A Generation Indebted: Young Adult Debt across Three Cohorts

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In this study, I examine how young adult indebtedness has changed across three cohorts of young adults in the 1970s, 1980s, and 2000s. I pool data from four National Longitudinal Surveys of Youth cohorts—the NLS-M 1966, NLS-W 1968, NLSY 1979, and NLSY 1997. I have three key findings. First, debt burdens (debt relative to economic resources) have increased substantially across the three cohorts of study. Despite the fact that the most recent cohort of young adults are earlier along in their debt accrual career and have yet to hit many of the major adult milestones that often lead to debt, they are burdened with more debt than previous cohorts of young adults who achieved these milestones earlier. Second, young adult debt portfolios have shifted towards noncollateralized (unsecured) and student loan debt over time, the latter replacing home mortgage debt as the primary form of wealth-building debt among young adults. Third, cohort changes in debt have occurred unequally across social class lines. Young adults from lower social class backgrounds have disproportionately taken on more unsecured debt over time, relative to their more advantaged counterparts. The growth in debt burden across cohorts, however, has been most pronounced among college-educated young adults. *Keywords: debt; social class; cohorts; transition to adulthood; life-course perspective.*

The economic crisis of 2008 called attention to the risks associated with rising household and consumer debt. Over the last 40 years, inflation adjusted household debt has increased dramatically, and debt has become more difficult to repay for American families (Campbell and Hercowitz 2009, 2010; Maki 2002). More recently, rising debt has stoked popular and scholarly concern that young adults are increasingly at risk for starting their adult careers buried under a mountain of debt with no hope of repayment (Draut 2005; Draut and Silva 2004; Kamenetz 2006). Little is known, however, about how young adult indebtedness has changed over time. In this article I examine how credit use and debt burdens have shifted across three cohorts of young adults.

For many, young adulthood is the beginning of the debt accrual career. It is a stage of life when individuals and households have relatively low incomes and few assets (Haveman and Wolff 2005; Wolff 2001). Yet it is also a time when young people make significant decisions and investments in their future—such as completing their education, purchasing a home, and getting married—most of which lead them to acquire debt. On the one hand, access to credit and taking on debt provides young adults with the financial resources necessary to achieve many of these milestones. On the other hand, recent literature on debt in the transition to adulthood suggests that becoming overburdened with debt at this critical life stage is likely to diminish young adults' ability to attain economic independence, increase their risk of bankruptcy, and have consequences for their economic and psychological well-being (Atkinson 2010; Drentea 2000; Dwyer, McCloud, and Hodson 2011, 2012).

But despite a growing focus on the consequences of youth indebtedness, surprisingly little research has investigated cohort differences in credit use and debt burdens in the early young adult years. Nearly all debt research focuses on historical trends in debt across the entire population

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(Campbell and Hercowitz 2009, 2010; Maki 2002), and does not consider that young adulthood may differ from other stages of the life course. This is important because newer cohorts of young adults face unique risks and circumstances in young adulthood that earlier born cohorts did not, which may alter their patterns of early debt accumulation and debt trajectories as they move through the life course. Moreover, existing research on young adult indebtedness is limited to student loan debt and credit card debt among college goers (Draut and Silva 2004; Kamenetz 2006; Project on Student Debt 2011), and thus has not considered all types of debt or examined debt among those who do not go on to college.

In this study, I ask how young adults' debt portfolios and debt burdens (debt relative to assets and income) have changed across three cohorts. I also examine the intersection of social class and debt, and ask how cohort differences in indebtedness have unfolded across social class lines. The primary analyses focus on young adults in their mid-twenties (24 to 28). At this age, most young adults have completed their educations and are just beginning their adult careers (Rindfuss 1991). I examine three cohorts: the Early Baby Boomers, who entered adulthood in the mid-1970s and often were married, had homes, and had children by their mid-twenties; the Late Baby Boomers, who entered adulthood in the late 1980s after the massive financial deregulation of the Reagan Era; and Generation Y, the most recent cohort of young adults who came of age in the mid-2000s on the eve of the Great Recession.[1]

Young Adult Debt in a Life-Course Perspective

The life-course perspective stresses the importance of time for shaping human lives and notes that individuals' behaviors, choices, and development are a product of the broader sociohistorical context within which they are embedded (Elder, Johnson, and Crosnoe 2004). It emphasizes two aspects of time for the study of change. First, individuals are shaped by the social conditions of the *historical era* (or period) in which they are embedded. Historical changes in credit policies (Campbell and Hercowitz 2009) have increased debt burdens and made debt more difficult to repay, which could impact young adult indebtedness (Atkinson 2010; Elder 1994). Second, successive *birth cohorts* experience the passing of historical time differently (Elder, Johnson, and Crosnoe 2004) given that cohorts reflect the intersection of historical and biographical time. Differences across birth cohorts result from growing up and coming of age in different social and historical contexts (Ryder 1965). Across cohorts, the social roles and obligations associated with young adulthood have changed, which has important implications for their credit use and debt burdens. I discuss each of these in turn.

Credit, Debt, and the Burden of Repayment: Historical Trends, 1970 to Present

Young adults have increasingly come of age in a historical era of rising debt. In the past several decades inflation adjusted median household debt has risen and household savings have declined (Campbell and Hercowitz 2009). From 1970 through present day, the proportion of households with debt has increased, and median household debt has risen from $20,000 to over $67,000 in constant inflation adjusted 2010 dollars. (Federal Reserve Board 2009; Projector and Weiss 1966). While most of the rise in debt was driven by rising home mortgage debt, all types of debt—including automobile loans, credit card debt, and student loan debt—rose during this time (Federal Reserve Board 2009).

The dramatic run-up in debt was made possible by a range of financial deregulation policies in the late 1970s and 1980s that made lending more profitable. These deregulatory, or neoliberal,

1. I define the cohorts in the following way: Early Baby Boomers are young adults who were age 24 to 28 in 1976-1978; Late Baby Boomers are young adults who were ages 24 to 28 in 1989; Generation Y are young adults who were ages 24 to 28 in 2005-2009.

policies increased the supply of credit to consumers by giving the banks more power to control interest rates, aggressively market loans to more households who previously did not have access to credit, and create new credit instruments (Campbell 2010; Campbell and Hercowitz 2009). For instance, the landmark 1978 Supreme Court decision in *Marquette National Bank v. First Omaha Service Corp* loosened restrictions on interstate banking, which led states to compete for banks' business and ratchet up usury interest rate caps (Campbell 2010). Rising interest rates increased bank profits and allowed banks to further expand consumer credit and mortgages to those who were traditionally denied credit, such as socioeconomically disadvantaged groups and college students. Moreover, the repeal of Depression-era banking regulation policies in the late 1990s led to massive bank mergers, which gave banks more capital to lend and allowed for the creation of asset-backed securities—both of which were key to the continued expansion of both consumer credit and home mortgages (Campbell 2010). These changes transformed credit from an industry based on low-interest, collateralized installment loans, to one that is based around noncollateralized revolving credit, where consumers are charged high interest rates for carrying their balances forward (Campbell 2010; Hyman 2011). Consumer credit, once a marginally profitable business, has thus become a multibillion-dollar industry and a key profit mechanism for banks.

But what was profitable for the banks proved problematic for the American consumer as debt became harder to repay. The aggressive marketing of credit to the less affluent, the rise of revolving credit, and ballooning interest rates increased the financial burden of repayment for American families. Debt burden (debt relative to income or assets) has increased dramatically over the past three decades, and indicates that debt has become more difficult for many Americans to repay (Debelle 2004; Pearce 1985).[2] The rise in debt burdens have been further compounded by stagnating wages; armed with expanded access to credit, lower- and middle-class families who feel the crunch of stagnating wages have increasingly borrowed money to maintain their standard of living (Campbell 2010; Dwyer, McCloud, and Hodson 2011; Leicht and Fitzgerald 2007; Mishel, Berstein, and Allegretto 2007).

In sum, recent cohorts of young adults have come of age in a historical context where access to credit is increasing, credit is being used to supplement stagnating incomes, and debt repayment is becoming more burdensome on family's economic resources. But over time young adults have also faced unique circumstances in their transition to adulthood that preceding cohorts have not, and such circumstances are likely linked to their use of credit.

Debt and Debt Burden across Cohorts of Young Adults

The transition to adulthood—the period of life when young people move from adolescent into adult roles—has changed over time in ways that have implications for young adults' economic resources and debt. In the early 1970s, Early Baby Boom young adults followed a standardized script to adulthood and moved quickly into their adult roles. They left their parents' home, completed their educations, entered the full-time labor market, got married, and had a child in quick succession (and typically in that order) by the time they were in their mid-twenties (see Shanahan 2000 for review). This was aided by a booming economy and high paying jobs, which enabled young people to attain economic independence and start their families at a young age (Settersten and Ray 2010). By their mid-twenties, almost three-quarters of the Early Baby Boom cohort had married, had a child, owned homes, and were firmly entrenched in their full-time careers (Furstenberg 2010; Stevens 1990).

2. Debt burden is typically measured as the proportion of monthly income that is devoted to debt payments (i.e., the ratio of "debt service" to income) or as the ratio of debt to financial resources, where the latter can be specified as: (1) the ratio of all nonmortgage debts to family income (i.e., the debt-to-income ratio); and (2) the ratio of all debt to the sum of all financial and nonfinancial assets (i.e., the debt-to-asset ratio), and is associated with a range of negative financial outcomes, including missed loan payments, financial distress, and even bankruptcy (Dynan and Kohn 2007; Wolff 2007).

Over time, fewer young adults have followed this script. Young adults are taking longer to settle into their adult roles (Arnett 2000; MacMillan 2005). These changes in the transition to adulthood reflect a variety of structural and cultural changes, notably the expansion of postsecondary education, changing labor market and economic conditions (Furstenberg 2010), as well as the diffusion of contraceptives and women's increased participation in the labor market and higher education (DeNavas-Walt, Proctor, and Smith 2013). In contrast to the Early Baby Boom cohort, only about 60 percent of young adults in the Late Baby Boom cohort had been married and had at least one child (Furstenberg 2010). Young adults in the Generation Y cohort are even less established; less than half of the Generation Y cohort was married or had a child in young adulthood (Settersten and Ray 2010), and a growing proportion are recent college graduates that have not yet gained steady economic footing (Furstenberg 2010).

That young adults are becoming less established in adult roles has implications for the economic resources they command. Although wealth in the general U.S. population has grown in recent decades, this is not true for young adults (Steuerle et al. 2013). Young adults in later born cohorts tend to have lower incomes, are less likely to own homes, and have fewer assets than the cohorts that preceded them (Haveman and Wolfe 1994; Taylor et al. 2011). A defining feature of Generation Y young adults is that they struggle to become economically independent and need to rely on their parents to make ends meet (Danziger and Ratner 2010; Settersten and Ray 2010; Swartz 2008). In addition, young adults in Generation Y are having more difficulty finding stable, high paying, full-time jobs than previous cohorts of young adults (Danziger and Ratner 2010; Sironi and Furstenberg 2012), which further hampers their ability to accumulate assets, and may lead them to become over-burdened with debt.

Perhaps the most obvious shift in the transition to adulthood with implications for debt is the expansion of postsecondary education and its rising costs. During the latter half of the twentieth century, changes in the structure of the labor market made it increasingly necessary for young adults to get a college degree to attain high-paying, competitive jobs (Danziger and Ratner 2010). Yet the rise in the value of a college degree has been somewhat offset by rising costs. Over the past 30 years, college costs have skyrocketed and outpaced inflation while state and federal funding for higher education have fallen (College Board 2006; National Center for Education Statistics 2012).

Rising college costs and declining grant-based financial aid have led young people to turn to student loans to bridge the gap between rising costs and their own and their family's resources (Houle 2014). When the Early Baby Boomers were in college, most financial aid came in the forms of grants and private education loans were almost nonexistent. Today, student loans are one of the most common forms of financial aid (College Board 2010). From the early 1990s through 2010, average inflation-adjusted debt for a college graduate who carried a positive debt balance increased from $13,000 to over $25,000 in constant 2010 dollars (College Board 2010; Project on Student Debt 2011; Rothstein and Rouse 2008).

The growth in student loan debt poses unique challenges for recent cohorts of young adults because it is unlike other forms of debt. Although student loan debt, like home mortgage debt, may be considered a good investment in one's future, it comes with unique risks. Student loan debt cannot be discharged by filing bankruptcy and there are often heavy financial penalties for missing loan payments (Carey and Dillon 2011). College graduation rates have flat-lined while college enrollment has risen, which means more students are leaving their postsecondary education in debt without a degree (Porter 2012) and thus will not receive the wage surplus that comes with a college degree. Indeed, student loan default rates have climbed in recent years, suggesting that student loan debt is becoming harder for many to repay (College Board 2010). Thus, student loan debt poses a unique and new risk for Generation Y young adults that previous cohorts did not face.

Debt and Social Class in the Transition to Adulthood

Although young adulthood has changed from a short and narrow path to a long and winding road (Furstenberg et al. 2013), these changes have not been universal across social class lines.