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Growing Divide Between Young People Able to Go It Alone and Those Who Live at Home

ByNeil Shah

The gap between America's best-off and worst-off is widening—and driving a wedge between young people with the resources to strike out on their own and those for whom living with family or friends has become, at least for now, an economic necessity.

Associated Press

The odds that a young adult in the U.S. will become the head of a household, whether as an owner or renter, has fallen more between 1990 and 2010 than in previous decades, accelerating a trend that began with the Baby Boomers, according to an analysis of **Census Bureau** data by **Emily Rosenbaum**, a demographer at **Fordham University**.

At the same time, more young people are living with their parents, despite the gradual improvement of the economy. As the Journal noted in August, 13.6% of Americans ages 25 to 34 were living with their parents in 2012, up very slightly from 13.4% in 2011. (When Census surveyed Americans this past spring, the figure continued climbing to 13.9%, but the change was not statistically significant.)

"Income inequality is affecting young adults' ability to become independent," said Ms. Rosenbaum by email. "This is worse than it was for previous generations."

The result, she argues, is a "growing divide between those young adults with the means to establish and sustain independent living arrangements, and those without such resources."

The findings show how growing income inequality in the U.S., exacerbated by the 2007-2009 recession, is reshaping the fabric of American society. Fewer young people renting or buying homes also has big implications for the nation's housing market and economy.

The best-off 20% of Americans received 51% of the nation's overall household income last year, up from 47% in 1992 and 44% in 1972. America's worst-off 20%, by contrast, took home 3.2% in 2012, compared with 3.8% 20 years earlier and 4.1% 20 years before that.

With more of the nation's income going to the few, a growing number of young people are struggling to assume the costs of setting up a home, Ms. Rosenbaum argues. "The increasing need for alternatives to independent living—whether co-residence with parents or sharing with roommates—early in adulthood has become part of the life course, perhaps more by necessity than choice," she writes. Increases in young adults living at home are more pronounced among 25 to 34 year olds, non-whites and the least educated.

The rise in young adults living with parents partly reflects the lingering effects of the recession, which has made it harder for people with less education to find jobs. There's also less stigma attached to living at home, making it an attractive way to build savings, for example, to buy a home.

Some economists say demand for housing among the young is largely down due to "cyclical" factors—temporary things like high joblessness and tight credit conditions. Once the economy picks up, the logic goes, young Americans will find it easier to get loans and buy homes. Research shows the vast majority of Americans under 45 still say they want to buy a home eventually.

And income inequality isn't the only issue at play. Young Americans have been postponing the age at which they first get married since the 1960s—and especially over the past decade, which reduces household formation. Borrowing via student loans has ballooned in recent years to over $1 trillion—making young people less creditworthy borrowers and potentially more cautious about non-education purchases.

Still, the increasing failure of young Americans to "launch" is a problem that predates the recent recession and, in fact, goes back to the Baby Boom generation, Ms. Rosenbaum says.

The share of young Americans age 25 to 34 living at home was only 10.6% early in the 2000s—but then jumped to 11.8% by 2007—before the first full year of the recession.

Decades earlier, the Baby Boomers—people born in the late 1940s to the late 1960s—also reached their adulthood during a time of rising income inequality and stagnating incomes. That led to problems "launching" for some Boomers, especially those born in the late 1950s to mid-1960s. These Americans were more prone to delay their marriages, childbearing and homeownership—decisions that inadvertently ended up boosting their per-capita economic wellbeing.

The growing divide among young people when it comes to living arrangements could, if it worsens, represent a "structural" impediment to future housing demand, especially since Americans 25 to 34 are a key demographic for home-buying.

Lower demand for housing would mean less spending on lawn mowers, refrigerators and furniture—purchases that fuel much of the nation's economy.

Meanwhile, living at home isn't exactly free: While it boosts a young adult's per-capita wellbeing, it may transfer financial pressures to older family members, Ms. Rosenbaum points out.

Over time, today's young adults, as a group, could become increasingly out of synch with older generations on housing decisions. That could mean less demand for housing in the market just when more older Americans are seeking to unload their homes.