Growth STRATEGIES

Trend Analysis That Builds Business Decisions

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IN THIS ISSUE:

In last October's issue I cited economists who contend that today's young Americans are the luckiest generation in history, based on the fact that even when real wages or real household incomes are stagnant, most of us, most of the time, still experience increases in our real standard of living. In support of this contention they cite the explosion of new consumer products, with more and better features, that continuously become available at ever-cheaper real prices (and which all young people seem to have).

Several readers took issue with this reasoning, making solid points with data, personal experience and social observation that today's young Americans are not lucky at all, but are in fact "the screwed generation." In this month's issue I excerpt an excellent article by my colleague Joel Kotkin that forcefully supports this viewpoint. It was written in 2012 but its analysis is still completely valid and relevant. Below that I offer links to several other good sources on this subject, and in a second item cite a report on the fate of Generation X.

1 – THE SCREWED GENERATION (JOEL KOTKIN)

Today's youth have been screwed by their parents' fiscal profligacy and economic mismanagement. How has this generation been screwed? Let's count the ways.

THE ECONOMY

No generation has suffered more from the Great Recession than the young. Median net worth of people under 35, according to the US Census, fell 37% between 2005 and 2010; those over 65 took only a 13% hit.

THE WEALTH GAP

The wealth gap today between younger and older Americans now stands as the widest on record. The median net worth of households headed by someone 65 or older is $170,494, 42% higher than in 1984, while the median net worth for younger-age households is $3,662, down 68% from a quarter century ago, according to an analysis by the Pew Research Center.

The older generation, notes Pew, were "the beneficiaries of good timing" in everything from a strong economy to a long rise in housing prices. In contrast, quick prospects for improvement are dismal for the younger generation.

JOBS

One key reason: their indebted parents are not leaving their jobs, forcing younger people to put careers on hold. Since 2008 the percentage of the workforce under 25 has dropped 13.2%, according to the Bureau of Labor Statistics, while that of people over 55 has risen by 7.6%.

Overall the young suffer stubbornly high unemployment rates – and an even higher incidence of underemployment. The unemployment rate for people between 18 and 29 is 12% in the US, nearly 50% above the national average.

PUBLIC DEBT

The screwed generation also enters adulthood loaded down by a mountain of boomer- and seniorincurred debt – debt that spirals ever more out of control. The public debt constitutes a toxic legacy handed over to offspring who will have to pay it off in at least three ways: through higher taxes, less infrastructure and social spending, and, fatefully, the prospect of painfully slow growth for the foreseeable future.

The huge public-employee pensions now driving many states and cities toward the netherworld of bankruptcy represent an extreme case of intergenerational transfer from young to old. It's a thoroughly rigged boomer game, providing guaranteed generous benefits to older public workers while handing the financial upper echelon a "Wall Street boondoggle" (to quote analyst Walter Russell Mead).

PRIVATE DEBT

Then there is the debt that the millennials have incurred themselves. The average student, according to Forbes, already carries $12,700 in credit-card and other kinds of debt. Student loans have grown consistently over the last few decades to an average of $27,000 each. Nationwide in the US, tuition debt is close to $1 trillion.

EDUCATION

More maddening still, the payback for this expensive education appears to be a chimera. Over 43% of recent graduates now working, according to a recent report by the Heldrich Center for Workforce Development, are at jobs that don't require a college education. Some 16% of bartenders and almost the same percentage of parking attendants, notes Ohio State economics professor Richard Vedder, earned a bachelor's degree or higher.

Particularly hard hit are those from less prestigious schools or with majors in the humanities, notes a recent Pew study. Among 2011 law-school graduates, half could not find a job in the legal field nine months after finishing school. But it's not just the lawyers and artists who are suffering. Overall the incomes earned by graduates have dropped over the last decade by 11% for men and 7.6% for women. No big surprise, then, that last year's class suffered the highest level of stress on record, according to an annual survey of college freshmen taken over the past quarter century.

The proliferation of graduate degrees also impacts those many Americans who don't go (or haven't yet gone) to college. High-school graduates now find themselves competing with college graduates for basic jobs in service businesses. Unemployment among 16- to 19-year-olds this summer is nearly 25%, while for high-school graduates between 2009 and 2011, only 16% have found full-time work, and 22% work part time.

FROM OPTIMISM TO PESSIMISM, HIGH EXPECTATIONS TO LOW

Once known for their optimism, many millennials are turning sour about the future. According to a Rutgers study, 56% of recent high-school graduates feel they would not be financially more successful than their parents; only 14% thought they'd do better. College education doesn't seem to make a difference: 58% of recent graduates feel they won't do as well as the previous generation. Only 16% thought they'd do better.

This perception builds on the growing notion among economists that the new generation must lower its expectations. Since the financial panic of 2008, "the new normal" has become conventional wisdom. Coined by Mohamed El-Erian at Pimco, it's been used to describe our world as one "of muted Western growth, high unemployment and relatively orderly deleveraging."

The libertarian Tyler Cowen, in his landmark work *The Great Stagnation*, makes many of the same points, claiming that the US "frontier" has closed both technologically and in terms of human capital and resources. He maintains that we've already harvested "the low-hanging fruit" and that we now rest on a "technological plateau," making any future economic progress difficult to achieve. Stagnation is not such a bad thing for people already established in college-campus jobs, think tanks, or powerful financial institutions. But it wipes out the hope for the new generation that they can achieve anything resembling the American Dream of their parents or even grandparents.

DELAYED ADULTHOOD, DOWNWARD MOBILITY

Inevitably, young people are delaying their leap into adulthood. Nearly a third of people between 18 and 34 have put off marriage or having a baby due to the recession, and a quarter have moved back to their parents' homes, according to a Pew study. These decisions have helped cut the birthrate by 11% by 2011, while the marriage rate slumped 6.8%. The baby-boom echo generation could propel historically fecund America toward the kind of demographic disaster already evident in parts of Europe and Japan.

The worst effects of the "new normal" can be seen among non-college graduates. Conservative analysts such as Charles Murray point out the deterioration of family life – as measured by illegitimacy and low marriage rates – among working-class whites; among white American women with only a high-school education, 44% of births are out of wedlock, up from 6% in 1970. With incomes dropping and higher unemployment, Murray predicts the emergence of a growing "white underclass" in the coming decade.

HOUSING

The prospect of downward mobility is most evident in recent discussions about the future of the housing market. Since World War II the expectation of each generation was to own property, preferably a single-family house. The large majority of boomers became homeowners during the Reagan-Clinton era. Yet it is increasingly fashionable to insist this "dream" must be expunged. If millennials ever move out of their parents' house, they will live in apartments they don't own. There's a lot of talk about a "generation rent" replacing a primarily suburban ownership society with a new caste of city-dwelling renters.

No doubt the prospects for homeownership will be tough in the years ahead. But it's delusional to believe millennials don't desire the same things as previous generations, note generational chroniclers Morley Winograd and Mike Hais. Survey research finds that 84% of 18- to 34-year-olds who are currently renting say that they intend to buy a home even if they can't currently afford to do so; 64% said it was "very important" to have an opportunity to own their own home.

And where do millennials see their dream house? According to research at Frank Magid Associates, 43% describe suburbs as their "ideal place to live," compared with just 31% of older generations. Even though big cities are often preferred among college graduates in their 20s, only 17% of millennials say they want to settle permanently in one. This was the same percentage of members of this generation who expressed a preference for living in rural or small-town America.

POLITICAL IMPLICATIONS

So far, the Great Recession has driven young people around the high-income world to the left. Generations growing up in recessions appear more amenable to arguments for government-mandated income redistribution. And since so few young people pay much in the way of taxes, they are less affronted by the prospect of forking over than older voters, who do.

But Winograd and Hais – and Democratic strategist Ruy Teixeira – say it's not just economics working for the Democrats. Social issues such as gay marriage, women's rights, and immigration – a large proportion of millennials are children of newcomers – tend to drive younger voters toward the Democrats. Half of millennials, for example, favor gay marriage, compared with a third of boomers, and some predict the Republican embrace of draconian social conservatism will serve to harden the Democratic tilt of millennials for the foreseeable future.

Yet Republicans may take heart from some of the more conservative values embraced by the young. As a group, millennials appear to be very family-oriented – being good parents is often their highest priority – and roughly two-thirds claim to believe in God. And since their long-term aspirations are not so different from those of earlier generations – they still want to own a home in a nice, secure neighborhood – Republicans could make a case that their economic model will work better with their personal goals.

CONCLUSION

Wanting the next generation to succeed is in everyone's long-term interest. Eventually they will constitute the majority of parents, potential homeowners, and workers. This year they will comprise 24% of voting-age adults, up from 18% in 2008; by 2020 they will amount to a third of all eligible voters. And if, by then, they are still a screwed generation, they won't be the only ones suffering. America will be screwed, too.

OTHER SUGGESTED READING:

Eating Our Young

Millennials: Not Part of the Club Yet

Youth Misery Index Hits All-Time High

Living at home generation: modern day feudalism awaits young Americans

The Lost Generation: Young People Have Been Had

2 – GENERATION X SUFFERS MOST (BLAIRE BRIODY)

Though everyone seems to be feeling sorry for millennials, who are experiencing one of the highest unemployment rates and boomers, who are delaying their retirement due to the economy, the generation in between, Gen X, deserves their own time in the recession limelight.

A 2012 Census report found that people between 35 and 44 saw a 59% decline in median household net worth between 2005 and 2010, the largest drop of all age groups. Those 55 to 64 saw only a 25% drop, though they had a larger decline in actual dollar amount.

Gen X, a generation that's relatively small at 46 million and known for their political apathy and trends like grunge in their heyday, has largely stayed out of the headlines; but they're also a generation that has tried to do everything right financially. Most worked at a stable job for years, built a comfortable savings, and likely just bought their first home at the market's peak. Then when everything came crashing down, they were stuck with an underwater mortgage, young kids in the house, possibly a job loss, and unlike boomers, they never had a chance to diversify their portfolios, potentially losing a lot of what they had in stocks.

Read more here.