Trends in American Living Standards, 1959-2013: What Happened over the Great Recession?

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Paper Abstract:

Economic well-being refers to the household's command over, and access to, the goods and services produced in a modern market economy during a given period of time. The magnitude of the command or access that can be exercised by the household is approximated by an income measure, since household income should, in principle, reflect the resources available to the household for facilitating current consumption or acquiring assets. Traditionally, money income is used as a measure that reflects such command.

The aim of this paper is to propose a new measure of economic well-being. Gross money income (MI), the most widely used measure of economic well-being in the United States and almost all advanced capitalist countries, has been criticized on several grounds. The landmark report by the Canberra Group, a group of international experts on household income statistics, recommended, among other things, that estimates of in-kind social benefits be added and the tax burden subtracted from money income to arrive at a better measure of household economic well-being (Canberra Group 2001).

MI seeks to estimate the command over commodities. Although commodities are of critical importance, they form only a portion of the entire set of goods and services available to households. The state plays a crucial role in the direct provisioning of the "necessaries and conveniences of life" (to use Adam Smith's famous expression), such as public education and highways ("public consumption"). Nonmarket household work, such as childcare, cooking, and cleaning, also provides the necessaries and conveniences of life ("household production").

The Levy Institute Measure of Economic Well-Being (LIMEW) is a more comprehensive measure than the official measure. It includes public consumption and household production, components that are excluded in most available measures of economic well-being. It also includes long-run benefits from non-home wealth in the form of an imputed lifetime annuity, a procedure that seems superior to considering only current income from assets (see Table 1).

There are three key motivations behind constructing LIMEW. First, trends in well-being are sensitive to how we choose to measure well-being. A broader measure of well-being might be a better guide to actual trends in the standard of living. Second, in order to study disparities among key demographic groups, money income might give us only a partial picture of the relative advantage of one particular group over another. Third, LIMEW provides a more comprehensive measure of economic inequality. As one might expect, household production and public consumption are distributed much more equally than earnings among households. On the other hand, inequality in wealth is generally much higher than that of income or earnings. LIMEW allows us to estimate the net effect of including these components.

The new results contained in this paper may force us to rethink the growth of well-being and trends in inequality in the postwar period. The new findings will also highlight the extraordinary (and little known) role played by the government in promoting increases of well-being among non-whites, single female families, the elderly, and the middle class. It will also turn out that developments in inequality are to a large extent due to periodic spikes in household wealth. However, government spending and taxes played an important moderating role in keeping inequality low throughout the postwar period.

Previous work (Wolff, Zacharias, and Masterson, 2012), for example finds that median LIMEW grew by 0.7 percent per year while median MI increased by 0.6 percent per year. LIMEW grew much slower from 1959 to 1982 and much faster from 1982 to 2004 than MI. In 2004, measured inequality was lower according to LIMEW than MI (a difference of 5.5 Gini points) and the increase in inequality between 1959 and 2004 was also higher for MI than LIMEW (6.2 versus 5.1 Gini points). Much of the difference can be traced to the role of household wealth and net government expenditures.

The racial gap narrowed from 1959 to 1989 according to both measures but then widened somewhat from 1989 to 2004 according to LIMEW but continued to narrow according to MI. The difference in time trends can be traced mainly to the rising income from wealth of white households relative to nonwhite. The gap in well-being between single females and married couples deteriorated from 1972 to 1989 and then improved slightly in 2004 according to LIMEW but declined rather steadily over time from 1959 to 2004 according to MI. The fortunes of the elderly relative to the nonelderly showed a considerable improvement from 1959 to 2004 according to LIMEW, almost reaching parity in 2004. In contrast, according to MI, the relative position of the elderly was about the same in 2004 as in 1959. The difference in time trends can be traced mainly to the rising income from wealth and government transfers accruing to the elderly relative to the nonelderly.

This paper builds on Wolff, Zacharias, and Masterson, 2012, and will update the results to 2013 on the basis of new data work by Wolff, Zacharias, and Masterson (Zacharias and Masterson are not able to attend the conference in Seoul, so that the results will be presented by Wolff). Particular attention is paid to the trajectory in LIMEW over the "Great Recession" from 2007 to 2013.

REFERENCES

Canberra Group. 2001. Expert Group on Household Income Statistics: Final Report and Recommendations. Ottawa: Canberra Group.

Wolff, Edward N., Ajit Zacharias and Thomas Masterson, "Trends in American Living Standards and Inequality, 1959-2007," Review of Income and Wealth, series 58, No. 2, June 2012, pp. 197-232.

Table 1. Components of LIMEW

LIMEW
Money income (MI)
Less: Property income and government cash transfers
Equals: Base money income
Plus: Income from wealth
Annuity from nonhome wealth
Imputed rent on owner-occupied housing
Less: Taxes
Income taxes
Payroll taxes
Property taxes
Plus: Cash transfers
Plus: Noncash transfers
Plus: Public consumption
Plus: Household production
Equals: LIMEW