ASK AN ECONOMIST

Alexander Monge-Naranjo has been an economist at the Federal Reserve Bank of St. Louis since 2012. His research focuses on cross-country income differences and human capital. Outside of work, he enjoys spending time with his family, traveling and reading. For more on his research, see https://research.stlouisfed.org/econ/monge-naranjo.

Alexander Monge-Naranjo with his family in Kamakura, Japan, earlier this year.

Q. Recent college graduates have a higher chance of unemployment than their more experienced counterparts. How could student loans be designed to mitigate this risk?

A: Unemployment is an important risk for recent college graduates, who typically have little labor market experience, especially related to their field of specialization. Although unemployment insurance exists, workers need to be experienced to qualify. Furthermore, student loan programs do not account for the fact that finding a good-paying job may take a while; repayment is expected to start soon after graduation, although some loans do provide a grace period. Hence, these two programs do not offer much help to fresh college graduates who don't find a job right away. My recent research looks at ways to mitigate the burden for those who are in this situation.

In an article in the latest Federal Reserve Bank of St. Louis' *Review,* I showed how the design of student loans could mitigate the unemployment risk for recent graduates.[1] I found that unemployment compensation would be a key element of the optimal student loan program, whereby the student would receive financing not only for the time in college but also for the time until the student finds a job. An important feature of the optimal program is that the unemployment benefits received and the debt balance would depend on the length of the unemployment spell. In particular, to keep the recent graduate motivated to seek a job, the unemployment benefits should decline as the person remains unemployed, and also the amount of debt the person should pay must be increasing with the length of the unemployment. If well-designed, such a scheme would provide the optimal balance between insurance against the risk of unemployment and providing the right incentives to look for a job. Such schemes can be made revenue-neutral (on average), so taxpayers would not need to finance any deficits from the programs.

[1] Monge-Naranjo, Alexander. "Student Loans Under the Risk of Youth Unemployment." Federal Reserve Bank of St. Louis' *Review,* Second Quarter 2016, Vol. 98, No. 2, pp. 129-58. See https://research.stlouisfed.org/publications/review/2016/06/17/student-loans-under-the-risk-of-youth-unemployment/.

NEW PUBLICATION FOCUSES ON CONSUMER DEBT

The Center for Household Financial Stability at the Federal Reserve Bank of St. Louis has begun a new publication, *The Quarterly Debt Monitor: Trends in Consumer Debt in St. Louis, Little Rock, Louisville, Memphis—and Beyond.* Each issue will provide details on auto and student loans, credit card balances, mortgages and home equity lines of credit. Data and analysis are provided for the nation as a whole, as well as for the four largest metropolitan areas in the Eighth Federal Reserve District, which is served by the St. Louis Fed.

The inaugural issue includes data through the first quarter of this year. That quarter was the 10th in a row in which consumer debt has risen, the authors found. The trend is a reversal from what had been occurring since the Great Recession—an era when many consumers had either paid down their debts or even paid them off.

The recent increases in debt, fueled in part by the rapid growth of auto and student loans, "represent more economic activity as consumers take on new liabilities to finance consumption," the report says.

The full report can be found on the center's website at www.stlouisfed.org/hfs.

FORUMS AIM TO STRENGTHEN DELTA COMMUNITIES

Corey Wiggins, director of the Hope Policy Institute, speaks at the Delta Communities meeting June 10 in Helena, Ark.

The Federal Reserve Bank of St. Louis recently began the Delta Communities initiative to build awareness of tools and strategies to help strengthen communities across the Arkansas and Mississippi Delta region. This series of regional forums features presentations by St. Louis Fed staff, as well as by other regional and national representatives with experience in community and economic development efforts.

Forums began in June and are scheduled through the beginning of next year. The next set of meetings is titled Understanding the Credit Environment for Small-Business Development and Expansion and will take place Aug. 11 in Greenwood, Miss., and Aug. 12 in Helena, Ark.

For more information on this and other St. Louis Fed Community Development initiatives, go to www.stlouisfed.org/community-development.

ST. LOUIS FED IS NAMED A TOP WORKPLACE

The Federal Reserve Bank of St. Louis was recently ranked as the No. 1 workplace among St. Louis' large employers in a competition sponsored by the St. Louis Post-Dispatch newspaper. The rankings were based on surveys of employees. St. Louis Fed employees listed meaningful work, good opportunities and inclusiveness among their reasons for liking where they work. The Bank was honored in the category for employers with at least 500 employees. For details, see www.stlouisfed.org/careers/about-us/top-workplaces-award.