Has Generation Z Gotten a Raw Economic Deal?

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1/10/2025 Updated: 1/10/2025

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Commentary

Popular newsletter writer Aaron Renn recently highlighted a guest post by Tom Owens arguing that young people today face much more difficult economic circumstances than previous generations did. Anyone who has looked into buying a house in the past four years can understand young people's frustration. The Case-Shiller house price index has recorded a shocking 50 percent increase in median home prices from the beginning of 2020 to the end of 2024. Even people making pretty good money experience sticker shock, especially with mortgage interest rates over 6 percent. And of course we all just experienced the highest US inflation in fifty years.

Mr. Owens makes the case by calculating a "Life Difficulty Index", which is a ratio between earnings and the cost of a house and a basic car. He claims that the life difficulty index (LDI) for a "starter life" has risen from 3.64 in 2001 to 5.14 in 2024. But the median household calculation has some limitations. One he doesn't mention is changes in household size, and especially the average number of workers per household, which has declined over this period. In 2010, for example, households in the top quintile of income had roughly five times as many workers (1.97 vs. .43) as households in the bottom quintile.

The other issue with using median statistics is that those just starting out in life rarely start at the median. Mr. Owens shifts to looking at the starting salaries for college graduates. Recomputing his life difficulty index, he finds that while those starting life in 1975 faced a 3.47 LDI, those starting in 2000 faced a 4.32 LDI, and those starting in 2024 faced a 7.62 LDI.

As a result, he claims that young people these days do indeed have it much harder than their parents and grandparents did. And therefore we shouldn't be surprised that many of them are checking out of the labor force and lowering rates of family formation.

Indeed, he concludes that young families that are succeeding have character and drive "more than double that of equivalent Boomers, and at least 50 percent better than that of Generation X." And that "today's graduates face a market where a middle-class life is **more than double, about 120 percent more,** difficult to achieve than it was for late Boomers in 1975."

While the back-of-the-envelope math is interesting, the conclusions are suspect. Is it really true that a “middle-class” lifestyle is less attainable, and that those starting out in the economy today have less opportunity than in the past?

Mr. Owens downplays quality improvements when it comes to hedonic adjustments to the consumer price index. I can sympathize. While we should acknowledge that a 2024 Honda Civic is much better than a 2000 Honda Civic, that doesn’t actually make it cheaper. The same can be said for housing—although rents have not risen anything like housing prices over the past four years. People in the United States work fewer hours than they did fifty years ago. And they can communicate with friends and family anywhere in the world at almost no financial cost. The ubiquity of appliances—refrigerators, dishwashers, microwaves, TVs, phones—is also a relatively recent phenomenon.

Yet Mr. Owens doesn’t acknowledge just how much better and cheaper so many things are today—from streaming platforms to phones and computers to air travel to clothing. While average costs of these things may not always be declining, that average masks just how cheaply many of these products can be. Spend ten minutes exploring the FIRE (Financial Independence, Retire Early) community and you’ll see what I mean.

The use of national median numbers can also be misleading—such as when he talks about how many hours minimum wage workers had to work to buy a Mustang in 1965 ($2,427/$1.25/hour = 2000 hours) versus today ($32,000/$7.25/hour = 4400 hours). Of course, many states have a minimum wage of $15/hour—bringing near equivalence.

But the minimum wage is the wrong thing to focus on here. Instead, we should ask how many people were paid minimum wage in 1985 versus today. And when it comes to salaries, we should also keep in mind that people today tend to work fewer hours due to greater ability to goof off or waste time with access to the internet and with the rise of remote work. Fringe benefits, especially health insurance, have increased markedly for most Americans. And increasing numbers of people choose to substitute more pleasant and meaningful work (such as for nonprofits) for higher paying work.

The back-of-the-envelope calculation also doesn't account for the speed of income growth over one's lifetime, which seems to be *higher* and more rapid than in the past. Access to capital markets is greater. Gig opportunities to supplement one's income proliferate. Low-cost options to develop one's skills and certifications are more available than at any time in history. And the job market post 2020 has been remarkably strong with millions of openings.

The real question is why so many young people *don't* take advantage of these opportunities—and relatively more expensive houses and cars are not the answer. There has been a "war on work" waged by federal and state governments over the past decade and a half. Casey Mulligan highlighted how expansive federal unemployment benefits in the wake of the global financial crisis dramatically reduced labor force recovery.

Since then, many states have followed suit in expanding unemployment insurance benefits. Other federal programs from food stamps to Medicaid to Section 8 housing to SSI have ballooned as well. COVID opened even more avenues of distortion from stimulus checks to refundable child tax credits to extra unemployment benefits.

Likewise, many areas of pain, such as high housing and car prices, have largely been created by government distortions—not *laissez-faire* markets.

Although the quality of cars continues to rise, the primary reason they have not gotten cheaper in real or relative terms is because the EPA continues to raise emissions standards—and in the past few years has begun requiring auto makers to manufacture electric vehicles to meet their regulatory standards. Housing costs have been driven up in large part by cheap and widely accessible credit in the 1990s and the early 2000s. Pre-1990, median home prices were only a couple times median income. Now they are over five times higher.

Cultural issues also play a role in Gen Z's seeming economic woes. Unrealistic expectations fed by media and degree-granting institutions are one problem. Another is comparing themselves with their parents' current situation rather than with their parents' situation thirty years ago. And ironically, it is the *ease* of living comfortably today compared to twenty-five or fifty years ago that encourages sloth and "failure to launch."

Cheap, ubiquitous, high-quality entertainment provides an increasingly attractive alternative to a career. So do parents' bigger houses with plenty of room for adult children. The gig economy allows people to earn some spending money with minimal tax implications rather than full-time career work. Less family formation, driven by cultural and social changes, also reduces pressure on young people, especially young men, to become productive, responsible breadwinners.

Mr. Owens recognizes some of these cultural pressures. But he wrongly points to a raw economic deal for Gen Z as the fundamental cause of less labor force participation, lower family formation, and other social problems. Gen Z has not gotten a raw economic deal. In many ways they have gotten the best economic deal in human history.

What they have gotten, though, is a raw cultural and political deal. And that is where we should focus our reform efforts.

From the American Institute for Economic Research (AIER)

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