Generations in Pursuit of the American Dream

by Neil Howe

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AUTHOR'S NOTE

Generations in Pursuit of the American Dream examines the rising (or falling) living standards of successive U.S. generations. It was originally published as a series of *Forbes* columns from July to September 2014. The content is adapted from a keynote delivered by Neil Howe at a St. Louis Fed symposium entitled "The Balance Sheets of Younger Americans: Is the American Dream at Risk?"

ABOUT THE AUTHOR

Neil Howe is a historian, economist, and demographer who writes and speaks frequently on generations, the economy, and social change. He is the president of LifeCourse Associates and Saeculum Research. He has authored nine books on American generations, mostly co-authored with William Strauss, including *Generations* (1991), *The Fourth Turning* (1997), *Millennials Rising* (2000), and *Millennials in the Workplace* (2010). He has also authored numerous books and policy reports on demographics, most recently *The Graying of the Great Powers* (2008). He is a senior associate at the Center for Strategic and International Studies, where he helps lead the Global Aging Initiative.

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Are You Born To Be Better Off Than Your Parents?

Which of today's generations is the worst off economically? Look around and you'll find countless arguments for each one. Boomers, we hear, will never retire. Xers are underwater on their mortgages. Millennials are buried in student debt and unable to start their careers.

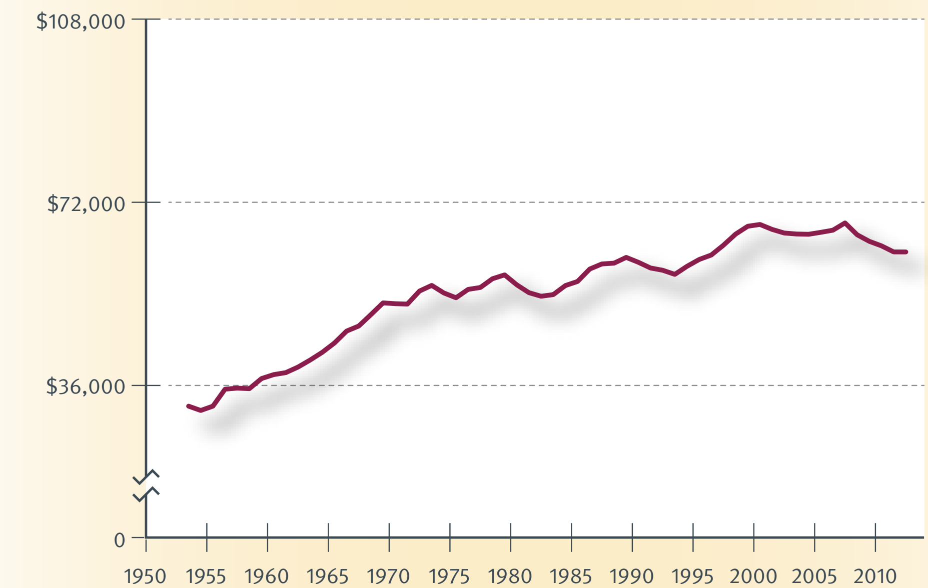
Experts have been making these worst-case arguments in succession ever since overall productivity and wage growth in the U.S. economy sharply decelerated around 1973—their rhetorical intensity rising during each cyclical downturn. In the mid-1980s, a dark cloud appeared over the economic future of young Boomers: Beneath that Beemer-and-Sharper Image exterior, these yuppies were in trouble. Then, in the mid-1990s, people began lamenting the hopeless "buster" future of Generation X—a topic I discussed back in 1993. Post-Great Recession, the familiar refrain has started up again, this time about Millennials.

To find out whether any of these claims are warranted, let's look at the data. I'll start with the most often-cited measure of U.S. living standards, the Census series for median family income in constant dollars. (See Figure 1.)

Things don't look great here. There's been a flattening trend since the early 1970s, and recently, even a shallow decline. But does it really indicate that the young are worse off than the old? No. Unless, of course, the flat average trend balances steep lifecycle *declines* for later-born Americans with ongoing lifecycle *rises* for earlier-born Americans.

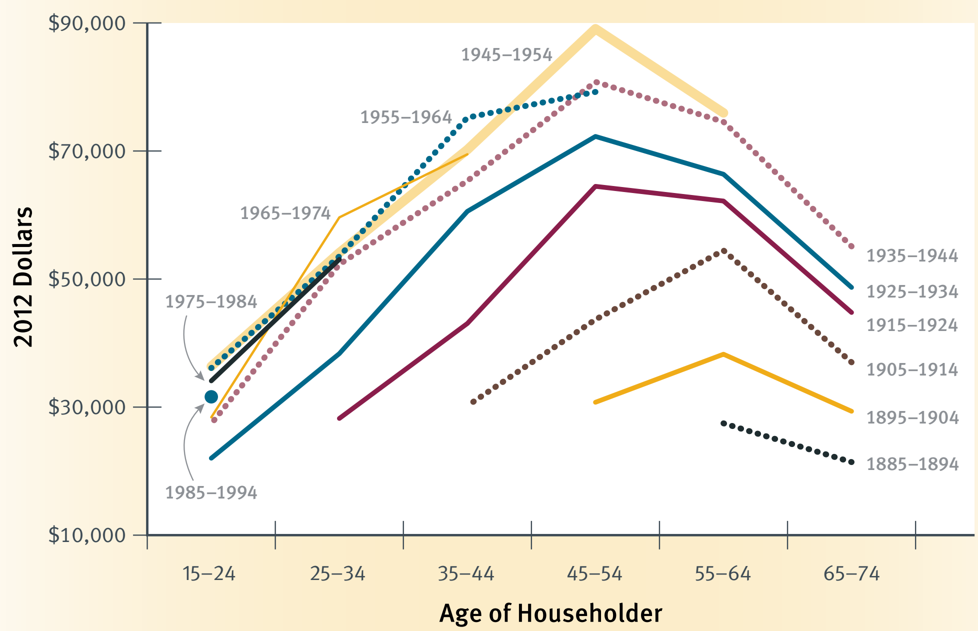
Unfortunately for the young, that's just what has happened. Below, I've rearranged the same

Figure 1 U.S. Median Family Income (1953–2012), in Constant 2012 Dollars*



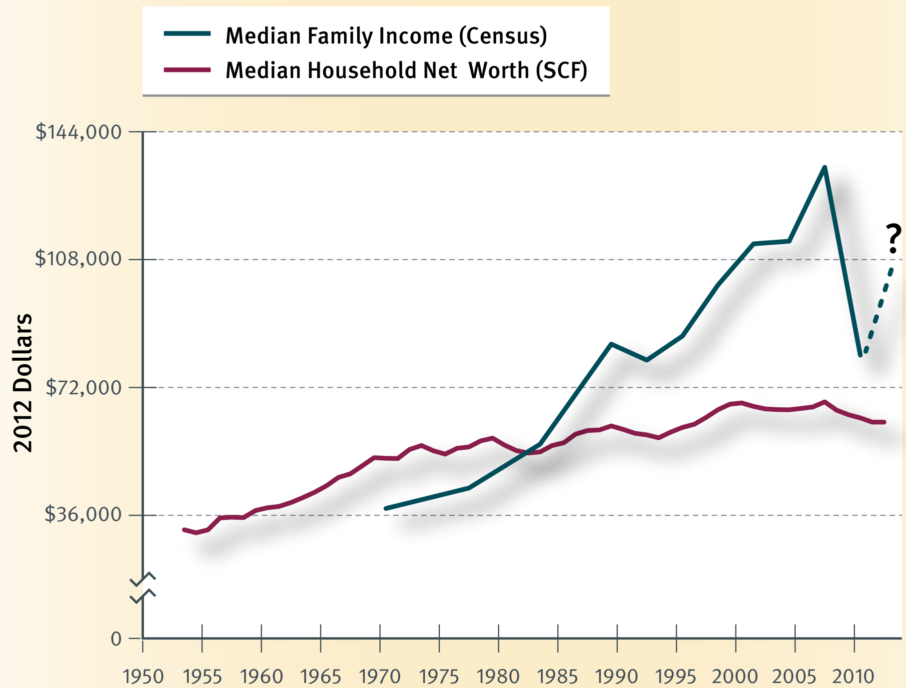
Source: Survey of Consumer Finances (2012), U.S. Census Bureau (2014)
* All series deflated to 2012 dollars with CPI-U-RS

Figure 2 Real Median Family Income by Age Bracket, from 1885 to 1994 Birth Cohort*



Source: U.S. Census Bureau (2014)
* All series deflated to 2012 dollars with CPI-U-RS

Figure 3 Alternative Measures of U.S. Standard of Living (1953–2012), in Constant 2012 Dollars*



Source: Survey of Consumer Finances (2012), U.S. Census Bureau (2014)
* All series deflated to 2012 dollars with CPI-U-RS

Census data by birth cohort so we can see the underlying generational story. (See Figure 2.)

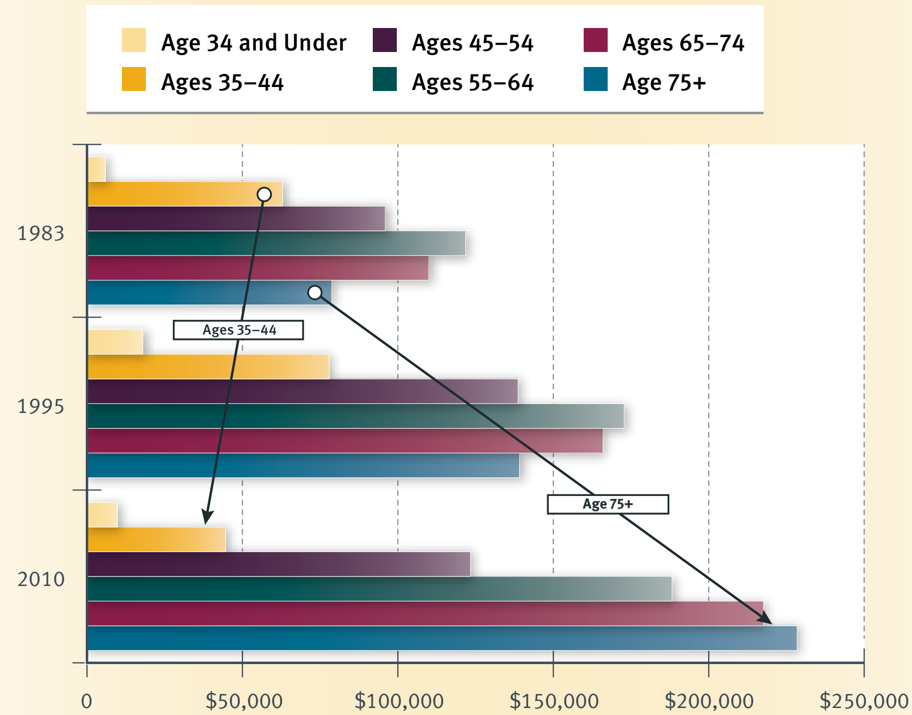
This graph reveals that today's younger generations really do face a troubled future. Every cohort through early-wave Boomers has seen upward jumps in their lifecycle income—all the way up until 2012. But every younger generation that has not yet reached age 60 has experienced no such progress. In fact, the 1955–64 birth-year cohort is the oldest group ever in this Census record to fall beneath an earlier cohort at the same phase of life. Later-born cohorts at younger ages have meanwhile been falling beneath first-wave Boomers for decades—in what amounts to a horrible traffic jam.

Now let's examine living standards by another metric: wealth. Figure 3 shows the median real-dollar net worth of U.S. families.

This line certainly illustrates how the expansion of credit since the 1980s boosted household asset values over incomes for many years—and how everything came crashing down by 2010. But as with income, it's impossible to locate any generational issue until you break the numbers down by age. Though we can't do this as neatly with the Fed data as we did with the Census data, Figure 4 tells a clear story.

Again, the generational contrasts are unambiguous—and even starker than they were for income. From 1983 to 2010, real median net worth

Figure 4 Real Median Family Net Worth, by Age: 1983 to 2010*



Source: Survey of Consumer Finances (2012), U.S. Census Bureau (2014)
* All series deflated to 2012 dollars with CPI-U-RS

nearly tripled for Americans over age 75 and doubled for Americans age 65 to 74. But it fell by 30 percent for Americans age 35 to 40. Reality bites, Gen Xers!

Why do younger cohorts, once again, lag so far behind in their median net worth trajectories? One obvious explanation is the inferior median income growth of younger cohorts: With less income, there's less to save. Another is their rising degree of income inequality (since this causes median incomes to sink below average incomes).

Why is the impact on wealth even more exaggerated than the impact on income? Let me apply James Duesenberry's relative income hypothesis and hypothesize that younger cohorts have saved at lower rates to the extent they've had trouble keeping up with the consumption of the cohort just ahead of them. Indeed, emerging research shows that savings rates differentially declined among nonaffluent households in the twenty years preceding 2008. Post-2008, with steep deleveraging among the nonaffluent, this differential has finally started to show up in a sharp rich-up versus poor-down divide in consumption.

The unusual shift in median net worth could also be linked to the timing of catastrophic asset-price declines. The exceptionally long "great moderation" preceding the 2008 crash has worked to the benefit of anyone retiring and cashing out just before that date—and to the detriment of younger cohorts, especially those with 10 to 30 years still ahead before retirement.

Generations do well or badly in the economy for a wide variety of reasons, many of them not obvious or even "economic" at all. Think of how generations are shaped in ways totally beyond their control—such as their aggregate number or their ethnic composition. They're also shaped in ways they do, in some sense, collectively choose—such as their attitudes toward authority, family, or risk. Along the way, each generation redefines "the American Dream" according to its own vision.

The World War II-winning G.I. Generation came of age with D-Day and defined success in terms of a strong middle class and a "Great Society." Many of their Boomer kids came of age with Woodstock and celebrated radically more individualistic and values-driven life goals. These differences aren't mere cultural footnotes. They've driven huge changes over time in how much families save, how parents finance their homes or kids' education, and how voters sway regulatory, tax, and fiscal policy.

In this series, we'll examine how these choices and experiences have shaped economic outcomes for generations in the post-war era. In the next five parts, we'll retell the stories of five successive generations: the G.I.s (born 1901–24); the Silent (born 1925–42); Boomers (born 1943–60); Generation X (born 1961–81); and Millennials (born 1982–2004). I'll discuss how each generation was viewed by others; how it redefined the American Dream; how it tried to achieve that dream; and how it was helped or hurt along the way by external events.

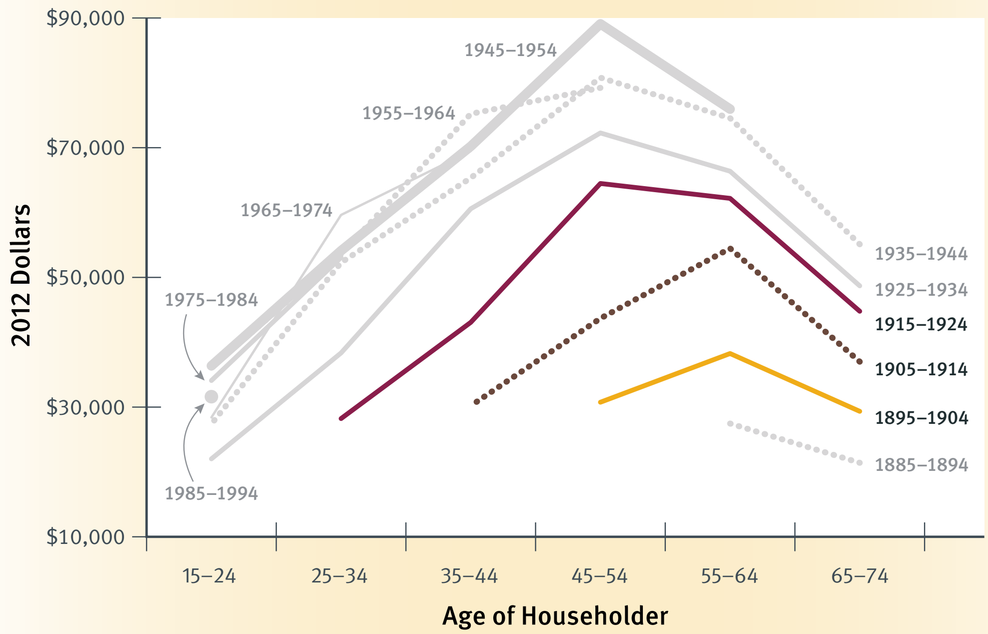
The G.I. Generation and the "Triumph of the Squares"

The G.I. Generation (born 1901–24)—also dubbed the "Greatest Generation" by Tom Brokaw—today comprises some four million Americans mostly in their 90s. They can be roughly defined as Americans who were born just too late to serve in World War I, but early enough to experience the Great Depression or the climax of World War II as they came of age. John Kennedy, their first President, defined them as "born in this century." And indeed, their collective life story virtually coincides with the "American Century" of unprecedented global power, technological progress, and rising living standards.

Especially as they grew older, the typical G.I. adult enjoyed a huge jump in real family income over the previous ("Lost") generation at the same age. And they knew it. One of their economists (Simon Kuznets) invented the term "GNP" to measure this affluence, and another (John Galbraith) invented the term "Affluent Society" in the 1950s to describe it. Yet few G.I.s equated rising material production with the mere sating of individual appetites, but rather as a means to build a more secure "free world" in which the "common man" (another phrase they popularized) would be vastly better fed, housed, educated, leisured, and insured than ever before. At the peak of their power, in the mid-1960s, they largely succeeded. In the decades since, arguably, we struggle to register any improvement on some of these metrics. Like putting a man on the moon, we look back and wonder just how they did it.

We all know about the gigantic civic investments the G.I.s made in America's future, resulting in much of the global order and prosperity the

Figure 5 Real Median Family Income by Age Bracket, from 1885 to 1994 Birth Cohort*



Source: U.S. Census Bureau (2014)
* All series deflated to 2012 dollars with CPI-U-RS

world enjoys today. But hardly anyone asks who invested in them to make them turn out that way.

The story starts back in their childhood, when little G.I.s were fussed over by protective parents determined to raise up kids as good as the Lost Generation had been bad. Much of this was the focus of the Progressive Movement. Youth clubs, vitamins, pasteurized milk, laws to keep kids in school and out of the labor force—even Prohibition—were all efforts to keep these kids away from the danger and decadence of older Americans.

These G.I.s responded by coming of age as the straight-arrow achievers that adults had been hoping for. By the mid-1920s on college campuses, cynicism and selfishness were out; optimism and cooperation were in. In the years that followed, G.I.s became the CCC dam-builders and tree-planters, the heroes of Iwo Jima and D-Day—in fact, the most uniformed generation per capita in American history.

Later, after the crisis was over, G.I.s just kept on building: interstates, suburbs, missiles, miracle vaccines, trips to the moon, and the Great Society. Eventually, their "best and brightest" hubris about guns and butter, beating benchmarks, and "growthsmanship" made them a target for younger generations. Many of the G.I.'s own Boomer kids, raised during the rising tide of their success, found their parents implacable and unfeeling, piling block on block with no moral purpose. As G.I.s entered elderhood in the late 1960s, many chose to separate themselves from their children and congregate in vast age-segregated desert communities with names like "Leisure World" and

"Sun City" rather than endure their celebration of selfishness—what G.I.s have always considered hateful to their life-mission to homogenize and clean up the world.

Now when you look at the entire G.I. life story, you see a lot that explains their collective leap in living standards.

For starters, they were a generation of achievers. They represented the single biggest gain in educational attainment in U.S. history—from 10% of their first cohorts getting high school diplomas to 50% of their last-born cohorts. After the war, thanks to the G.I. bill, they also became the first generation whose middle class could enter college in large numbers. G.I.s eventually won over 100 Nobel Prizes, accounting for the majority of all Nobels ever awarded to Americans.

They believed strongly in community. G.I.s were joiners who always opted to be good citizens. In their youth, they voted overwhelmingly for the New Deal and became America's biggest-ever union generation. They voted for generous subsidies that helped push up homeownership rates: The share of owner-occupied homes rose from 46% in the 1920s to 62% by the mid-1960s—about where it is today. They also backed minimum wage laws and high marginal tax rates. Income equality grew on their watch, which hugely boosted the growth in the "middle-class" median. They also greatly expanded the use of employer-sponsored pension plans. The result? By midlife, as Figure 5 illustrates, the last-born G.I. cohort (here 1915–24) had a median income roughly double that of the first born-cohort (1895–1904).

They brought these attitudes with them into elderhood. Called "junior citizens" in their youth, G.I.s became known as "senior citizens" when they began retiring in the mid-1960s and gave birth to a new label for that phase of life. Membership in elder organizations—the most prominent being AARP—grew sixtyfold through the late 1970s. The G.I. reputation for civic desert also triggered a huge expansion in senior entitlements over the next decade. This gave a further boost to their income late in life.

Today, most of this generation has passed on. But they live on vividly in the public imagination of younger generations as the one that everyone counted on to team up and push forward. Their American Dream is perhaps best captured by this quote from *The Best Years of Our Lives*: "A good job, a mild future, and a little house big enough for me and my wife." Many of their civic efforts were devoted to making that vision possible for all Americans—and they've enjoyed the fruits of those investments ever since.

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The Silent Generation, "The Lucky Few"

The Silent Generation (born 1925–42) today comprises roughly 20 million adults in their 70s and 80s. Their age location in history sandwiches them awkwardly between two better-known generations: They were born just too late to be World War II heroes and just too early to be New Age firebrands. In their personal lives, this age location has been a source of tension. By the time the Silent were entering midlife, they spearheaded the divorce revolution and popularized (thanks, Gail Sheehy) the term "midlife crisis." But in their economic lives, this age location has been very good to them—and given them a lifetime ride on the up-escalator coming off the American High.

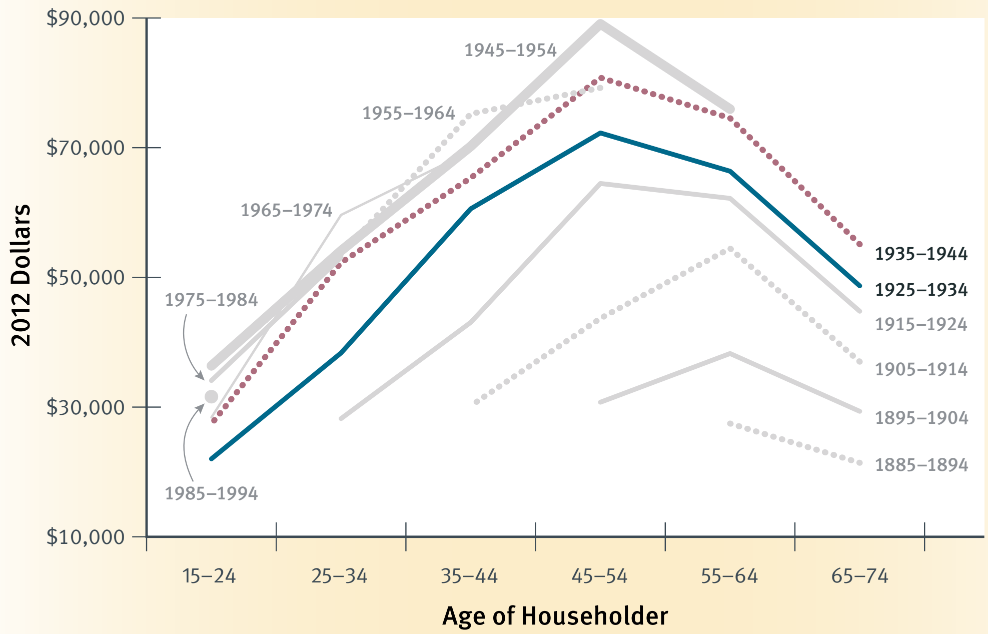
The Silent started out as the children of crisis. They grew up while older people were fighting wars and making great sacrifices on their behalf. Childrearing in America, already more protective for the G.I.s, approached the point of suffocation.

When the Silent began coming of age after World War II, they tiptoed cautiously in a post-crisis social order that no one wanted to disturb. Unlike the G.I.s, they rarely talked about "changing the system," but instead about "working within the system." Because they didn't want anything to go on their "permanent records" and kept their heads down during the McCarthy era, *Time* gave them the label "Silent" in a famous 1951 essay.

They were also careful in the labor market. *Fortune's* story on the "College Class of '49" was subtitled "Taking No Chances." When they went to job interviews, their first questions were about pension plans. They emulated their powerful G.I. elders by marrying and having babies incredibly young—in fact, younger on average than any other generation in American history.

Unlike the G.I.s, the Silent didn't have to wait for a depression or war to end. A new "booming"

Figure 6 Real Median Family Income by Age Bracket, from 1885 to 1994 Birth Cohort*



Source: U.S. Census Bureau (2014)
* All series deflated to 2012 dollars with CPI-U-RS

economy was ready to join right out of school. Demographer Richard Easterlin, in his 1980 book *Birth and Fortune*, called them the "Lucky" or "Fortunate" generation for their great timing. Easterlin noted that a remarkable feature of the Sputnik era was how the typical young man could earn more by age 30 than the average wage for men of all ages in his profession—and could certainly live better than most "retired" elders. He also noted that since the mid-1970s, the economic conditions facing young late-wave Boomers were becoming much tougher.

At the time, Easterlin hypothesized that the Silent—being small in number due to low birthrates during the 1930s and early '40s—benefited from labor markets that bid up their wages in an era when young adults were relatively scarce. Later, as they retired, their small size (next to the large FICA-paying generation following them) has certainly helped make their pay-as-you-go Social Security and Medicare benefits seem more affordable. Sociologist Elwood Carlson echoes Easterlin's thesis in his recent book, *The Lucky Few: Between the Greatest Generation and the Baby Boom*.

Yet the arrival of young-adult Gen Xers in the 1980s and '90s, who were also small in number but have fared miserably in the economy (a topic I'll explore in a later column), throws this explanation into doubt. Numbers helped, but what helped the Silent even more was, again, their timing. Taught to play by the rules, this generation discovered at every age—from the moment they married (at a median age of 21 in 1960) and purchased a house and car (soon thereafter)—that playing by the rules always worked well for them.

As the Silent have aged, their perfect timing has not let them down. Many of them locked in fixed 3% mortgages on their first homes in the 1960s just before inflation hit—giving them decades of negative real interest rates. In the large corporations where so many of them worked, they signed up young for the defined-benefit pension plans their G.I. managers started—the same plans that are now unraveling for Boomers. Their midlife high-savings decades roughly coincided, in 1980s and '90s, with perhaps the greatest bull market ever in both stocks and bonds. And after riding this bull, the Silent retired and sold out just before the crash hit. The last Silent cohort reached age 65 in 2007. Bingo.

This is the only living generation that could half-believe, along with Woody Allen, that "80 percent of life is just showing up," a joke that makes most Xers simply shake their heads.

In terms of national leadership, the Silent—unlike the G.I.s—are not a powerful generation. According to the late management guru Warren Bennis, they redefined leadership as more "maestro" than "macho." They are the only generation in American history never to occupy the White House. In Presidents, we jumped from George Bush Sr., the World War II veteran, to Baby Boomer Bill Clinton.

Yet they are without doubt the healthiest and most educated generation of elders that ever lived—and, of course, the wealthiest. Coming of age fifty years ago, they quickly amassed more wealth than the seniors of that era. (Back in the early 1960s, the elderly were poorer than young adults by most measures.) In 2010, for the first time, the median net worth of households age 75+ ($228,400) is higher than that of *any* younger age bracket. (See part one.) Astoundingly, it's over five times higher than the median net worth of households age 35 to 44 ($44,600).

Given their material good fortune, along with their instinct to help others in need, the Silent as elders have become economic anchors for America's new renaissance in multigenerational family living. Many routinely pay for extended-family vacations or subsidize their grown Boomer or Xer kids. Many have set up college trust funds for their grandkids—and indeed, a record share have assumed formal custody of them. Most are worried about the economic challenges facing their families—and wonder why success has become so much harder for them.

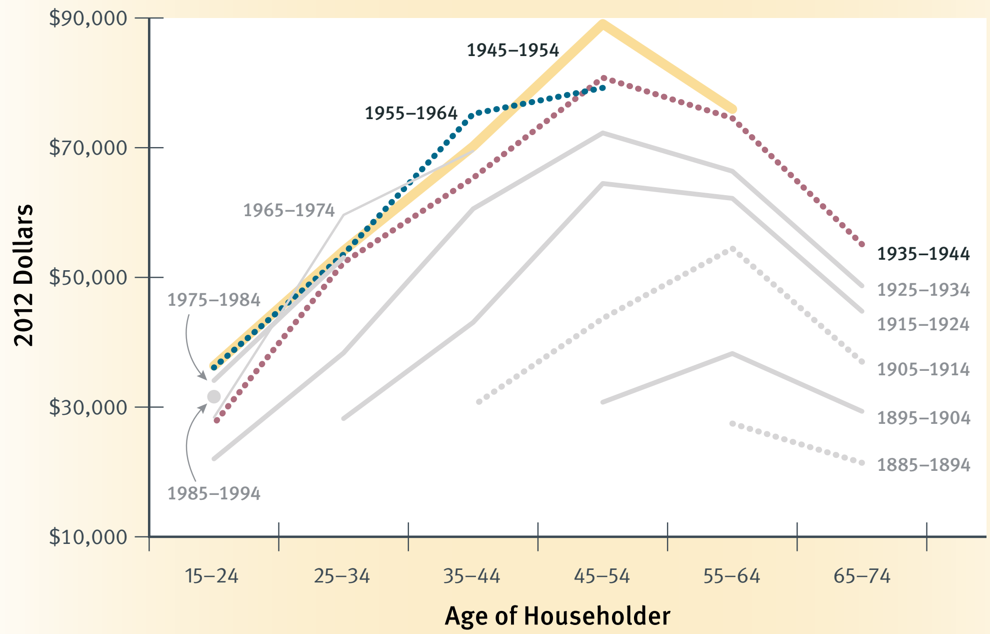
The Boom Generation, "What a Long Strange Trip"

Boomers (born 1943–60) today comprise 65 million adults mostly in their 50s and 60s. As a social generation, in my opinion, Boomers are a bit older than the oft-cited Census Bureau definition (1946–64), which merely refers to a "baby boom" fertility rate hump. If you remember World War II, were out of college when JFK was shot, and recall Woodstock as something "kids" were doing, you're too old to be a Boomer. If you can't recall the moment JFK was shot, nor Jim, Jimi, or Janice when they were still alive, you're too young.

However you date them, we all know the Boomers' life story. It's as though no phase of life means anything until Boomers pass through it and can tell us about it. They started out as feed-on-demand Dr. Spock babies, then grew into the indulged Beaver Cleavers of the '50s, then the college and inner-city rioters of the late '60s, and finally ended up as the young family-values moms and dads of the '80s.

Along the way—somewhere between LBJ and Reagan, between hippie and yuppie—Boomers shook the windows and rattled the walls (to paraphrase Bob Dylan) of everything their parents had built. In so doing, this "generation" (a word they repopularized) became especially well-known for its cultivation of self and its carelessness about material wealth. It's no coincidence that Boomers mark first the apogee, and then the decline, in generational progress as measured by real-dollar income. First-wave Boomers born mainly in the mid-1940s have done best, but late-wave Boomers born mainly in the mid- to late 1950s are underperforming the first-wavers at

Figure 7 Real Median Family Income by Age Bracket, from 1885 to 1994 Birth Cohort*



Source: U.S. Census Bureau (2014)
* All series deflated to 2012 dollars with CPI-U-RS

nearly every age. First-wave Boomers in their 40s and 50s, for example, had a median family income nearly $10,000 higher than late-wave Boomers later had at the same age.

One explanation for this turnaround is simple age location. First-wave Boomers emulated the Silent: They followed the rules more carefully, went to school longer, and got married earlier. Late-wave Boomers—who hit the social turmoil of the '60s at progressively younger ages—got into more trouble, graduated less often from college, and married much later (if at all). The difference in age location also extends to the economy. Most first-wavers launched careers (in 1972 or before) during the revved-up go-go years. Most late-wavers launched careers (in 1973 or after) when the economy was stagflating.

Yet a fuller explanation require mentioning three collective personality traits that define Boomers as a generation—and that gathered force moving from first wave to last.

The first Boomer trait is their famous individualism. Boomers have long behaved as if they didn't need institutions or each other. This is the first generation of women, for example, to regard itself as essentially economically independent. Harvard sociologist Robert Putnam's book *Bowling Alone* explains most of the growing shift away from civic and group participation in postwar America as a cohort phenomenon—and one that started with Boomers. This individualism helps explain why Boomers have avoided the group security offered by unions or paternalistic benefit plans—and why, as voters, Boomers have been generally tolerant of a growing rich-versus-poor spread in America's income distribution, which of course widens the gap between mean and median.

The second trait is their attraction to personal risk-taking. As youth, Boomers pushed the envelope on danger, propelling rates of accidents, suicide, crime, drug use, and STDs to unprecedented levels. Today, many of those indicators are rising swiftly for midlife Americans, even as they fall among youth. Risk-taking has obvious implications for economic decision-making—for example, portfolio selection. There's also mounting evidence that Boomers have higher rates of lifestyle-related chronic disease than the previous generation at the same age. This would mark a reversal of health gains achieved by the G.I.s and Silent as elders, and it may portend a decline in the Boomers' productivity and employability as they age—as well as a further acceleration in disability and health benefit spending.

Finally, there is the Boomers' values orientation. This generation has always preferred dividing the world into right versus wrong, good versus bad. They came of age creating the "counter-culture," whose purpose was to judge their parents. Now they lead the "culture wars," whose purpose is to judge each other. This strong values orientation makes Boomers suspicious of purely material measures of life success. According to a recent MetLife survey, Boomers are considerably *less* likely than other generations to agree that the American Dream means "exceeding your parents' standard of living." And according to U.S. Trust, Boomers are a lot more likely than prior generations to say that giving their kids "good values" is more important than providing them with a material inheritance. Even high-end Boomers agree with this.

Today, Boomers are busy redefining retirement—or getting ready to redefine it. The G.I.s started a trend toward earlier retirement with more money than they expected in an era of expanding benefits. Boomers are retiring later with less money than they expected in an era of retracting benefits.

The G.I.s wanted to be away from their kids and near their peers—which led to the construction of vast age-restricted desert communities like Sun City and Leisure World. Boomers want to be away from their peers and near their kids—indeed, many of their Millennial kids just refuse to leave. As developers prep their active-adult communities for the coming late wave, they can expect less affluence, somewhat greater ethnic diversity, a weaker middle class, and, perhaps eventually, an abandonment of the very word "retirement."

All their lives, Boomers have touted a lofty vision of the American Dream that eschews the material in favor of a deeper, more meaningful definition of both work and play. That's a good thing, because many of them (late-wavers, especially) will have to work much longer than their parents did—or find fulfillment in "priceless" play that can be purchased at bargain prices.

Generation X: Once Xtreme, Now Exhausted

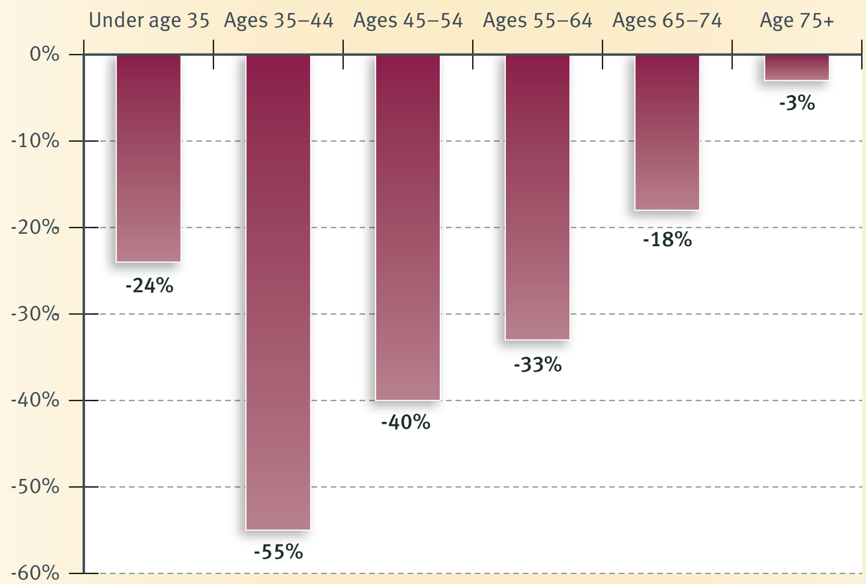
Generation X (born 1961–81) today comprises roughly 87 million adults in their 30s and 40s. The very name "X" has an identity-cloaking quality, reflecting the fact that many Xers feel little generational center of gravity. They are, first of all, the most immigrant generation per capita born in the 20th century. They are also the most unequal—that is, the most spread out in terms of income and wealth.

Let me reference this famous 1990 *Time* cover photo because it illustrates, early on, how many Xers entering adulthood were likely to see themselves—dressed in black, certainly not euphoric, and all looking in different directions, as if to advertise that they have nothing in common. In the early 1990s, I found in extensive interviews with young Xers that many of them associated themselves with collective failure, as if their generation were a gigantic auto accident. This meant that to be successful you had to take plenty of risks and be different from your peers.

Gen Xers first arrived as toddlers in the early 1960s, when the increasingly indulgent parenting style enjoyed by Boomer kids became totally hands-off. Institutions that once protected kids no longer seemed to work in the '60s and '70s. Schools were breaking down, and the divorce rate soared. What's more, starting in the early '60s, adults didn't want to have kids anymore. Fertility rates plummeted, hitting an all-time low in 1976, making this known as a "baby bust" generation.

Xers learned young that they couldn't trust older people and institutions to look out for their best interests. They needed to be resilient survivors who could trust their own instincts. While

Figure 8 Change in Real Median Household Net Worth, by Age (2007–2010)*



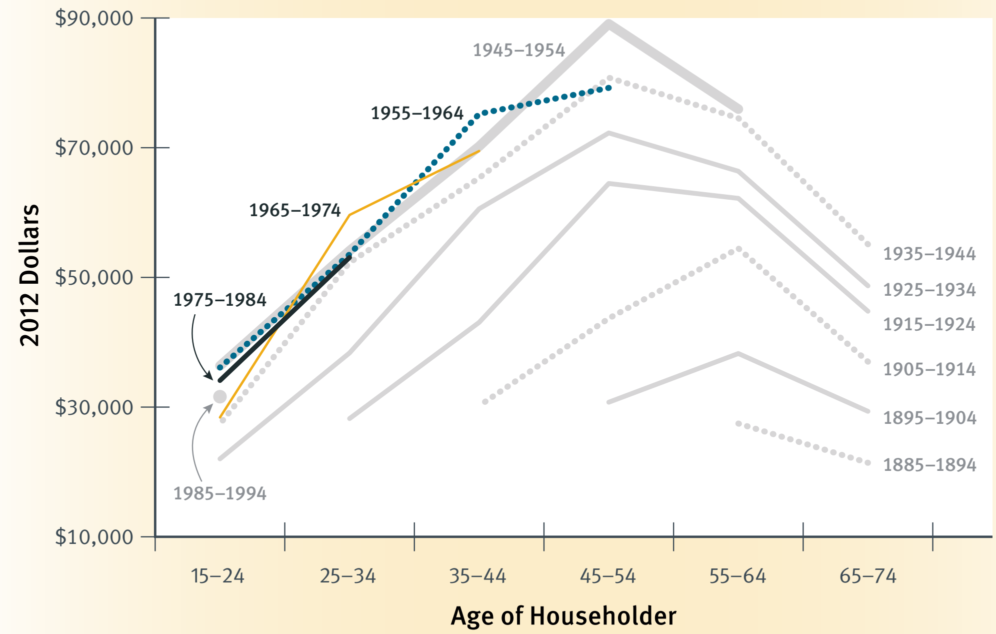
Source: Survey of Consumer Finances (2012)
* All series deflated to 2012 dollars with CPI-U-RS

Boomers have always focused on their inner lives, Gen Xers tend to focus on bottom-line outcomes. For the last several decades, the UCLA college freshman survey has been asking students what life goals they consider important. Through the early 1970s (when Boomers were college freshmen), a three-to-one majority said "developing a meaningful philosophy in life" rather than "being very well off financially." When Xers entered college in the late 1970s, those priorities reversed.

Entering the workplace in the 1980s and '90s, young Xers encountered a generally buoyant economy that held lopsided rewards. At the high end, there was Wall Street and the allure of the entrepreneur in a newly deregulated economy. At the low end, entry-level union jobs began instituting two-tier wage scales and legislators began scrapping job training programs and welfare benefits that had remained in place during the Boomer youth era. Raised as kids to take care of themselves, most young Xers embraced the high-turnover, no-safety net, free-agency lifestyle. Many gladly cashed out their workplace benefits, triggering the recent trend toward opt-in "cafeteria" and "total rewards" pay packages. At an early age, they dominated temp work—a sector which today is beginning to age with them.

The first wave of Generation X (born in the 1960s, the so-called "Atari" or "Reagan" Xers) started out at a tough time, in the grim shadow of the Volcker recession. By contrast, the last wave (born in the 1970s, the so-called "Nintendo" or "Clinton" Xers) entered the workforce during the Roaring '90s, giddy years of "irrational exuber-

Figure 9 Real Median Family Income by Age Bracket, from 1885 to 1994 Birth Cohort*



Source: U.S. Census Bureau (2014)
* All series deflated to 2012 dollars with CPI-U-RS

ance" in which market valuations hit preposterous peaks. Millions of first-wavers at age 35 could at last hope that maybe the future wouldn't totally suck after all. Millions of last-wavers at age 25 started out daydreaming about seven-figure stock options.

Yet despite all the "end of history" talk, precious few Xers—first wave or last—actually struck it rich. Under the impact of successive booms and busts, most struggled to afford a family or keep their home. While aspiring to become the capitalist "rich dad" they wished they had, most could not keep up with the actual wage-slave "poor dad" they sometimes had to boomerang back home to.

Then came the Great Recession, which hit Xers much harder in percentage wealth and income declines than any older generation. And no wonder. They had invested aggressively in stocks with the highest P/E ratios, the ones that crashed hardest. More than Boomers, Xers had bought late into the real-estate boom at punishing prices—and in exurban regions where the price declines were steepest. Since the crash, Xers in their 30s and 40s have experienced the biggest decline in homeownership—and to this day are the most likely to be underwater on the homes they still own.

There is some truth to the benign view that many Gen Xers are willingly choosing to downshift, work less, and lead a more DIY lifestyle. In an era when steady employment is a struggle to find, more Xers are prioritizing time with their families over longer hours at the office. They see traditional full-time positions as a burden rather than a benefit. This is especially true for Xer men who are seeking to be much more involved fathers than their own parents were. These forces are encouraging many of them to withdraw from the labor market.

But for millions, we're talking about involuntary un- or under-employment leading over time to loss of skills and detachment from the labor force. This especially true for minority, immigrant, or low-skilled Xers, who were most likely to have lost most or all their wealth since 2008 and who have been the slowest to recover any of it. The aggregate statistics read like the gigantic auto accident Xers always feared lay somewhere in their future. While the number of (mostly) Boomers age 55 and over with full-time jobs has risen by over two million since the fall of 2007, the number of (mostly) Xers age 25 to 55 with full-time jobs has *declined* by nearly seven million.

Helping this generation get back on track economically is one of most important policy challenges America faces over the next decade.

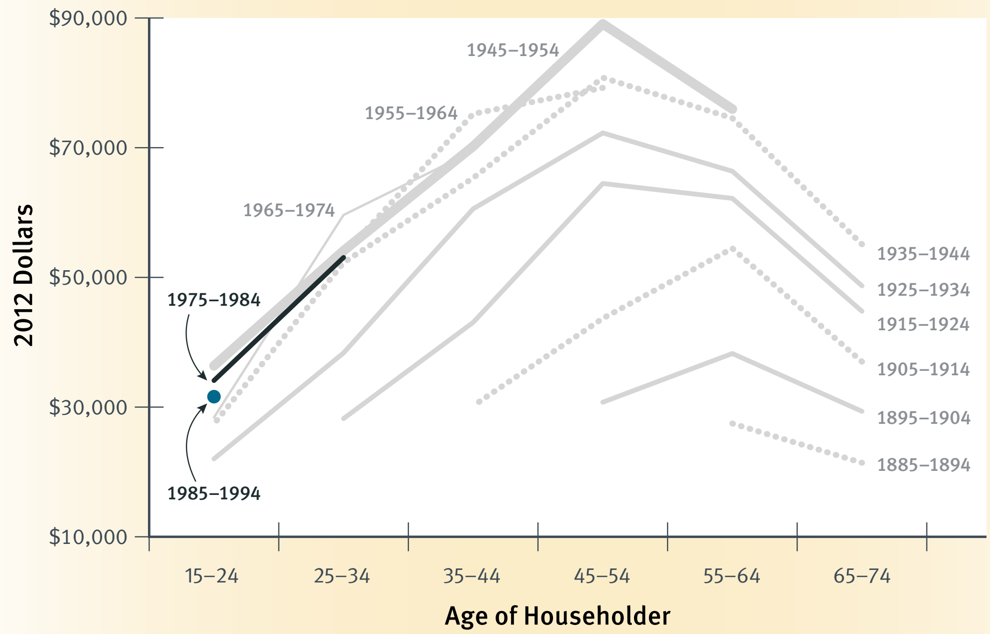
The Millennial Generation, "Keep Calm and Carry On"

The Millennial Generation (born 1982–2004) today comprises roughly 100 million people mostly in their teens and 20s. You may be tired of hearing about them. Their attitudes and behaviors have been scrutinized from every angle, with labels ranging from "The Me Me Me Generation" to "Generation Nice." When it comes to the economy, however, this generation's story is straightforward: The oldest Millennials began graduating from high school in 2000, from college in 2004, and with masters' degrees in 2006. The Great Recession has thus totally dominated their view of the economy in general and their career aspirations in particular.

The first Millennials were born in the early 1980s. They have no memory of the Consciousness Revolution that was so defining for coming-of-age Boomers nor the hands-off parenting era in which Gen-X children were raised. By the time Millennials came onto the scene, social and family experimentation was ebbing. Young children began to receive more structure and protection. With "family values" ascendant, Boomer (and later Xer) parents began spending much more time with their kids than their own parents ever spent with them. Child abuse and child safety became hot topics as rates of divorce, abortion, and violence against children fell steadily. In the early 1980s, "Baby on Board" signs began to appear, attached to new child-friendly minivans loaded with safety gadgets.

Meanwhile, the media spotlight honed in on Millennials' academic achievement. The "Goals 2000" movement—targeting first-wave Millennials born in 1982—demanded improved stu-

Figure 10 Real Median Family Income by Age Bracket, from 1885 to 1994 Birth Cohort*



Source: U.S. Census Bureau (2014)
* All series deflated to 2012 dollars with CPI-U-RS

dent achievement from the high school Class of 2000. Educators spoke of raising standards and No Child Left Behind. By the mid-1990s, politicians were defining adult issues (from tax cuts to internet access) in terms of their effects on kids and teens.

Given all this adult attention, it's no wonder that this rising generation has developed a sense of specialness, to themselves, to their parents, and to the wider community. As we might expect, this location in history has had a major impact on Millennials' collective personality and generational behavior.

Many media reports about Millennials' economic prospects have focused exclusively on how the Great Recession is likely to reduce their average earnings for many years to come, no matter how much the economy improves. This is probably correct. It's also true that the majority of Millennials looking for work have as yet been unable to find secure and salaried careers—leading to lives that are literally on hold. A rising share of young adults age 30 and under are putting off marriages, births, home purchases, car purchases, and relocation. Interestingly, this age group shows by far the biggest jump between 2008 to 2014—from 25 to 49 percent—in the share of Americans who consider themselves "lower" or "lower-middle" class.

Yet there's more to the story. Along the way, the tough economy is also reinforcing generational traits that Millennials possessed even before the recession began.

Millennials were risk-averse before—and now even more so. Since Millennials began entering their teen years in the mid-1990s, rates of personal risk-taking among this age bracket have plummeted. Serious violent crime among teens, as well as rates of teen pregnancy and abortion, has fallen swiftly and dramatically. Teen drinking and smoking rates have also plunged to historic lows.

Contrary to stereotype, most Millennials try to avoid economic risks as well. Most aspire to a stable career within a big corporation—and, remarkably, a higher share of them think job security is "extremely important" than either Xers or Boomers. Once on the job, they want to max out on benefits from pensions to insurance. According to DC funds data, they have the most conservative portfolio selection of any age bracket under age 65. And economists Lisa Dettling and Joanne Hsu find that Millennials are actually less likely to have credit-card, auto, or housing debt than Gen Xers were at the same age.

Millennials were close to their families before—and now even more so. A full 24 percent of 25- to 34-year-olds now live with their parents, up from only 11 percent back in 1980. It's not just joblessness. By all accounts (for instance, this AARP study), these first-wave Millennials get along very well with their Boomer parents and collaborate effectively on a wide range of daily tasks.

Millennials were achievement-oriented before—and that too continues. Unable to get jobs, record numbers are working to get degrees. Today, the share of 25- to 29-year-olds with 4-year college degrees (at 33 percent) and high-school diplomas (at 90 percent) are both at record highs. Also at record highs is college loan indebtedness, which passed $1 trillion in 2011. For a growing share of Millennials, the college mortgage is replacing the home mortgage.

Finally, Millennials were collectively optimistic before the recession—and, remarkably, remain optimistic still. Surveys confirm that, as roughed up by the economy as they are, today's Millennials lead other generations in expressing confidence in America's future. In fact, a majority of Millennials think they will be better off than their parents—even if their parents disagree. And in an era when Americans of all ages generally don't trust public leaders, Millennials are most likely to trust the federal government to "do what is right."

Back in the 1970s, the reverse was true. Young Boomers were far more pessimistic about America's future than their parents were. Perhaps the only adequate parallel for the optimism of today's Millennials is the G.I. Generation during the Great Depression, who famously "accentuated the positive" even at the bleakest of times.

This attitude may grow even stronger among late-wave Millennials. In a recent study of late-wave Millennials, MTV summed up their mentality with the old World War II adage "keep calm and carry on." This group has come of age during the downturn and is adapting somewhat of an Xer "survivalist" mentality to prepare for life in the brave new economy.

7

Born to Be Better Off Than Your Parents? A Recap

Let's step back. What can we learn from these generational narratives?

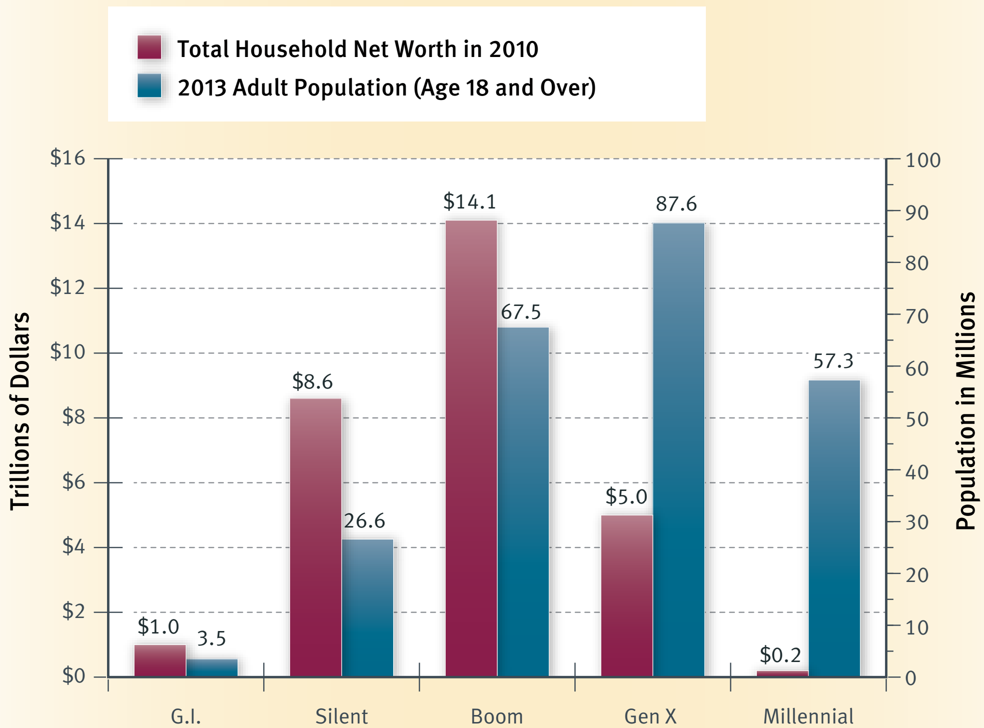
First, the declining generational trend in median affluence is not a new development.

Media stories often imply that post-2008 Millennials are the first generation of young adults to experience "downward mobility." Most Xers already know that's BS. Some have penned eloquent and barely printable responses pointing out that not only did Xers get "f---d over," but that—unlike Millennials—"Generation X wasn't surprised. Generation X was kind of expecting it." Which is why so few of them complained, except maybe in an old Winona Ryder movie.

Yet, as we've seen, even Xers get it wrong: The first cohort group to fall behind was not the Breakfast Club (born in the early '60s), but the Madonna- and Michael Jackson-age kids at the tail end of the Boom (born in the mid-to-late '50s). As youth, they got buffeted young by the turmoil of the '60s. Coming of age, they got slammed by the Ford-Carter stagflation and ultimately started careers much later than first-wave Boomers. More recently, they've become 50-somethings aiming to retire later in hopes of retiring comfortably—or, abandoning hope, "retiring" early in record numbers on Disability Insurance.

Five years from now, this leading edge of generational downward mobility will begin hitting retirement age. More than a decade ago, Craig Karpel foresaw that many former yuppies were destined to become "dumpies" (downwardly mobile urban middle-aged people). That era dawns. According to Pew, "early Boomers may be the last generation on track to exceed the wealth of the

Figure 11 Household Net Worth and Population, by Generation



Source: U.S. Census Bureau (2014)

cohorts that came before them and to enjoy a secure retirement."

Second, the relative affluence of today's elderly is historically unprecedented.

Behold the flip side of the declining lifecycle fortunes of younger generations. Never before have Americans age 75+ had a higher median household net worth than that of any younger age bracket. And never before have poverty rates among seniors been so much lower than among the young. In 1985, 12% of Forbes' richest 400 Americans were under age 50—and 4% were under age 40. Today those figures are 8% and 2%, respectively. In fact, though Xers today outnumber the Silent by over 3-to-1, the Silent collectively possess nearly twice as much wealth.

Understandably, today's elders have become economic backstops for their grown kids and grandkids—subsidizing them, housing them, co-signing their loans, funding extended-family vacations, and setting up college trust funds. The Silent Generation came of age in an era (the early 1960s) when the elderly were vastly more impoverished than younger Americans—hence the need to declare a federal "war" on their destitution. Today, many Silent find themselves waging their own campaign against youth poverty within their own families.

Third, Generation X is currently in the greatest danger.

I began this series by asking which generation is worst off economically. The answer, I think, isn't Millennials. Few were old enough to lose much wealth in the recent crash. And though they're encountering a very rough start, they have decades to make up lost earnings and savings. Barring a catastrophic national future, they should be OK.

I'm more worried about Gen Xers, who were hit harder and at a more vulnerable stage in their lives—considering that a large share were not doing well to begin with. Many have become detached from the labor force. Most are used to getting by on their own without recourse to safety nets. And the oldest Xers don't have much time left to repair their balance sheets before retirement.

Policies targeted at this generation (Americans today aged roughly 35 to 55) should therefore be a national priority—and should emphasize self-help and labor force reattachment. Such policies, at relatively modest cost, might include enlarging the EITC, expanding refinancing options for underwater homeowners, allowing the nondisabled employed to buy in to Medicaid coverage, and slashing student-loan interest rates on continuing education for older adults. We need to help millions of Xers save more, find jobs, and even re-engage with our political system.

Finally, the American Dream is reimagined by each generation.

There was a time when young adults defined the Dream as a bigger home and a bigger pension for everybody. Millennials don't talk as much about homes and pensions—and certainly not for everybody. They're more drawn to social networks and peer-to-peer sharing—things that they like, yes, but also that they know they can all afford. In recent decades, Boomers and Xers have gradually redefined the Dream as more qualitative than quantitative—and more private than public. As goes the Dream, so goes the direction of our nation. We've become an economy less focused on building things for our collective future and less interested in the prosperity of younger generations. Remarkably, despite the unprecedented relative wealth of today's seniors, Congress continues to spend massively on them: Over one-third of the federal budget consists of benefit payments to 65+ Americans. That's well over $1 trillion, or about $25,000 per person—mostly without regard to financial need. Meanwhile, future-related spending is getting all but squeezed out of public budgets, causing infrastructure to rust and an alarming share of today's college students to drop out or rush to food banks out of dire need.

As a brute economic proposition, the prospects for America's younger generations are unlikely to improve until our nation invests as much in the young for what they will do tomorrow as it rewards the old for what they did yesterday. A half-century ago, we were such a nation. Might we become one again? I expect that, in time, the American Dream will shift back again. I already see many signs of this happening among Millennials—in their higher savings rates, desire for community, and closer connection to family life. As voters and leaders, this rising generation will sooner or later galvanize a change in that direction.