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**Half Full or Half Empty?
A Look at Income and Inequality**

August 2007

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George Mason University**

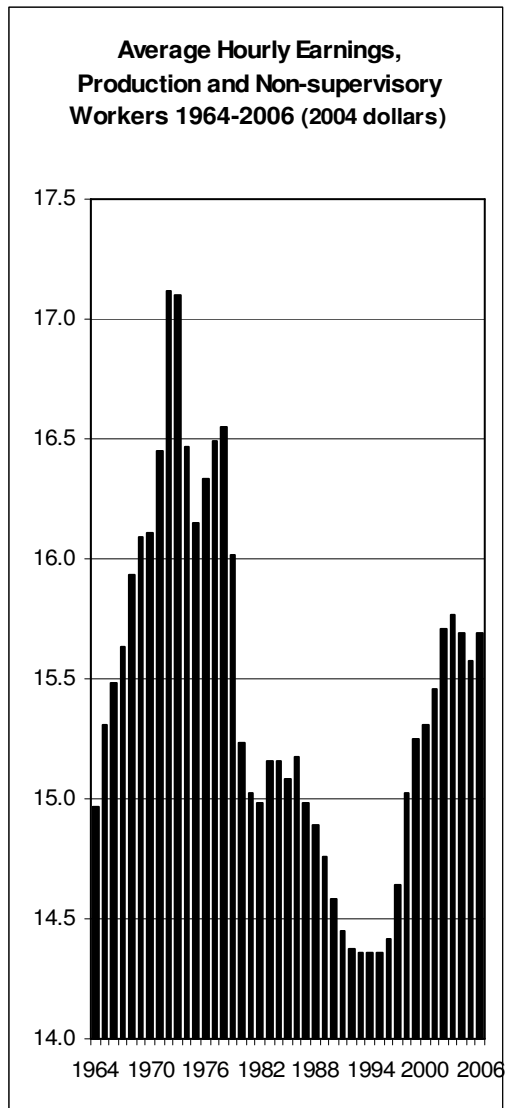
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<http://www.econtalk.org>
<http://www.mercatus.org>

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First, the bad news...

Chart I—Declining Real Wages



Source: Source: Bureau of Labor Statistics, Current Employment Statistics (CES), Series CEU0500000049 and Bureau of Labor Statistics, CPI-W

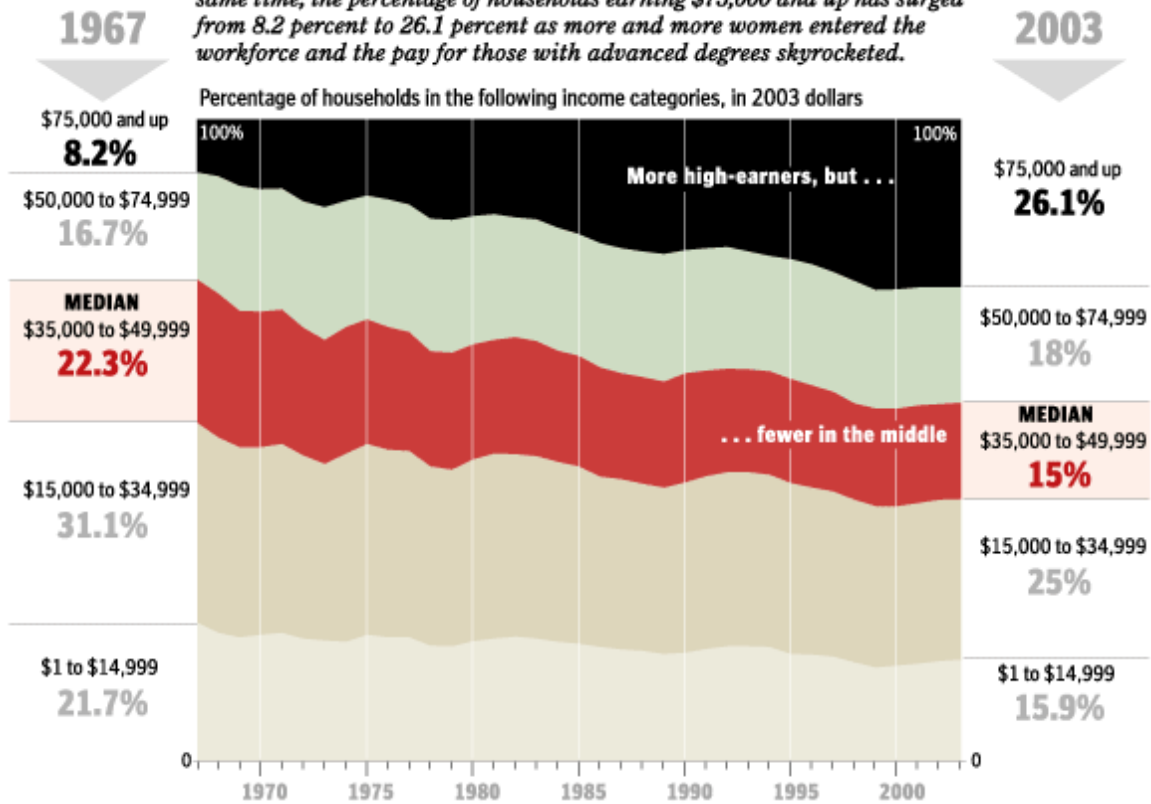
- Average hourly earnings corrected for inflation plummeted between their peak in 1972, recovering only in 1996.
- Average hourly earning today remain below the level in 1979
- I have tried to make this picture as scary as possible by starting the vertical axis at \$14/hr rather than zero and squeezing the horizontal axis. Both make the fall look much more severe.

Chart 2 —The Disappearing Middle Class

“Economists and politicians -- including the presidential candidates -- are locked in a vigorous debate about the job losses. Is this just another rocky stretch of the U.S. economy that, if left alone, will foster new industries generating millions of as-yet unimagined jobs, as it has during other times of upheaval? Or is the workforce hollowing out permanently, with those in the middle forced to slide down to low-paying jobs without benefits if they can't get the education, credentials and experience to climb up to the high paying professions?”

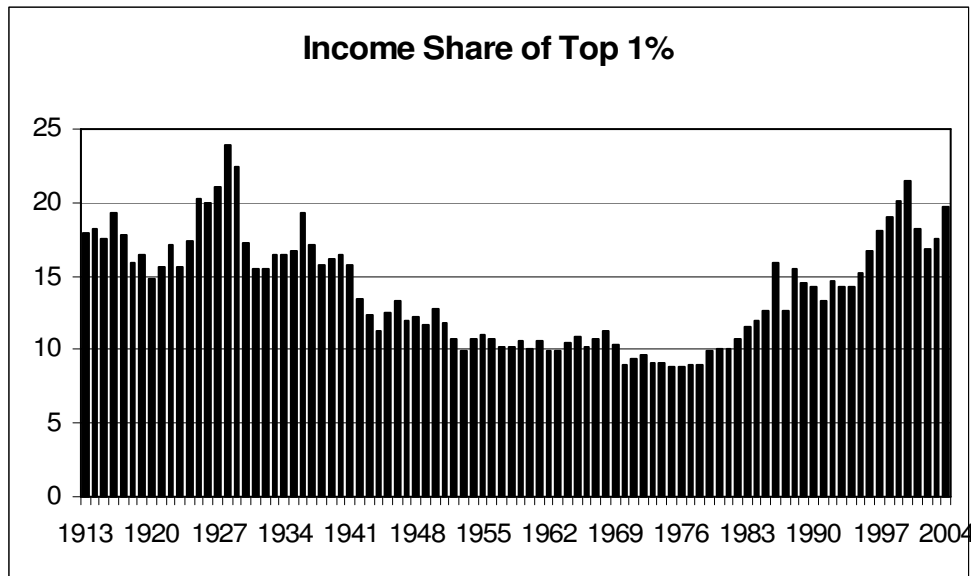
A Shifting Landscape

The proportion of households earning close to the median income—\$43,318 as of 2003—has been on the decline for three decades. In 1967, nearly a quarter of households made between \$35,000 and \$49,999 in inflation-adjusted terms. But that share was down to 15 percent by 2003. At the same time, the percentage of households earning \$75,000 and up has surged from 8.2 percent to 26.1 percent as more and more women entered the workforce and the pay for those with advanced degrees skyrocketed.*



Source: Witte, Griff. “As Income Gap Widens, Uncertainty Spreads: More U.S. Families Struggle to Stay on Track,” *Washington Post* 20 Sept. 2004, A01.

Chart 3—The Share of Income Going to the Top 1% Near All-Time High



Source: Table A3: The share of income (including capital gains) going to the top 1% in the U.S., 1913-2004, from: Piketty and Saez, "Income Inequality in the United States, 1913-2002", Working Paper, November 2004, <http://emlab.berkeley.edu/users/saez/piketty-saezOUP04US.pdf>

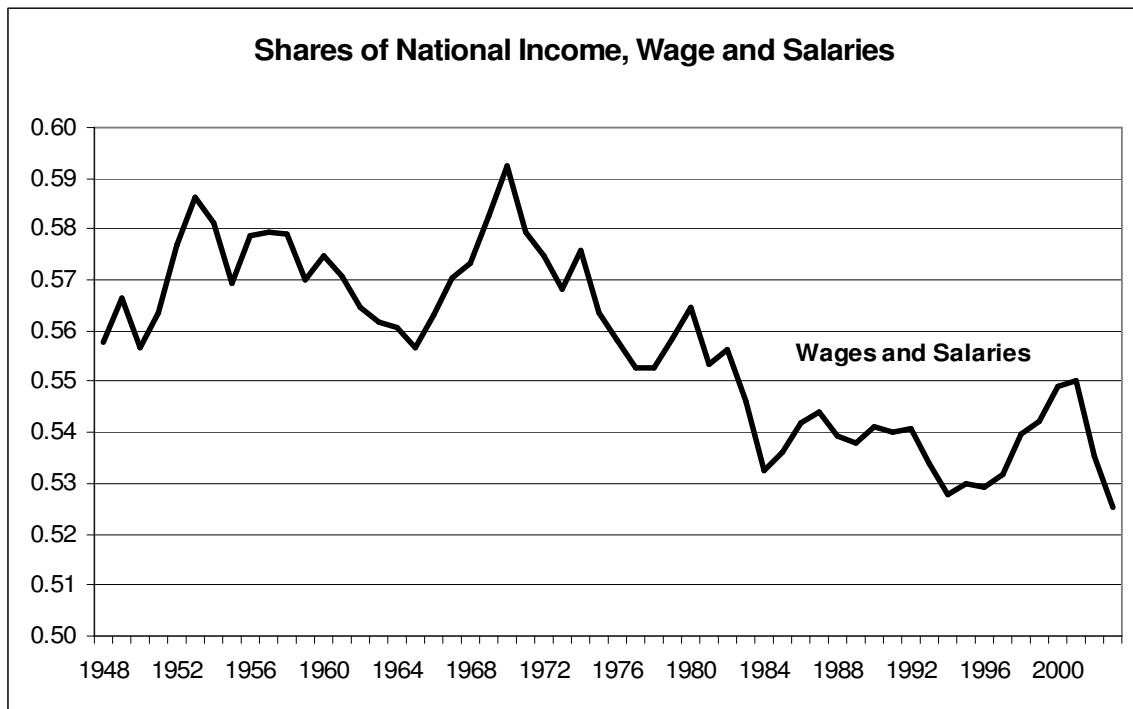
Note: Tab A3, column D—includes capital gains.

- The rich get a bigger and bigger share of the pie

"...in 2004 the real income of the richest 1 percent of Americans surged by almost 12.5 percent. Meanwhile, the average real income of the bottom 99 percent of the population rose only 1.5 percent. In other words, a relative handful of people received most of the benefits of growth."

"Left Behind Economics," by Paul Krugman, New York Times, July 14, 2006
<http://select.nytimes.com/2006/07/14/opinion/14krugman.html>

Chart 4—Labor's Share Falling Steadily

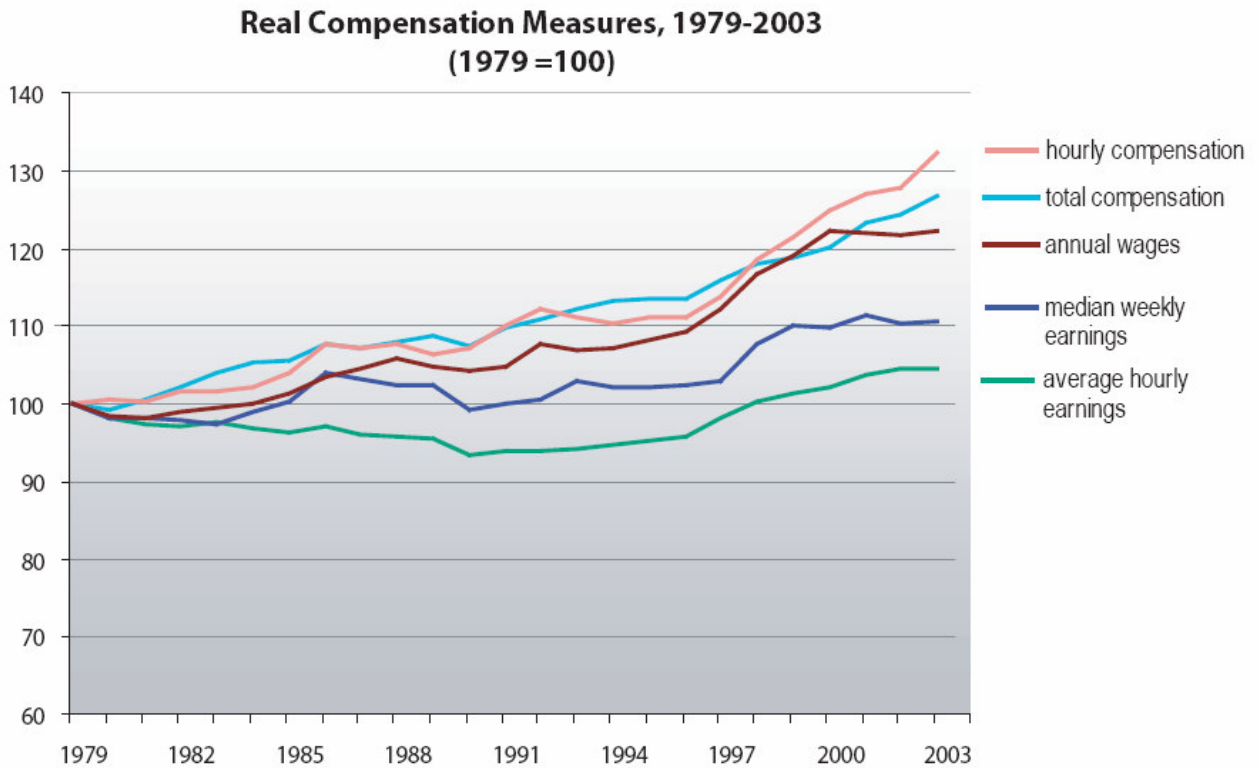


Source: Pakko, Micheal R. "Labor's Share" National Economics Trends, St. Louis Federal Reserve Bank, August 2004, page 1, <http://research.stlouisfed.org/publications/net/20040801/netpub.pdf>

- Labor's share of the national economic pie is at an all-time low for the post-WWII era

But maybe the glass is half-full after all...

Chart 5—The BLS and Wages



Source: Joseph R. Meisenheimer II, Monthly Labor Review, May, 2005: Table 3 - Percent change from 1979 in real compensation measures. Analysis from the Bureau of Labor Statistics Employment Cost Index, Series Id: ECU210121 and the Current Employment Statistics Survey, Series Id: CES0500000006.

- All series deflated with CPI-U-RS
- With this better price index, even average hourly earnings, the bottom line, shows some growth since 1979.
- Other measures of compensation show moderate to strong growth
- Real growth understated because CPI handles quality changes poorly
- The BLS uses different definitions of wages for each series (see next page)

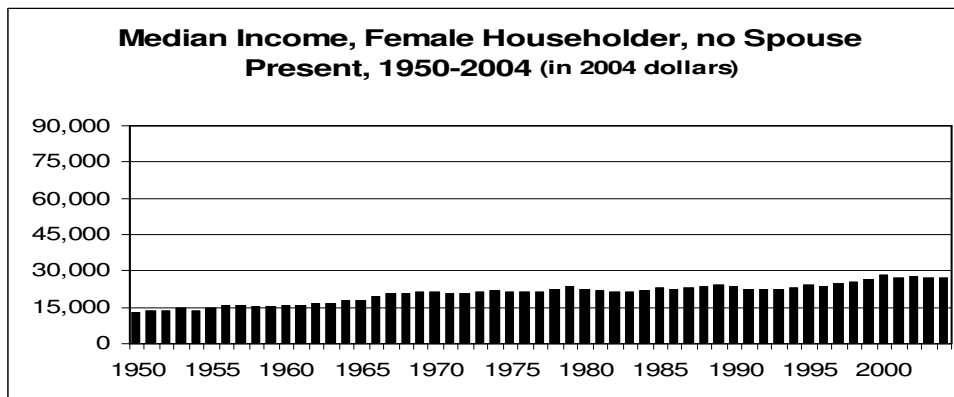
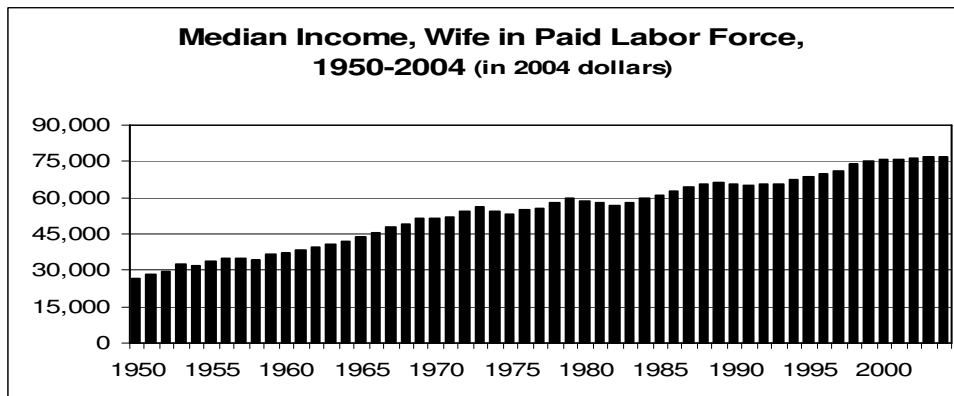
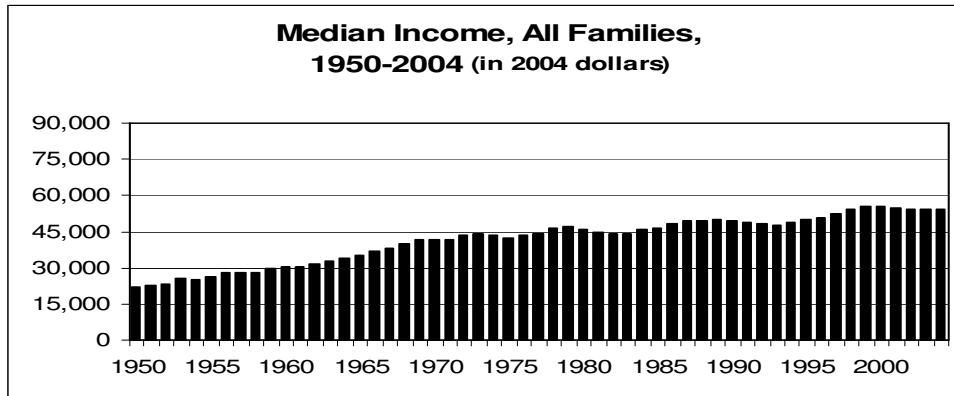
Exhibit 1. Comparing five BLS sources of compensation data

Data characteristics	Employment Cost Index of the National Compensation Survey	Hourly and weekly earnings from the Current Employment Statistics survey	Annual and weekly earnings from the Quarterly Census of Employment and Wages	Usual weekly earnings from the Current Population Survey	Real hourly compensation in nonfarm business sector
Timeliness and respondent characteristics					
How frequently is the information published?	Less than a month after the end of each quarter	Monthly within 3 weeks of the survey reference period	Weekly wages reported quarterly and annual wages reported annually; both published with a lag of about 6 months	Less than a month after the end of each quarter	About a month after the end of each quarter
Who provides information?	Nonfarm establishments	Nonfarm establishments	All nonfarm and agricultural establishments covered by Federal or State unemployment insurance programs	Households	Nonfarm establishments, households, and government administrative records
Private households included?	No	No	No	Yes	No
Nonprofit organizations included?	Yes	Yes	Some	Yes	No
Government employees included?	State and local only	No	Federal, State, and local	Federal, State, and local	Only those in government enterprises
Number of units?	8,300 private establishments and 800 government establishments ¹	About 350,000 private-sector establishments	More than 8 million private and government establishments	60,000 households	Not applicable
Worker, job, and employer characteristics					
All occupations included?	Yes	No, workers in nonproduction occupations and supervisors are excluded	Yes	Yes	Yes
Estimates available by occupation?	Yes	No	No	Yes	No
Full- and part-time distinctions possible?	Yes ²	No	No	Yes	No
Demographic information available?	No	No	No	Yes	No
Estimates available by industry?	Yes	Yes	Yes	Yes	Some
Collective bargaining status available?	Yes	No	No	Yes	No
Self-employed business owners included?	No	No	No	No	Yes
Selected forms of compensation included					
Wages and salaries before taxes and other deductions?	Yes	Yes	Yes	Yes	Yes
Employer 401(k) contributions?	Yes	No	Yes, in some States	No	Yes
Stock options	No	No	Yes	No	Yes
Employer costs for other benefits?	Yes	No	No	No	Yes
Characteristics of benefits plans?	Yes	No	No	No	No
Commissions?	Yes	Yes, if earned and paid at least monthly	Yes	Yes, if usual	Yes
Tips?	No	No	Yes	Yes, if usual	Yes
Bonuses?	Yes	Yes, if earned and paid each pay period	Yes	Yes, if usual	Yes
Cash value of meals and other payments in kind?	No	No	Yes, in most States	No	Yes

¹ The number of sampled establishments shown includes only the establishments included in the Employment Cost Index component of the National Compensation Survey. The total number of establishments in the National Compensation Survey sample is more than 22,000.

² Although the National Compensation Survey collects information about workers' full- or part-time status, BLS does not estimate Employment Cost Indexes for full- and part-time workers separately.

Chart 6—Income is far from stagnant



SOURCE: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, Historical Income, Table F-7, <http://www.census.gov/hhes/www/income/histinc/f07ar.html>

Growth in real median income 1972-2004

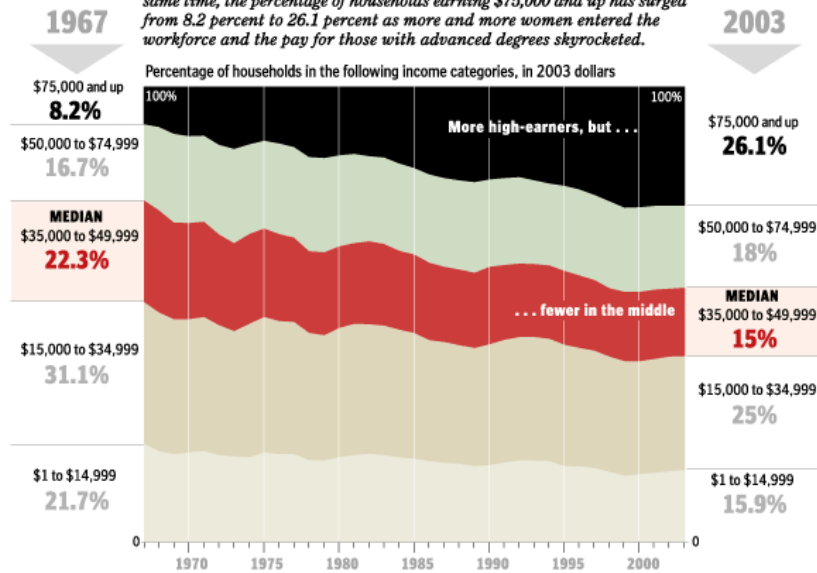
All families	24%
Wife in paid labor force	41%
Single female head of household	29%

This growth occurred despite dramatic changes in family structure and immigration

Chart 7—Middle Class isn't disappearing—it's getting richer

A Shifting Landscape

The proportion of households earning close to the median income—\$43,318 as of 2003—has been on the decline for three decades. In 1967, nearly a quarter of households made between \$35,000 and \$49,999 in inflation-adjusted terms. But that share was down to 15 percent by 2003. At the same time, the percentage of households earning \$75,000 and up has surged from 8.2 percent to 26.1 percent as more and more women entered the workforce and the pay for those with advanced degrees skyrocketed.*

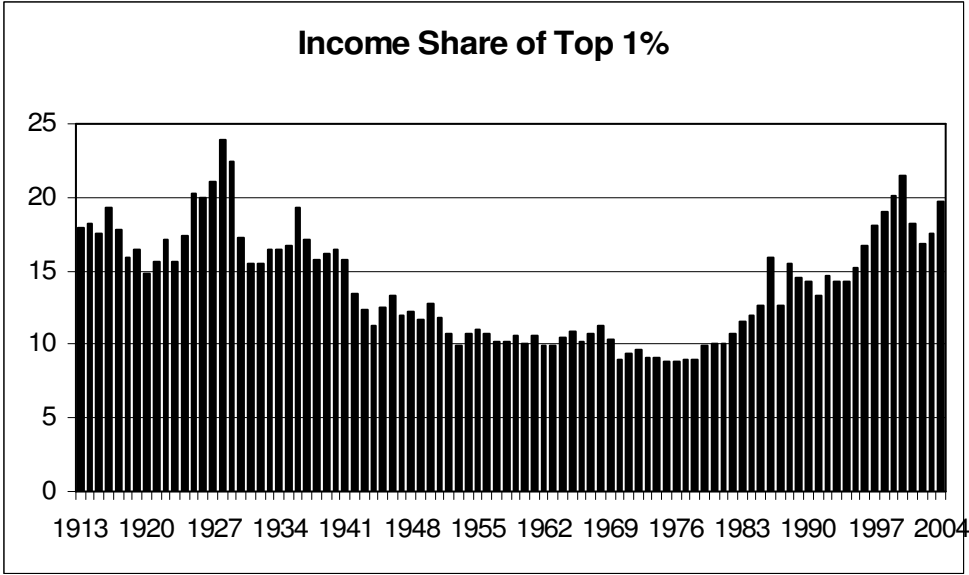


Source: Witte, Griff. "As Income Gap Widens, Uncertainty Spreads: More U.S. Families Struggle to Stay on Track," *Washington Post* 20 Sept. 2004, A01.

Correction to This Article

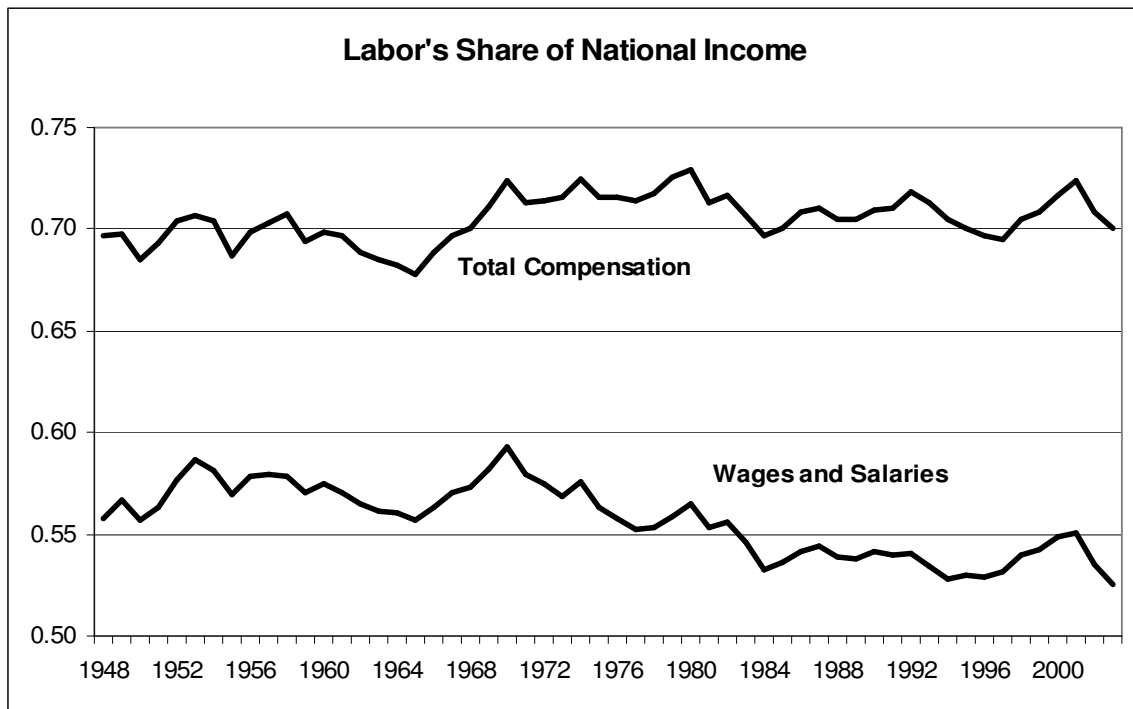
Charts published with a Sept. 20 front-page story showing a decline from 1967 to 2003 in the percentage of households earning \$35,000 to \$49,999 labeled that bracket as including the median income level. The median levels for 1967 and 1968 were \$33,338 and \$34,746, respectively. The charts' brackets should have been adjusted to take that into account.

Income Distribution	Percent of Households	
Range	1967	2003
\$75K and up	8.2	26.1
\$50K - \$75K	16.7	18.0
\$35K - \$50K	22.3	15.0
\$15K - \$35K	31.1	25.0
under \$15K	21.7	15.9



“Wealth is not a pizza.” — P.J. O’Rourke

Chart 8—Labor's Share isn't falling when you include benefits



Source: Pakko, Micheal R. "Labor's Share" National Economics Trends, St. Louis Federal Reserve Bank, August 2004, page 1, <http://research.stlouisfed.org/publications/net/20040801/netpub.pdf>

Changes in Poverty Rates, 1967 - 2003, by Family Structure

Family type:	Percent of nonelderly persons in poverty by family type:		
	1967	2003	Change
Married couples with children	10.7	8.1	-24 %
Married couples without children	5.8	4.1	-29 %
Single women with children	51.2	37.3	-27 %
Single men with children	28.4	22	-22 %
Single women without children	25.4	18.6	-26 %
Single men without children	18.1	16.2	-10 %

Source: Hoynes, Hilary W., Marianne E. Page and Ann Huff Stevens. "Poverty in America: Trends and Explanations" *Journal of Economic Perspectives* 20.1 (2006): Table 3. Data from U.S. Dept. of Commerce, Bureau of the Census Current Population Survey, March 1968 and March 2004.

Effect of Changes in Family Structure on Nonelderly Poverty Rates

Family type:	Percent of nonelderly persons by family type		Percent of nonelderly persons in poverty by family type	
	1967	2003	1967	2003
Married couples with children	67.3	44.2	10.7	8.1
Married couples without children	18.7	22.4	5.8	4.1
Single women with children	6.2	11.9	51.2	37.3
Single men with children	0.8	2.5	28.4	22
Single women without children	4.4	9.6	25.4	18.6
Single men without children	2.6	9.3	18.1	16.2
All Persons				
Percent in Poverty, actual			13.3	12.8
Predicted Poverty, changes in family type only				17

Source: Hoynes, Hilary W., Marianne E. Page and Ann Huff Stevens. "Poverty in America: Trends and Explanations" *Journal of Economic Perspectives* 20.1 (2006): Table 3. Data from U.S. Dept. of Commerce, Bureau of the Census Current Population Survey, March 1968 and March 2004.

Table 4.
Percent of Consumer Units (CUs) Reporting Ownership of Selected Appliances and Vehicles by Expenditure Decile (Outlay)
Decile: 1992 and 2002

	Expenditure decile										Overall			
	1	2	3	4	5	6	7	8	9	10				
Microwave														
1992	39.4	60.8	64.7	73.4	78.1	83.9	88.7	90.7	94.0	94.3	76.8			
2002	77.1	89.1	90.6	94.5	94.8	95.8	96.0	97.9	98.4	97.7	93.2			
Refrigerator														
1992	94.9	97.7	98.0	98.8	99.2	99.3	99.5	99.9	99.7	99.9	98.7			
2002	95.3	99.0	99.0	99.5	99.9	99.6	99.9	99.8	99.8	99.9	99.2			
Freezer														
1992	20.5	28.5	28.4	28.6	31.4	32.2	36.0	39.6	40.0	42.3	32.8			
2002	21.6	28.1	27.2	29.5	28.8	31.0	32.6	36.9	34.6	37.8	30.8			
Garbage disposal														
1992	14.2	20.4	23.5	30.4	31.7	38.2	43.4	47.7	56.9	66.8	37.3			
2002	23.2	28.1	35.8	39.1	43.8	49.4	53.1	60.6	65.6	71.3	47.0			
Washer														
1992	44.5	60.5	63.2	69.0	71.8	77.7	84.9	90.3	93.0	95.0	75.0			
2002	54.0	68.0	71.6	76.8	78.7	84.9	87.5	89.9	93.0	95.3	80.0			
Dryer														
1992	30.4	46.7	52.8	60.9	66.1	73.8	82.6	87.3	91.3	93.4	68.5			
2002	47.0	62.3	67.1	73.4	76.7	82.5	85.9	89.1	92.2	95.1	77.1			
Color TV														
1992	77.5	91.5	92.6	95.5	96.4	97.2	98.3	99.0	99.2	99.4	94.7			
2002	92.4	97.1	98.1	98.9	98.7	98.9	99.5	99.1	99.5	99.7	98.2			
Computer														
1992	4.1	5.1	6.2	8.6	13.7	16.2	22.7	26.3	37.5	45.8	18.6			
2002	21.0	30.3	38.8	48.8	55.4	66.4	74.4	80.2	86.7	91.1	59.3			
Sound components														
1992	26.5	35.3	43.6	50.3	54.7	62.0	68.1	70.0	77.7	84.9	57.3			
2002	39.9	57.6	63.5	71.6	72.0	76.8	81.8	83.7	88.4	89.5	72.5			
VCR														
1992	22.1	38.2	50.6	62.2	71.7	77.4	84.4	88.2	92.0	93.6	68.1			
2002	55.9	75.0	82.8	89.9	89.1	92.8	93.6	95.6	96.6	97.6	86.9			
Stoves combined¹														
1992	89.5	97.7	97.7	98.7	99.0	99.1	99.3	99.7	99.7	99.8	98.0			
2002	91.1	99.0	98.3	99.0	99.1	99.2	99.4	98.9	99.3	99.4	98.3			
Dishwashers combined²														
1992	11.5	22.0	29.2	37.6	44.4	51.3	59.6	65.7	77.6	87.8	48.7			
2002	23.8	35.7	39.9	48.3	54.8	62.3	69.2	75.9	83.3	88.1	58.1			
Auto, truck, van														
1992	45.6	68.8	80.1	87.7	91.4	93.4	95.7	95.9	96.9	96.0	85.1			
2002	48.0	73.1	81.7	89.5	91.4	93.5	94.3	95.2	95.8	94.6	85.7			

¹Stoves combined includes gas stoves, electric stoves, and other stoves. ²Dishwashers combined includes built-in dishwashers and portable dishwashers.

Notes: Appliances that are provided in rental units are included in the above charts. Expenditure deciles are created by using an outlays definition of expenditures. The primary differences between total expenditures, as used in CE published data, and outlays are in the vehicle and home mortgage definitions. The outlays approach replaces vehicle sales price with vehicle payments made during the survey reference period. Home mortgage principal payments are included in outlays, while the CE total expenditures definition considers these to be investments and does not include them. The information on appliance ownership is inventoried during the CU's first interview and is carried forward to subsequent interviews. If a CU purchases an appliance (which it previously did not own) in a subsequent interview, the inventoried information is not updated. Similarly, the first interview appliance information is not updated if an appliance is sold or discarded in a subsequent interview.

Source: Bureau of Labor Statistics, unpublished Consumer Expenditure Survey Interview Data 1992, 2002.

Source: "Supplemental Measures of Material Well-Being: Basic Needs, Consumer Durables, Energy, and Poverty, 1981 to 2002." December 2005, U.S. Census Bureau, <http://www.census.gov/prod/2005pubs/p23-202.pdf>

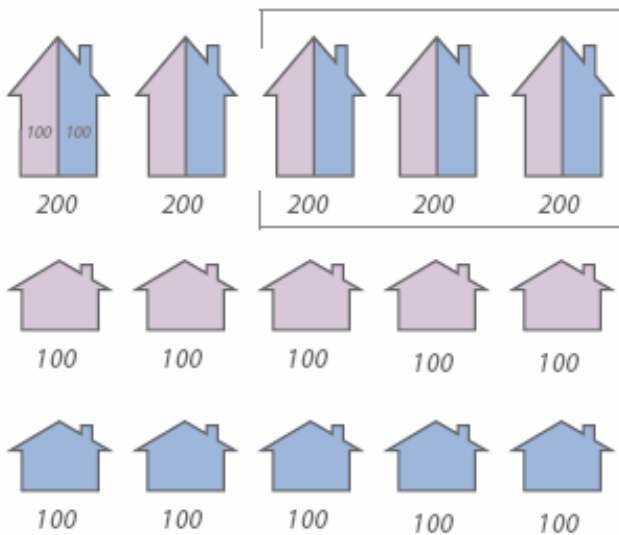
The Weird World of Household Income



Top quintile earns 20% of all income

*Total income: 1000
Median income: 100
Average income: 100*

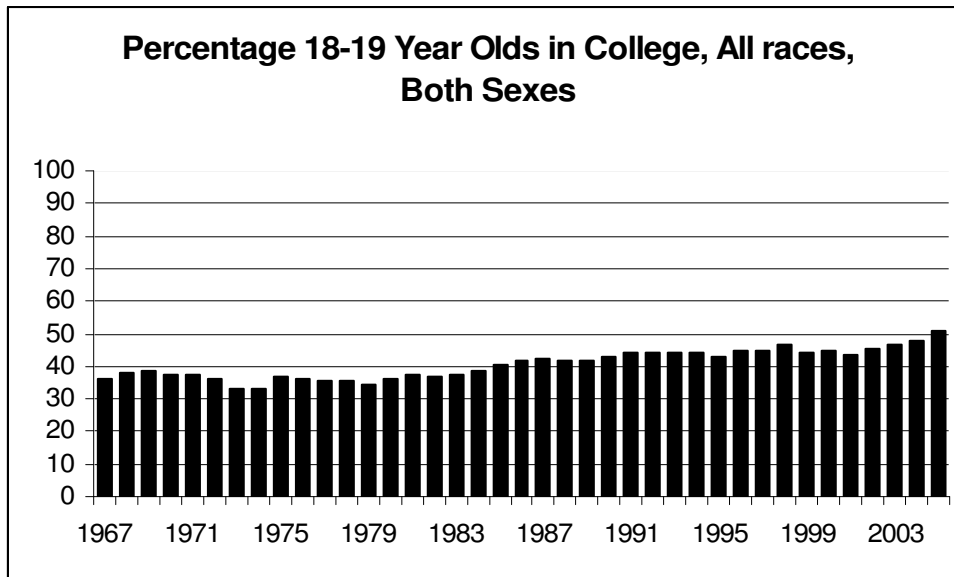
*Everyone's income doubles,
half of households divorce*



Top quintile earns 30% of all income

*Total income: 2000
Median income: 100
Average income: 133.33*

Chart 9—College Enrollment is at an all time high:



Source: U. S. Census Bureau, Current Population Survey, Table A-5b. The Population 18 and 19 Years Old by School Enrollment Status, Sex, Race, and Hispanic Origin: October 1967 to 2005, <http://www.census.gov/population/socdemo/school/TableA-5b.xls>

And every group is getting more educated:

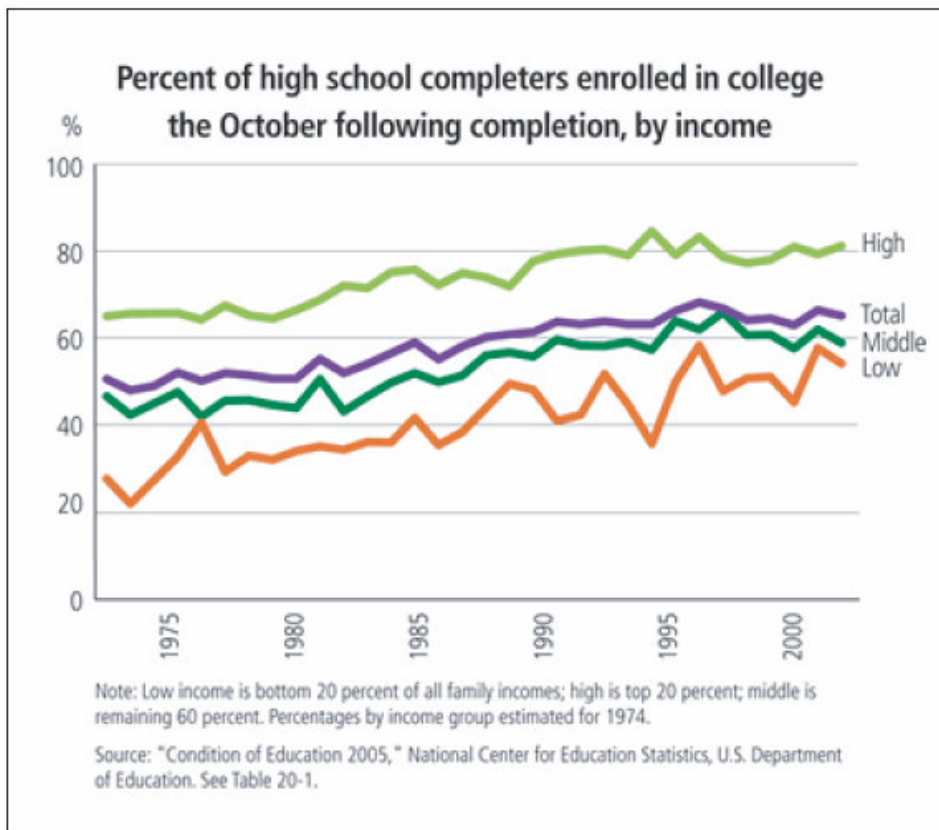
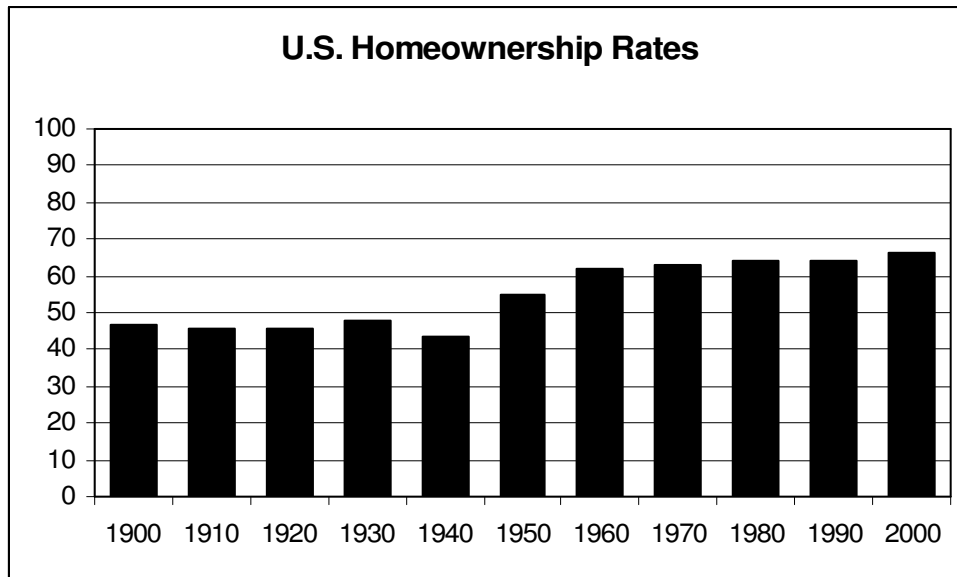


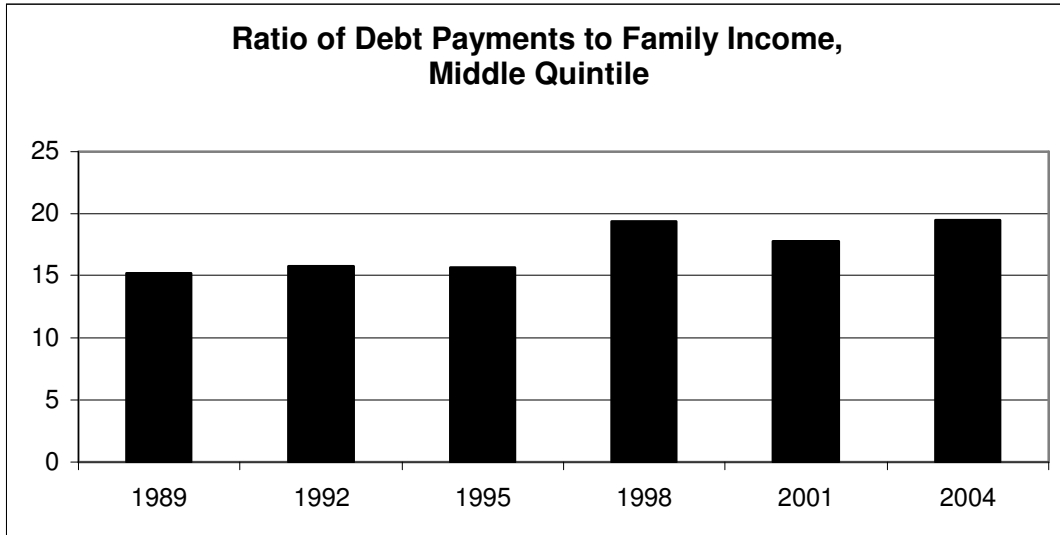
Chart 10—Home Ownership is at an all time high



Source: U.S. Census Bureau, Housing and Household Economic Statistics Division, Historical Census, <http://www.census.gov/hhes/www/housing/census/historic/owner.html>

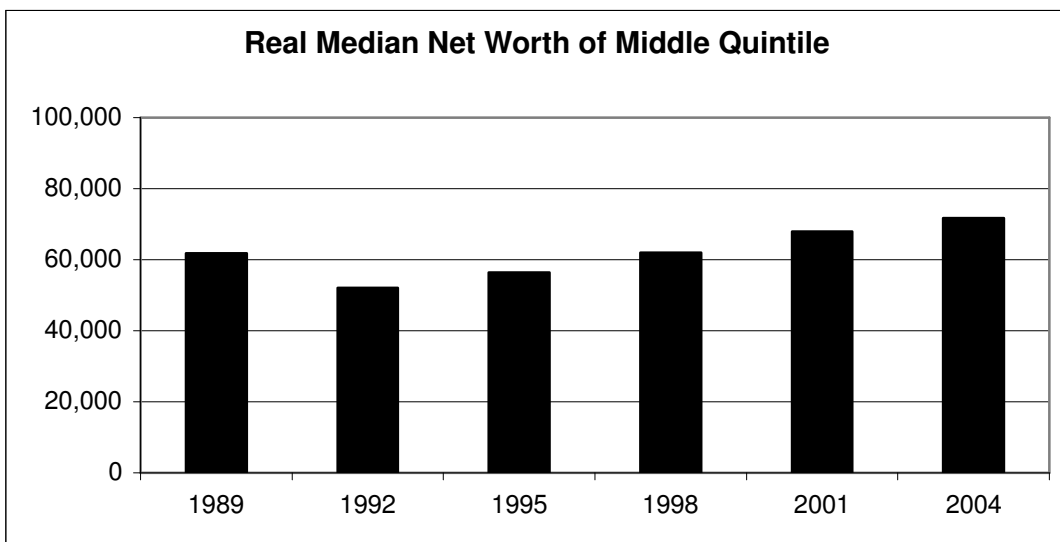
DEBT AND WEALTH

Chart I Ia—Ratio of Debt Payments to Family Income for Families with Debt
Middle Income Quintile (40-59.9 percentile), 1989-2004



Source: Survey of Consumer Finances (SCF) Chartbook, Federal Reserve Board, 1989-2004, table 14, <http://www.federalreserve.gov/pubs/oss/oss2/2004/scf2004home.html>

Chart I Ib—Real Median Household Net Worth, 2004 dollars
Middle Income Quintile (40-59.9 percentile), 1989-2004



Source: Survey of Consumer Finances (SCF) Chartbook, Federal Reserve Board, 1989-2004, table 3, <http://www.federalreserve.gov/pubs/oss/oss2/2004/scf2004home.html>