment, which showed no spike in response to the recession, the share of disconnected youth—neither enrolled nor employed—is clearly cyclical. Over the past 12 months (April 2009–March 2010), this number has averaged 17.7% of the youth population, after a 2007 average of 14.5%. This means an additional 1.2 million

16-24-year-olds have become disconnected from both formal schooling and work since the start of the recession.

The safety net—why they need it

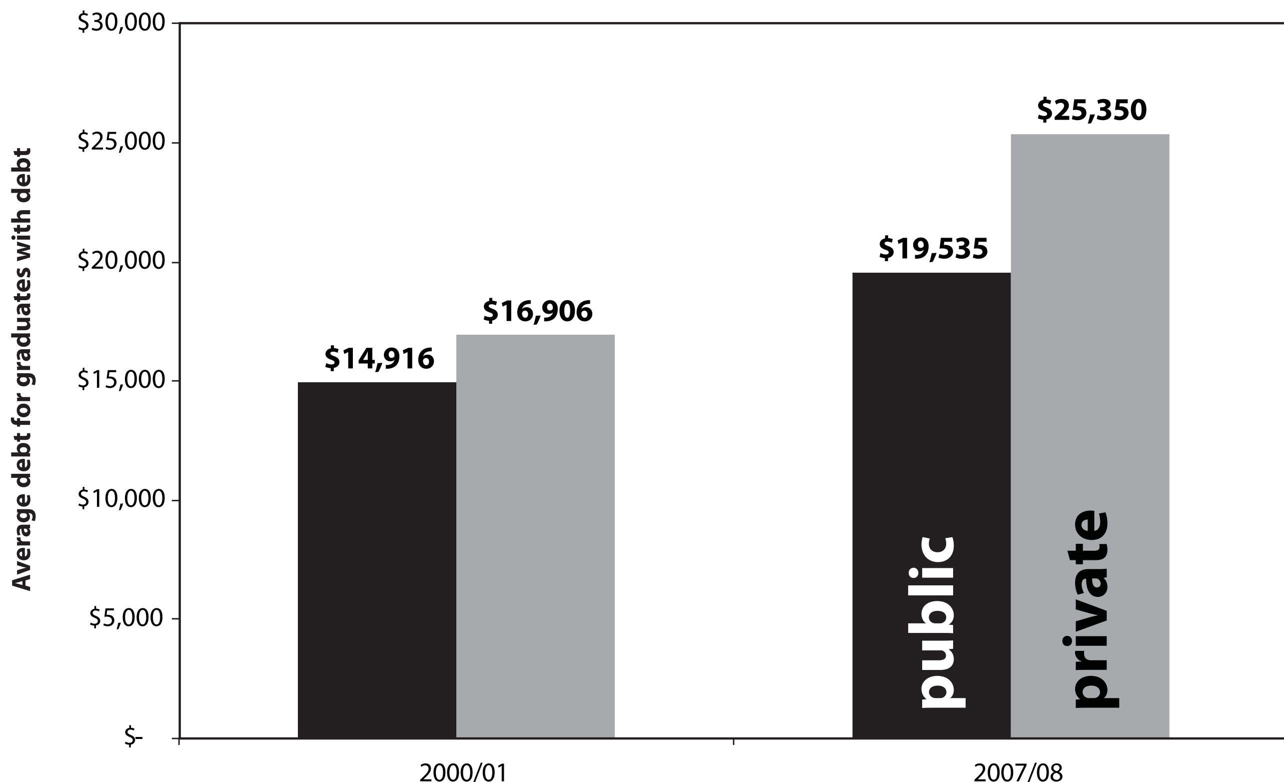
Given the difficult labor market young graduates face, what do they do when they cannot find a job? Unfortunately, there are few, if any, public safety net programs for able-bodied unemployed young adults, especially if they are just leaving school. While some of these workers can turn to parents for help (as the media has reported anecdotally, see for example Roberts 2010), not all young adults have this option; among other things, different families are not equally affected by the economic downturn. Many young adults are thus on their own in case of poverty or unemployment, a situation often exacerbated by high levels of education-related debt for students leaving school. In many cases, lacking savings or other assets, the lack of a public safety net for young Americans means relying on expensive loans through credit card debt. This section reviews the debt faced by young adults leaving school, the lack of a public safety net for most young adults facing unemployment and poverty, and the effect of the recession on young adults' overall financial security.

The student debt burden

The combination of skyrocketing costs of higher education and stagnant financial aid have resulted in rising levels of debt for young adults who choose to pursue postsecondary education. According to data from the U.S. Department of Education, in 1993 less than half of all four-year college graduates left school with debt (Draut 2008). Of the class of 2008 at four-year institutions, 65% of all private school graduates and 56% of all public school graduates left with debt. The debt levels carried

FIGURE G

Average student debt for graduates with debt of four-year institutions



SOURCE: Author's analysis of U.S. Department of Education Common Data Set. Amounts in 2008 dollars. See College Insight: www.college-insight.org/ for original data from the Institute for College Access and Success.

by these individuals are not trivial; student debt levels for graduates of four-year institutions with debt have grown steadily over the past eight years, as **Figure G** shows. For the class of 2008, the average debt level for graduates of public institutions was $19,535, and for private institutions it was $25,350 (author's calculations based on data from the Institute for College Access and Success).

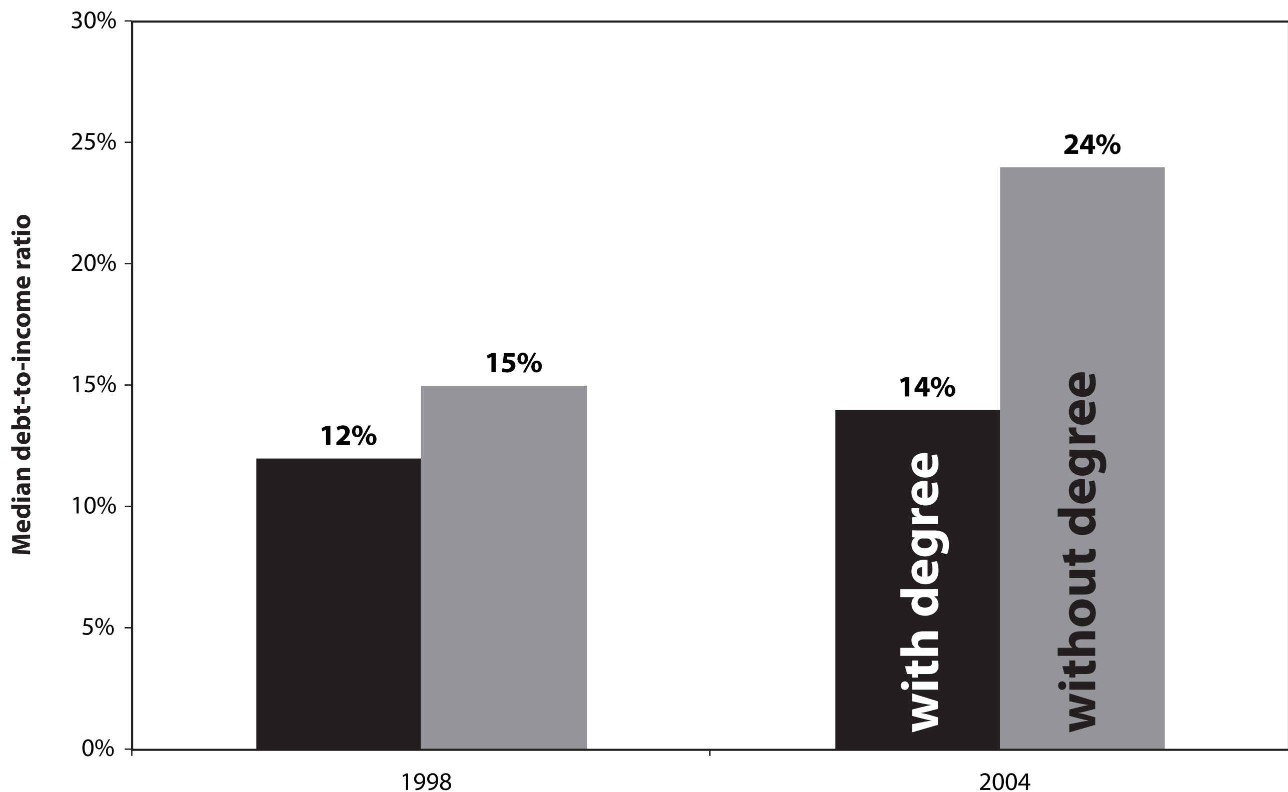
These statistics do not capture the debt burden of students who enroll in higher education and take out loans but do not finish their degree (which can often happen as a result of debt—see, for example, Orozco and Cauthen (2009) for the effect of the high cost of education on completion). As **Figure H** shows, individuals who have left school without a degree also can carry a substantial amount of debt relative to their income, a burden that has risen over time. In 2004, non-students with higher education debt that *received a degree* have median debt levels that equal 14% of their median income 10 or more years after taking out the loan. For non-students with student debt that *did not finish a degree*, the median debt equals 24%.

The safety net for young adults

Able-bodied young adults over 18 have few options for public assistance in the face of unemployment and poverty. This section provides a broad overview of the eligibility of young adults, particularly recent graduates, for four major public assistance programs: unemployment insurance, Temporary Aid to Needy Families, Medicaid and other health insurance-related programs, and food stamps.

- **Unemployment insurance:** Unemployment Insurance (UI) is the principal program for aiding individuals who have become unemployed through no fault of

FIGURE H



SOURCE: Chatterjee and Ionescu (2010) based on Survey of Consumer Finance data.

their own by replacing a portion of the worker's past wages for a limited period. However, in order to be eligible in most states, the worker must have worked for a "base period" of employment; this period is generally four out of the past five completed calendar quarters prior to the time that the unemployment claim is made. Thus, a young adult that has recently graduated from (or dropped out of) high school or post-secondary school would be ineligible for assistance from the UI program.[2]

- **Temporary Aid to Needy Families:** Temporary Aid to Needy Families (TANF) is the state-based successor to the Aid to Families with Dependent Children (AFDC) or "welfare." Eligibility requirements and benefits vary from state to state, but generally individuals must be pregnant or have children as well as meet stringent income and resources tests. A single young adult or recent graduate without children would likely be ineligible for assistance.

- **Medicaid/health insurance:** Uninsured but non-disabled and childless young adults are generally ineligible for Medicaid, the state-administered program that provides health insurance to low-income individuals. However, there are exceptions that vary by poverty level on a state-by-state basis for parents, childless adults, and pregnant women.[3]

  However, the comprehensive health reform bill released passed by Congress makes important changes to public policy to expand coverage to young adults. First, beginning in 2010, health insurers must allow parents to include children under 26 on their group health insurance policy, as long as the child does not have an offer for their own workplace health insurance. This change takes effect in 2010. Second, all low-income individuals, including young adults, are now eligible for Medicaid if they fall below 133% of the federal poverty line (about $14,400 for a single person in 2010). This change will take place in 2014. Finally, all individuals under 400% of the federal poverty line (about $43,320 for a single person in 2010) will be eligible for premium support for purchasing insurance in new state and regional insurance marketplaces. Eligible individuals will also receive assistance paying out-of-pocket medical expenses. Both changes take effect in 2014.[4]

- **Supplemental Nutrition Assistance Program** (food stamps): Food stamps are available for households that meet a series of eligibility requirements, including generally having less than $2,000 in countable resources (such as a bank account), less than 130% of the federal poverty line for a single individual of gross monthly income, and less than $903 in income net of allowable deductions (such as for earned income, standard deductions, dependent care, and medical expenses). The maximum monthly benefit for a single person is 30% of their net monthly income, to a maximum of $200. Generally an able-bodied single adult without dependents is only eligible for three months out of a 36-month period if they are not working or participating in a qualifying training activity, although the American Recovery and Reinvestment Act eliminated this time limit from April 1, 2009 to September 30, 2010 (however, individual states can set different work and training requirements).[5]

Given the burden that young adults often face, a combination of student debt and little to no savings, and the extreme patchiness of the public safety net for them, it is unsurprising that young adults have turned to loans (primarily through credit cards) as a source of support during hard times. A study by Greenberg Quinlan Rosner Research (Greenberg and Keating 2009) found that 37% of young adults 29 and under had more than $5,000 in non-mortgage and non-student loan debt, primarily in the form of credit cards, and more than one-third of young adults reported *increasing* their debt levels in the past 12 months in order to make ends meet.

This increase in debt associated with the recession is exacerbated by high levels of existing financial obligations for young adults. **Table 1** illustrates this point using data from Draut (2008). Young adults age 18 to 34 without education-related debt had median financial assets of $5,570, and 22% of this group had sufficient savings and other assets to weather a three-month period of

TABLE 1

Financial security of households age 18 to 34 in 2004

	Median financial assets	Enough assets for three months of unemployment
With education-related debt	$4,100	6%
Without education-related debt	5,720	22

SOURCE: Draut (2008).

unemployment, a standard measure of financial security. The picture is even bleaker for those *with* education-related debt; this group's median financial assets were lower, at $4,220, and just 6% had enough assets for three months of unemployment.

Public investments are a key solution

The situation for young adults is grim. Worse, there is very little that they can do on their own to rectify it—their employment problems do not stem from lack of skills or effort. Rather, they stem from an economic crisis that has made businesses and households exceedingly reluctant to spend money.

Given this, how do we improve the situation for young adults and ensure that a robust recovery gains enough traction so that the class of 2011 does not face the same dire labor market that will greet the class of 2010? In the near-term, public spending—both investments and relief—is the most effective method of stimulating the economy and promoting a robust recovery. Yet deficit hawks have been quick to label the rise in public debt[6] that accompanies this spending as "generational theft," arguing that today's debt must be serviced through higher taxes or cuts in services tomorrow that will constitute "stealing" from future generations. This view of public debt, however, is deeply damaging. It is the *uses* and *costs* of debt, and not simply its size, that should primarily determine whether and how much of it to take on. Judged this way, the rise in public debt in recent years should be welcomed by young workers, not feared, as it is a valuable investment, both in fighting the effects of the recession in the short-run and also laying the foundation for faster future economic growth.

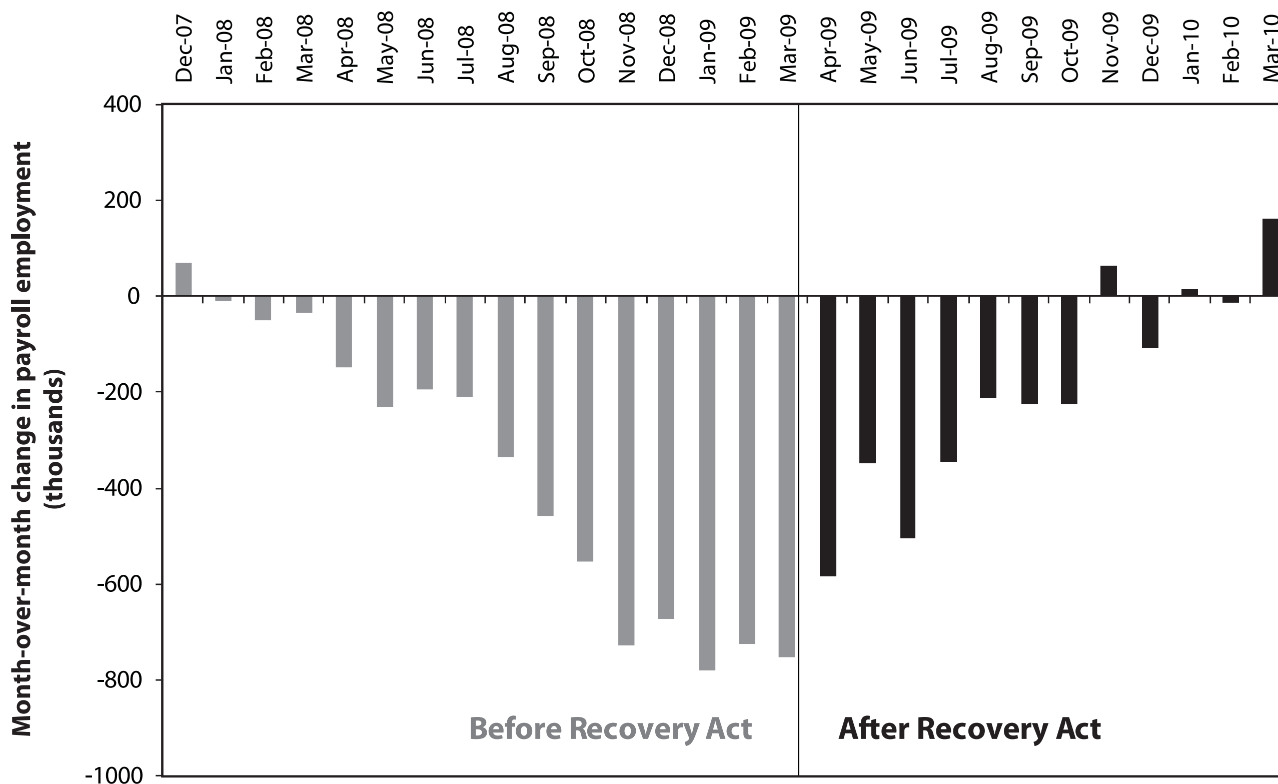
Good and bad debt

For many, especially young people, the instinctive reaction to the mere idea of debt is negative, making it relatively easy for people to accept "anti-debt" anxiety. This instinct is not useful: on its own, debt is neither intrinsically good nor bad, but a tool that can be put to good or bad use. People take on all sorts of debt early in life, and certain types of debt are considered useful, while other types are considered wasteful. Students take on substantial debt when they begin college, and some will end up paying those debts well into adulthood, but they consider it a positive investment because it has a high likelihood of paying off in the future. Meanwhile, taking out a loan to spend on a holiday trip would probably be considered harmful in the long run.

The same rationale can be applied to the current public debt. Some recent increases in this debt reflected poor choices, while other sources were wise investments. For example, the previous administration financed wars and large tax cuts to the wealthiest Americans solely with increases in debt, even as the economy saw falling unemployment rates and *private* debt soared. On the flip side, the very large increases in public debt between 2008 and 2009 cushioned the recession's blow as it provided for job creation and federal investments in infrastructure. Some of the rising debt came about through purely mechanical increases in deficits as tax revenues fell drastically and spending on transfer payments (such as unemployment insurance and food stamps) rose. Other increases in the debt during this time were temporary policy responses to the recession (i.e., the Recovery Act) that supported family incomes.

FIGURE I

Change in payroll employment: Before and after the Recovery Act



SOURCE: EPI analysis of Bureau of Labor Statistics data.

These latter increases were clearly useful investments, not out-of-control spending. In the short-term, the rise in debt propped up disposable income for those who were hit the worst by the recession, ensuring that millions of Americans with few sources of income can continue to get by in the midst of a recession. Besides keeping many out of grinding poverty, this spending also keeps the economy afloat and preserves or creates millions of jobs. **Figure I** illustrates that stimulus spending stemmed the downward jobs spiral.

While the economy needed spending to keep the economy afloat in the short-run, the Recovery Act also wisely allocated funds to education, health services, infrastructure, and green jobs to ensure that the spending led to a more productive economy in the long-run.

The benefits of the rise in investment spending are clear for all workers, and they are especially clear to young workers who are in dire need of a healthier labor market. Further, because long-term interest rates are at historic lows, the costs of this increase in debt are atypically low, and this should be taken advantage of (Bivens 2010).

Much of this sounds wrong to many people, as they often believe that everybody, even the government, needs to tighten their belts during bad times. Again, this instinct toward government belt-tightening is not only wrong, it is dangerous. Researchers at Goldman Sachs have pointed out that the negative shock to private-sector spending that set off the 2007 recession was larger than the one that led to the Great Depression (Bivens 2009). A repeat of the Great Depression was avoided in part precisely because we allowed the federal budget deficit to rise, acting as a shock absorber to economy-wide decreases in spending. If we had chased a balanced budget during recessions, a vicious downward spiral may have ensued: the spending

cuts and tax increases would worsen the economy and the fall in income would cause tax revenues to fall, forcing the government to cut spending and raise taxes over and over again. In short, tightening the government's belt when the private sector is already starving is a recipe for a depression.

The real generational theft problem

Debt-financed spending now is a historically cheap investment that minimizes the effects of the recession while putting a down payment on future productivity and the future labor force. It is therefore strange that some policy makers insist on calling this "generational theft." They contend that spending money now is unfair because it saddles young people with debt that "steals" their future earnings through higher future taxes. However, they are implicitly assuming that the young workers of today and tomorrow do not benefit from fiscal spending today and are merely burdened by the wasteful spending of their adult counterparts. This reasoning is wrong: young workers have a huge stake in spurring a recovery because they will feel the effects of the recession for years to come.

If there was no government stimulus or safety net spending at all, unemployment would be much higher, the recession would last significantly longer, and the scars it leaves would be much deeper and more damaging (Irons 2009). Seen in this light, the cost of spending money now is smaller than the cost of subjecting so many young workers to unemployment, underemployment, and low wages for years to come. Public debt that finances efforts to stimulate the economy will minimize this scarring, leaving young people a fighting chance at the future they deserve.

A better economy for young adults

The evidence presented in this paper reinforces what is already widely known: the last two years were the worst of times to be a job-seeker, whether young or old. Given their large reliance on labor-market attachments, young adults have a crucial stake in effective responses to the recession and jobs crisis.

What young people should not want is a policy that "waits out" the recession in the name of clamping down on public debt. That the workers of tomorrow will inherit a larger public debt is inevitable—poor pre-recession legislation turned a surplus into a deficit during an economic boom, and the recession further increased the deficit through falling tax revenues and increased government spending to stabilize the worsening economy. But this inheritance is not a curse; it is the best option available and provides today's young workers with their best hope for a prosperous future. Given this, policy makers should ask themselves if they really want to stop spending and sabotage young workers' chance at good future wage earnings by subjecting them to continued poverty, underemployment, and missed opportunities in their most formative years.

In the longer-run, young adults should realize that they have a stake in the safety net. Too many feel they are invincible and do not need help. However, it is the safety net that always manages to catch them should the unexpected happen. For decades, the American safety net has been allowed to wither. The passage of health care reform in March of this year could bring the nation closer to ensuring that more Americans do not slide into poverty simply because of bad health, bad labor markets, or simple bad luck.

Today's young Americans are coming of age in turbulent times. Even before the Great Recession struck, younger generations faced a future characterized by declining affordability of higher education, increased job turnover, eroding health insurance security, increased risk in saving for retirement, and more volatile earnings. The recent economic downturn has only served to magnify the economic insecurity created by these trends and threatens to seriously undermine young adult well-being for many years to come. Young adults thus have a significant stake in the national debate over the role of the government in promoting both short-term recovery and long-term economic security and growth.

Endnotes

1. Based on previous release of "College Enrollment and Work Activity of 2008 High School Graduates." Bureau of Labor Statistics.
2. For more information on eligibility requirements and benefit calculations for UI in each state, see: http://workforcesecurity.doleta.gov/unemploy/pdf/uilawcompar/2009/coverage.pdf
3. For more information on Medicaid eligibility and benefits by state, see: http://statehealthfacts.org/comparecat.jsp?cat=4
4. For more information on changes related to the Affordable Care Act of 2010, see: http://healthreform.kff.org/SubsidyCalculator.aspx
5. For more information on eligibility and benefits, see: http://www.fns.usda.gov/snap/applicant_recipients/eligibility.htm
6. Government debt is projected to reach 63.2% of GDP for 2010 and about 90.0% by 2020 according the Congressional Budget Office's estimate of the president's budget CBO (2010b).

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