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Address the Pain, Reap the Gain

Why our nation's future demands that political leaders take seriously the economic plight of America's young

BY TAMARA DRAUT

TODAY'S YOUNG ADULTS are very likely to be the first generation to not surpass the living standards of their parents. Evidence of their declining economic opportunity and security abound, from widespread debt to lower earnings in today's labor market for all but those with advanced degrees.

While this new generation is intensely engaged in the 2008 primary process, their pocketbook concerns remain on the margins of our political debate. A candidate visiting a college campus throws in something about the need for good jobs and lower tuition. But the stump speeches and debates are aimed primarily at middle-aged voters, using broad phrases like "strengthening the middle class" and ignoring the extreme economic insecurity of the young.

There are two compelling reasons why our politics needs a platform centered on the promise of expanding economic opportunity and security for a new generation. First, any effective agenda to shore up America's middle class will have to address young people. After all, it's between the ages of 18 and 34 that the major decisions affecting the trajectory of one's life are made: how much education to complete, what to do for a living, and when to start a family. Second, it could be a winning electoral strategy—attracting not just the youth vote but that of parents and grandparents, voters who worry about the ability of their children and grandchildren to build a better life for themselves. Indeed, polls now show that the majority of Americans do not believe the next generation will be better off than they are.

It's not surprising when you consider what has changed in just one generation. Back in the 1950s, 1960s, and early

1970s, three factors helped facilitate the transition to adulthood. First, there were jobs that provided good wages even for high school graduates. A college degree wasn't necessary to earn a decent living. And if you wanted to go, college was far more affordable. The second was an economy that lifted all boats, with productivity gains shared by workers and executives alike. The result was a massive growth of the middle class, which provided security and stability for families. Third, a range of public policies helped facilitate this economic mobility and opportunity: a strong minimum wage, grants for low-income students to go to college, generously subsidized state college tuition, a reliable unemployment insurance system, enforcement of the right to join a union, major incentives for homeownership, and a solid safety net for those falling on hard times.

This world no longer exists. Relation-

ships between employers and employees have become more tenuous, as corporations face global competitors and quarterly bottom-line pressures from Wall Street. Fringe benefits like health care and pension plans have been evaporating. As most families see their incomes stagnate or decline, they increasingly need two full-time incomes just to stay afloat, creating new demands and pressures on working parents. Getting into the middle class now requires a four-year college degree, and even that is no guarantee of the American dream.

But this increased insecurity for the young is not mainly the result of changes in the economy, for the economy is always changing. Rather, the insecurity reflects the failure of public policy to keep pace with the changes by providing the kind of buffers and counterweights that were widespread just a generation ago.

Today's young adults are trying to establish themselves in a society that has grown widely unequal and less responsive to the needs of ordinary citizens—with no real help from their government. At each step in the obstacle course to adulthood—getting an education, finding a job, starting a family, and buying a home—our nation's public policies have failed to keep up. Far too often, social critics blame a supposed poor work ethic or out-of-control spending habits. But the statistics paint an economic portrait much more troubling than a penchant for \$4 lattes.

COLLEGE: A LUXURY-PRICED NECESSITY

Today, rapidly rising tuition and anemic federal financial aid has created a “debt-for-diploma system.” With two out of three undergraduates leaving school with student-loan debts averaging \$19,200 (\$17,250 for those attending four-year public universities), the debt-for-diploma system is a financial undertow on young adults long after graduation.

Back in the 1970s, before college became essential for a middle-class lifestyle, our nation was more committed to helping students afford college. Students from modest economic backgrounds received almost free tuition through Pell grants, and middle-class

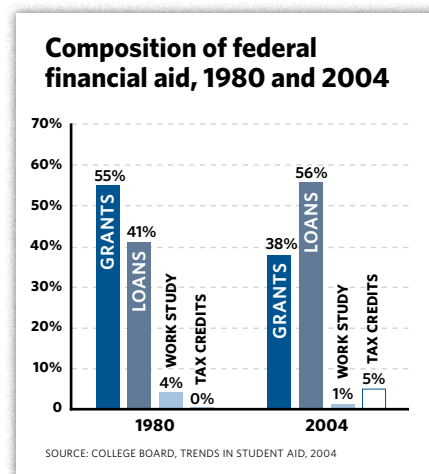
households could afford to send their kids to college because states kept tuition at public universities and colleges within reach. A generation later, state spending on higher education is at a 25-year low and federal financial aid is increasingly debt-based, with only 38 percent in the form of grants (chart below). We no longer help students afford college; we simply help them go into debt for college.

After sitting idly by for more than a decade, Congress last September passed The College Cost Reduction and Access Act, which will provide an additional \$20 billion in student aid over the next five

the government currently provides to student-loan companies.

These measures provide some progress in fixing our financial aid system, but it's important to remember that in 1972 when the Pell grant was established, it was designed to cover three-quarters of the cost of attending a public university. In 2007, the maximum Pell grant only covered about one-third of the costs at a public four-year college. By the time it reaches the new maximum under the act in 2012, it will still likely only cover about one-third of the cost of college because tuitions are likely to have risen faster.

With state spending at a 25-year low, we no longer help students afford college; we simply help them go into debt for college.



years. The act was heralded as a major improvement, but its impact on college access will be negligible. Behind the lofty rhetoric are modest improvements at best: the law increases the maximum Pell grant by about \$500 each year over the next five years, to \$5,400 in 2012. The act also creates an income-based repayment system that caps the amount student borrowers would pay on their loans to 15 percent of their discretionary income (discretionary is defined as any income above 150 percent of poverty, or about \$15,000 for a single individual). Finally, the law reduces the interest rate charged on certain new student loans, cutting it in half by 2012. These improvements are paid for by reducing the subsidies



THE DISAPPEARING "REAL JOB"

The term "real job" used to mean the first job you got after completing school. A real job allowed you to pay rent, buy groceries, make car payments, and have enough left over for spending money. A real job also came with fringe benefits such as health care and some type of retirement savings plan. Today's 20- and 30-somethings are discovering that real jobs are hard to come by in reality.

Incomes for full-time workers aged 25 to 34 are lower today than they were a generation ago, except among work-

ers with college degrees. Among young workers without college degrees, young women's earnings have remained relatively flat, while young men's earnings have declined considerably. Young males with high school diplomas are earning 29 percent less than they did in 1974, with young black men experiencing the steepest drop in incomes. Unemployment among young men of color is particularly high for this generation, with half of black men in their 20s jobless in 2004, up from 46 percent in 2000.

If a sustainable new progressive majority is to be built, the economic insecurity of the Millennials must be taken seriously.

The paycheck decline experienced by this new generation of young workers can partly be explained by the disappearance of manufacturing jobs that offered good wages for workers without college degrees, and the proliferation of low-wage service-sector jobs in their place, with no public policy for professionalizing those jobs or helping unions to organize them. In addition to lackluster wages, these jobs offer little room for advancement and few, if any, fringe benefits. Today, about 29 percent of young adults—a full 18.2 million 19- to 34-year-olds—don't have health insurance, making this the age group with the largest percentage uninsured.

In addition to often working in a benefit-free zone, moving up the wage or career ladder in the new economy is more

difficult than it was a generation ago. The well-paying middle-management jobs that characterized the workforce up to the late 1970s have been eviscerated. Corporate downsizing in the 1980s and 1990s slashed positions in the middle of the wage distribution, and now outsourcing threatens to take millions more. And unions, which also helped facilitate upward mobility particularly for those outside the professional ranks, have been pummeled by illegal management tactics and government failure to enforce the right to organize. The same

government has allowed corporations to misclassify permanent jobs as contract work, denying employees other hard-won legal protections.

GENERATION DEBT

Between college debt and the spillover effects of lower earnings amid a higher cost of living, credit card debt has become a new rite of passage into adulthood. It's not exactly the kind of generation-defining characteristic one wishes for, but debt is perhaps the one shared experience of this diverse generation. Young adults between the ages of 18 and 24 have 22 percent higher credit

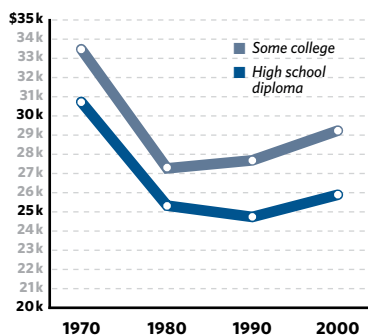
card debt than those who were that age in 1989. Young adults between the ages of 25 and 34 are also deeper in debt. In 2004, 25- to 34-year-olds averaged \$4,358 in credit card debt—47 percent higher than it was for baby boomers who were in that age group in 1989. Additional survey research conducted by Dēmos of low- to middle-income households found that in 2005 the average indebted adult under age 34 had slightly more than \$8,000 in credit card debt. According to these households, the most common reasons for their credit card debt were car repairs, loss of a job, and home repairs. Forty-five percent of those under age 34 reported using credit cards in the last year to pay for basic living expenses, such as rent, mortgage payments, groceries, and utilities.

The rise in credit card debt, coupled with the surge in student-loan debt, is the main reason why today's young adults are spending much more on debt payments than the previous generation. On average, 25- to 34-year-olds spend nearly 25 cents out of every dollar of income on debt payments, according to the Federal Reserve's data. That's more than double what baby boomers of the same age spent on debt payments in 1989. The fact that young adults are already spending a quarter of their income on debt is particularly worrisome because most in the 25 to 34 age group aren't homeowners. So that 25 cents is going to non-mortgage debt: primarily student loans, car loans, and credit cards—making it harder to ever become homeowners.

HIGH-COST HOUSING

The average person now leaves his or her parents' home at the age of 24. But four out of 10 young people will end up circling back to their parents' home at least once after leaving. Most grown-ups do not look forward to continuing to live with their parents. A prime reason for these "boomerang kids" is that housing costs have risen faster than inflation and faster than entry-level wages. For college graduates, big cities are still the best place to go for launching a career. But chasing a good job comes with a steep price. Between 1995 and 2002,

**A Generational Decline:
Annual earnings of 25- to
29-year-olds (in 2005 dollars)**



SOURCE: THE STATE OF WORKING AMERICA, 2006/2007
ECONOMIC POLICY INSTITUTE

median rents in nearly all the largest metropolitan areas rose by more than 50 percent. Median rents in San Francisco ballooned by 76 percent; Boston, 61 percent; and Denver, 62 percent. And the last five years haven't been any kinder to renters.

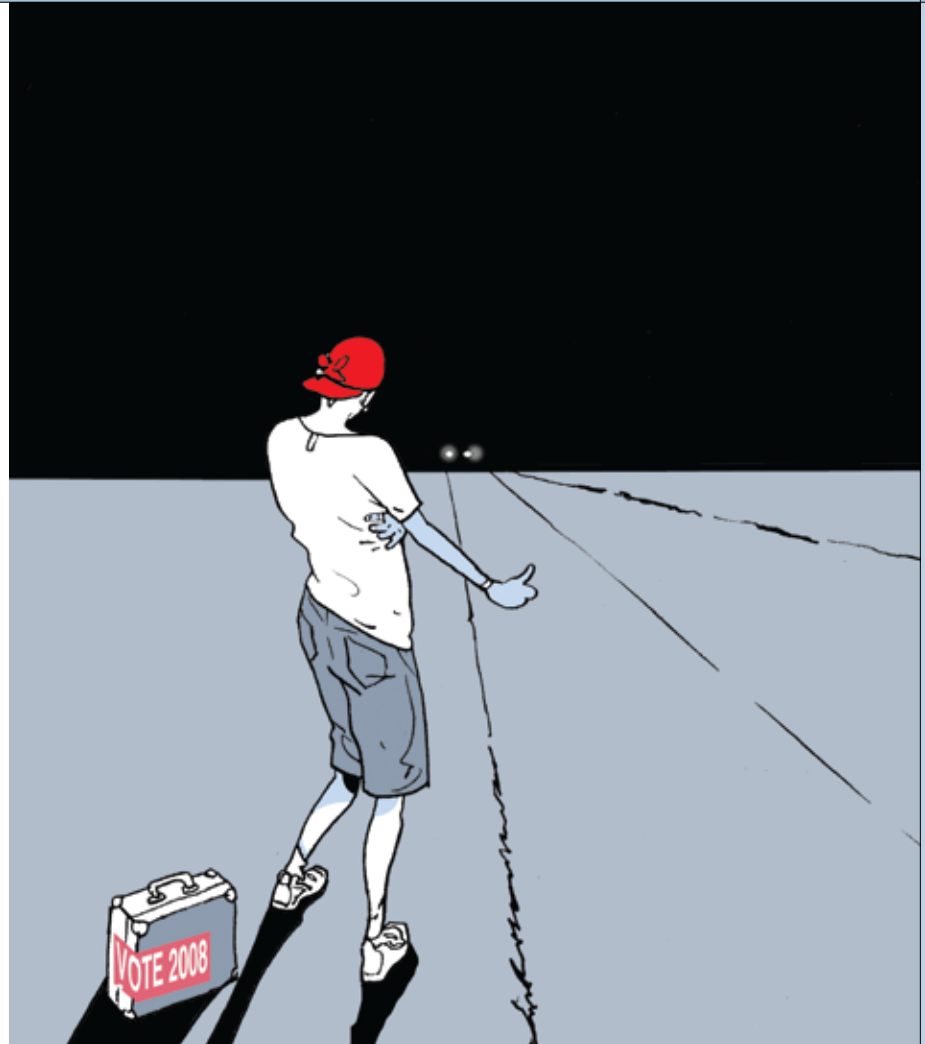
First-time homebuyers have also become particularly vulnerable in the wake of rapidly rising home prices and a deregulated mortgage market. In 2006, the National Association of Realtors reported that 43 percent of first-time homebuyers purchased their home with zero money down. Many are financing 100 percent of their homes and taking out massive mortgages that eat up as much as half of their income. An unregulated mortgage industry has unleashed a tidal wave of "innovative products" designed to bilk new homeowners with extra fees, points, and complex pricing schemes that can spell disaster for the unwary—as the sub-prime meltdown continues to demonstrate. As a result of surging home prices and lower down payments, the typical monthly mortgage payment of a young homeowner is one-third larger than it was in 1980.

THE PERILS OF PARENTHOOD

For middle-income families, the cost of raising a child born in 1960 to age 18 was \$155,141 (in 2003 dollars). Four decades later, the cost of raising a child born in 2003 to age 18 rose to \$178,590—a 15 percent increase.

Why does it cost more today to raise a child than it did back then? You might look around at all the techno toys and frivolous clothing in parents' magazines, but the real culprit is child care and health care. Today the average two-parent family with two children under age 5 spends 11 percent of its budget on child care—up from only 1 percent in 1960. Paying for a child's health care eats up significantly more of the budget too, absorbing 7 percent compared to 4 percent a generation ago.

Limited subsidies are available to help lower-income parents, mostly single women transitioning off welfare, pay for child care. But income limits are too low for moderate or middle-income families



to qualify. As a result, child care remains one of the biggest expenses in a young family's household budget, often second only to the mortgage or rental payment. Having access to nurturing and developmentally sound day care for infants and toddlers is something young families can take for granted in virtually every other developed nation in the world. But in our society it's something only the most well-off can procure.

IF PROGRESSIVES WANT TO WIN THE YOUTH vote and begin building a sustainable new progressive majority, then it's time to take the economic insecurity and downward mobility of today's young people seriously. The economic concerns facing young people should be the backbone of the promise to strengthen the middle class and create more opportunity. The reality is that it has become much more difficult for this generation to

either work or educate their way into the middle class. It's a reality their parents and grandparents are witnessing firsthand. It's a reality few politicians talk about but most Americans understand.

Creating a broader, stronger, and more inclusive middle class demands new public policies aimed at young people just starting out. Right now they have the most to lose. With the right mix of politics and real policy change, they could have the most to gain. This *Prospect* special report, co-sponsored with Dēmos and underwritten through the generosity of the W.K. Kellogg Foundation, provides a blueprint for both the policies and the politics. **TAP**

Tamara Draut is director of the Economic Opportunity Program at Dēmos and author of Strapped: Why America's 20- and 30-Somethings Can't Get Ahead.