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The Kids Aren't All Right

Younger Americans are being suffocated by spending, subsidies, and debt

By: Veronique de Rugy from the November 2013 issue

A word of caution for kids heading off to college this year: Your degree may be worth less and cost more than you think. Your job prospects will likely be grim, whether or not you get that sheepskin. Oh, and you're on the hook for trillions in federal debt racked up by your parents and grandparents.

Washington has willfully ignored the looming crisis of entitlement spending, knowingly consigning young Americans to a future of crushing debt, persistent underemployment, and burdensome regulation. Politicians on both sides of the aisle share the blame.

This summer, Congress made a big bipartisan show of cutting student loan rates to 3.4 percent from an already artificially low 6.8 percent. But even that seemingly helpful gesture will wind up hurting the Americans it claims to help. Federal student aid, whether in the form of grants or loans, is the main factor behind the runaway cost of higher education. Subsidies raise prices, leading to higher subsidies, which raise prices even more. This higher education bubble, like the housing bubble before it, will eventually pop. Meanwhile, large numbers of students will graduate with more debt than they would have in an unsubsidized market.

And when those new, debt-laden graduates head out into the labor market with their overpriced diplomas, they may not be able to find a job. According to data provided to me by my Mercatus Center colleague, former Bureau of Labor Statistics (BLS) commissioner Keith Hall, fewer than half of Americans today between the ages of 18 and 25 are employed. For those in that cohort actively on the job market, the unemployment rate is 16 percent, versus 6 percent for job-seekers aged 25 and above.

These young folks are also more likely to be long-term unemployed: While accounting for just 14 percent of the labor force, they make up 19 percent of the long-term unemployed, defined by the BLS as 27 weeks or longer.

The lucky few young'uns with jobs of some kind also suffer from rampant underemployment. In a recent blog post, Diana Carew of the Progressive Policy Institute wrote: "In July 2013, just 36 percent of Americans age 16-24 not enrolled in school worked full-time, 10 percent less than in July 2007." In other words, of these 17 million young Americans, 5.6 million were working part-time, 3.2 million were unemployed, and 8.4 million were out of the labor force altogether.

This jobs crisis will have long-term consequences for young Americans. A forthcoming paper in the *American Economic Journal: Applied Economics* on Canadian college graduates by the economists Philip

Oreopoulos, Till Von Wachter, and Andrew Heisz shows that in economies like ours, during normal times, the average person sees 70 percent of career wage growth in the first 10 years on the job. That is terrible news for people who are unemployed or underemployed at the start of their careers. The study also shows that those unlucky enough to graduate during a recession will suffer a 9 percent pay hit from the start of their careers-and it will likely take them a decade to climb out of that hole.

Weak economies always hit younger people hard, but this weak recovery is taking a particularly heavy toll, despite the massive government intervention in the form of stimulus and job programs. In fact, much of the uncertainty that gets in the way of employers hiring new full-time workers can be traced to government policies.

Take the president's health care law. Because ObamaCare requires employers with more than 50 workers to provide health insurance to all employees or pay a $2,000 penalty per worker, the law will likely increase the cost of current and future employees (those working at least 30 hours per week). There is increasing evidence that the new rules are leading employers to hire more part-time workers and/or to cap their workers' time at 30 hours, especially in the retail and fast-food industries. Outfits ranging from Walmart and Forever 21 to Virginia community colleges have already started increasing their share of part-time employees.

Health insurance premiums are also going up, thanks to ObamaCare's requirement that health insurers accept everyone who applies, that they never charge more based on preexisting medical conditions, and start paying for many medical conditions that previously went uncovered.

But not everyone is equally affected by the increase in premiums. In fact, while some Americans-mostly older and sicker-will benefit from lower rates, others (mostly younger and healthier) will see their rates go up significantly, even after accounting for federal subsidies. A 2013 study by Society of Actuaries fellows Kurt Giesa and Chris Carlson in the latest issue of *Contingencies*, the American Academy of Actuaries' bimonthly magazine, shows that 80 percent of Americans in their 20s will face higher costs under the law.

That fact is rather ironic: Since about two-thirds of the uninsured population is under the age of 40, this law, too, could end up hurting the very uninsured Americans it was supposed to help. As the Manhattan Institute's Avik Roy wrote of the study in a blog post at *Forbes*, because "premiums for younger, healthier individuals could increase by more than 40 percent," some will choose to pay the individual-mandate penalty rather than get coverage. In other words, they still won't be insured, the job market will still be constricted by ObamaCare, *and* they'll be poorer by the amount of the penalty.

Even if lawmakers repeal provisions in the new health care law, younger people will still not be out of the woods. That's because before Obama Care, there was Medicare. And in addition, there is Social Security. Spending on these programs will explode in the near future, creating a massive pile-up of debt and unfunded liabilities. Medicare is the bigger ticking time bomb, with a projected shortfall of more than $30 trillion. Social Security's unfunded liabilities total about $7 trillion.

According to a Cato Institute report published this year by economist Jagadeesh Gokhale, making these two programs sustainable would require payroll taxes to be more than doubled immediately. Alternatively, the Cato report implies that Social Security and Medicare benefits would have to be cut immediately by more than 60 percent. In either case, ensuing payroll tax surpluses would have to be invested in securities that earn annual average real returns of about 3.5 percent. These calculations imply that for each year that passes without such fiscal policy adjustments, the combined fiscal imbalance of these two programs would grow by about $2.4 trillion.

While the entitlement problem represents the largest and most visible example of how younger Americans will be penalized by government overreach, it is far from the only trouble spot. Take farm subsidies: Not only do they artificially jack up the price of food, they also increase the value of farm lands, making it harder for young farmers to buy or rent land. The same can be said of the mortgage interest deduction, which artificially increases the value of homes, making it harder for first-time buyers. Like student loan subsidies, the mortgage interest tax deduction gives people an incentive to get deeper into debt than they would have otherwise.

From poor public schools to the minimum wage, well-intentioned policies tend to backfire. In addition, we are about to embark on a massive transfer of wealth from younger to older Americans. It is today's youth who will take the brunt of punishment from Washington's decades of "helping" previous generations of Americans. It is today's youth who will most likely see their own federal benefits cut dramatically, their taxes increased, or some combination of the two. And it is today's youth who will find it harder to get a good job (let alone start a company), buy a home, support a family, or do many of the things that were long considered a near-certainty for college graduates.