HALF FULL

A Fairly Cheery View of the American Standard of Living

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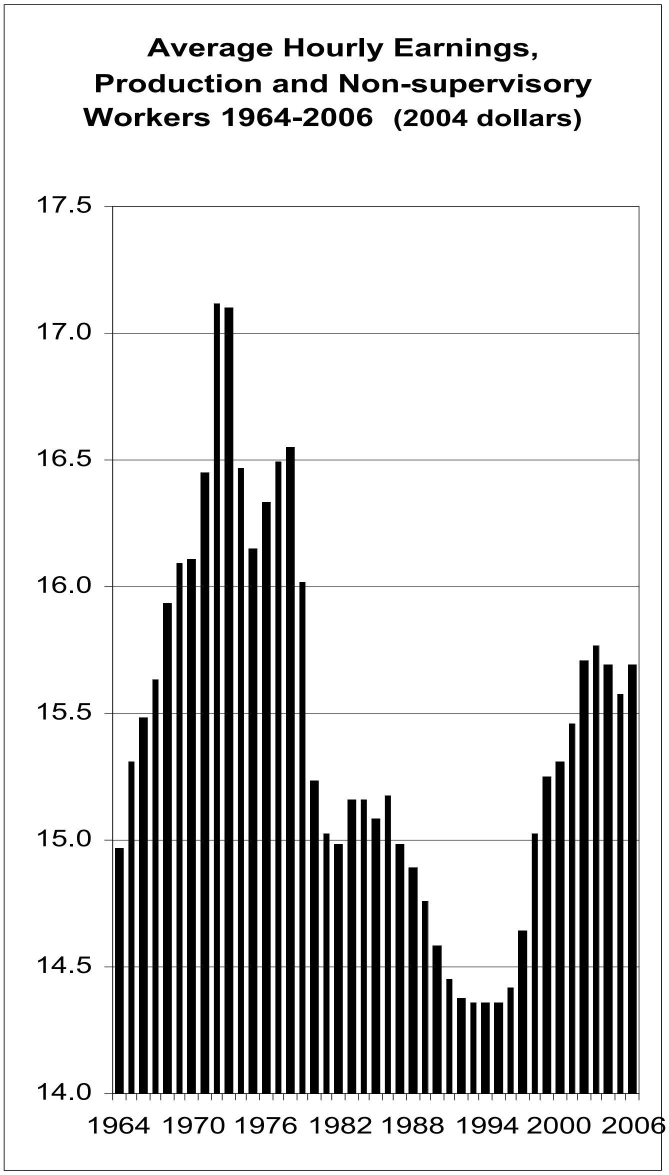
First, the bad news…

Chart 1—Declining Real Wages



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

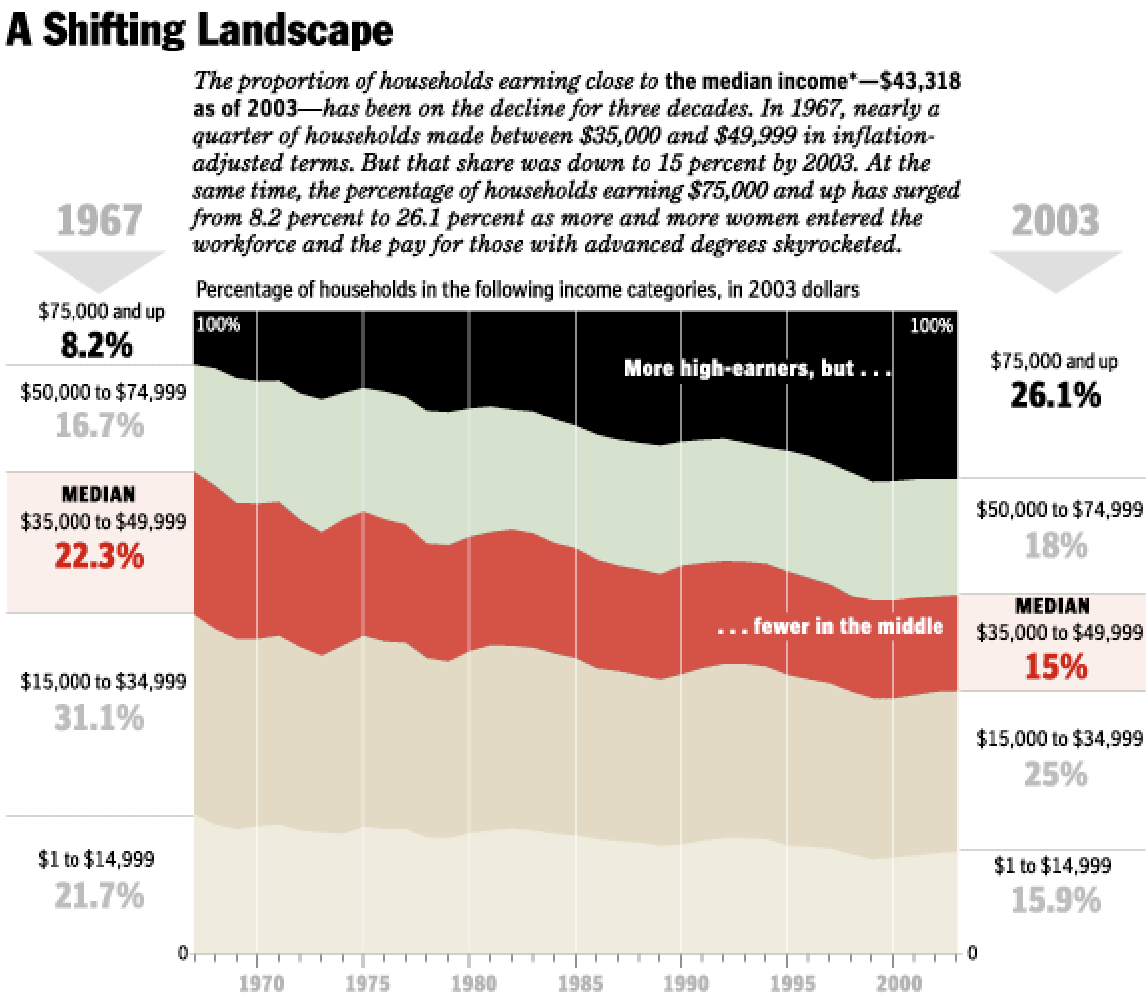
• Average hourly earnings, corrected for inflation, peaked in 1972 and haven't fully recovered despite recent gains.

• Average hourly earnings today remain below the level in 1979, as well.

• 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.

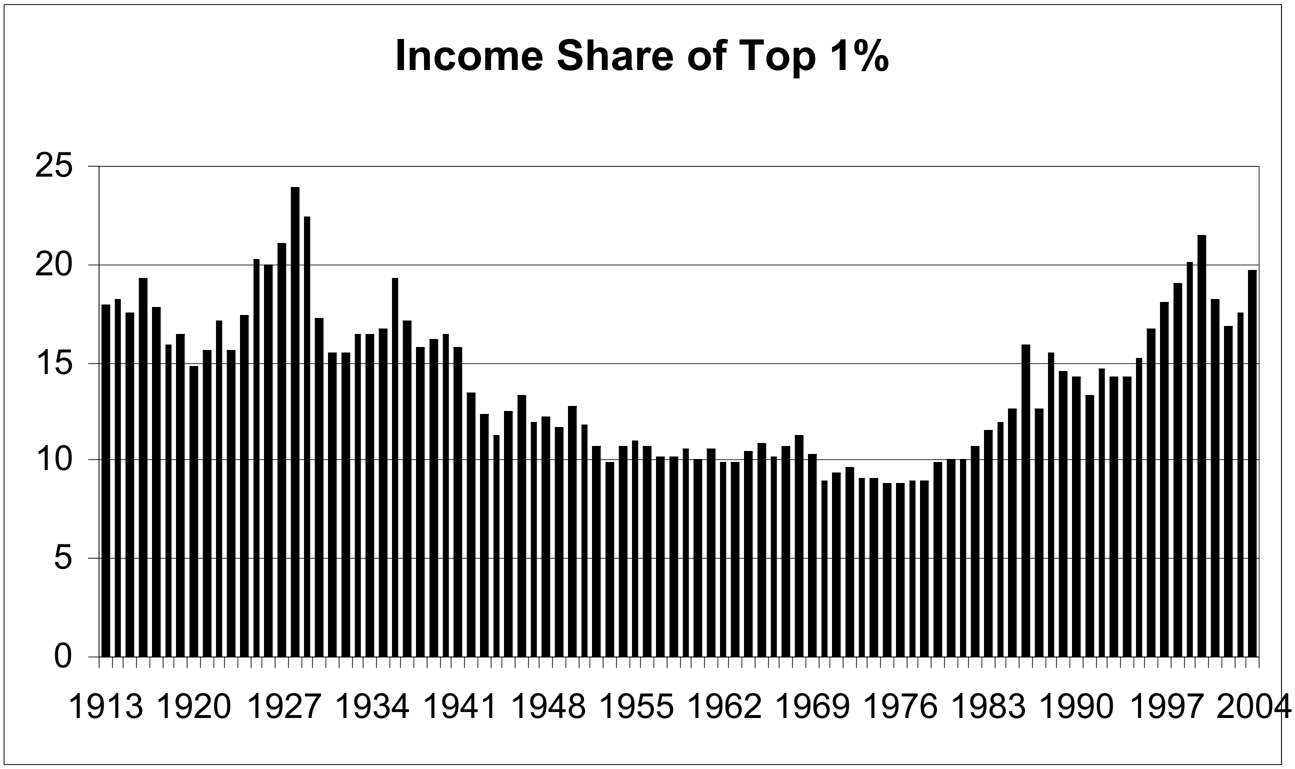
Chart 2 —The Disappearing Middle Class

"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?"



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 Untied States, 1913-2002", Working Paper, November 2004, http://emlab.berkeley.edu/users/saez/piketty-saezOUP04US.pdf

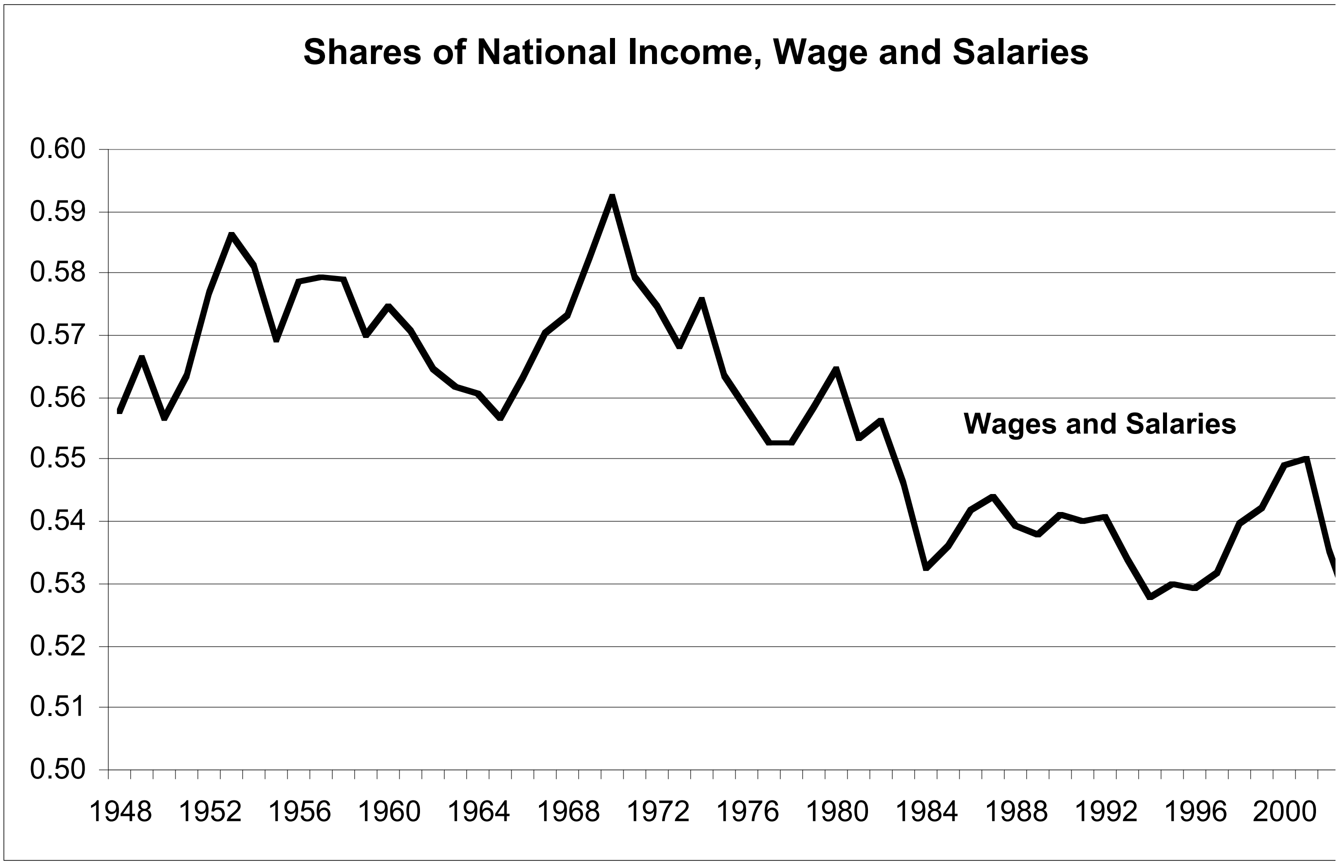
Note: Tab A3, column D—includes capital gains.

• The richest of 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

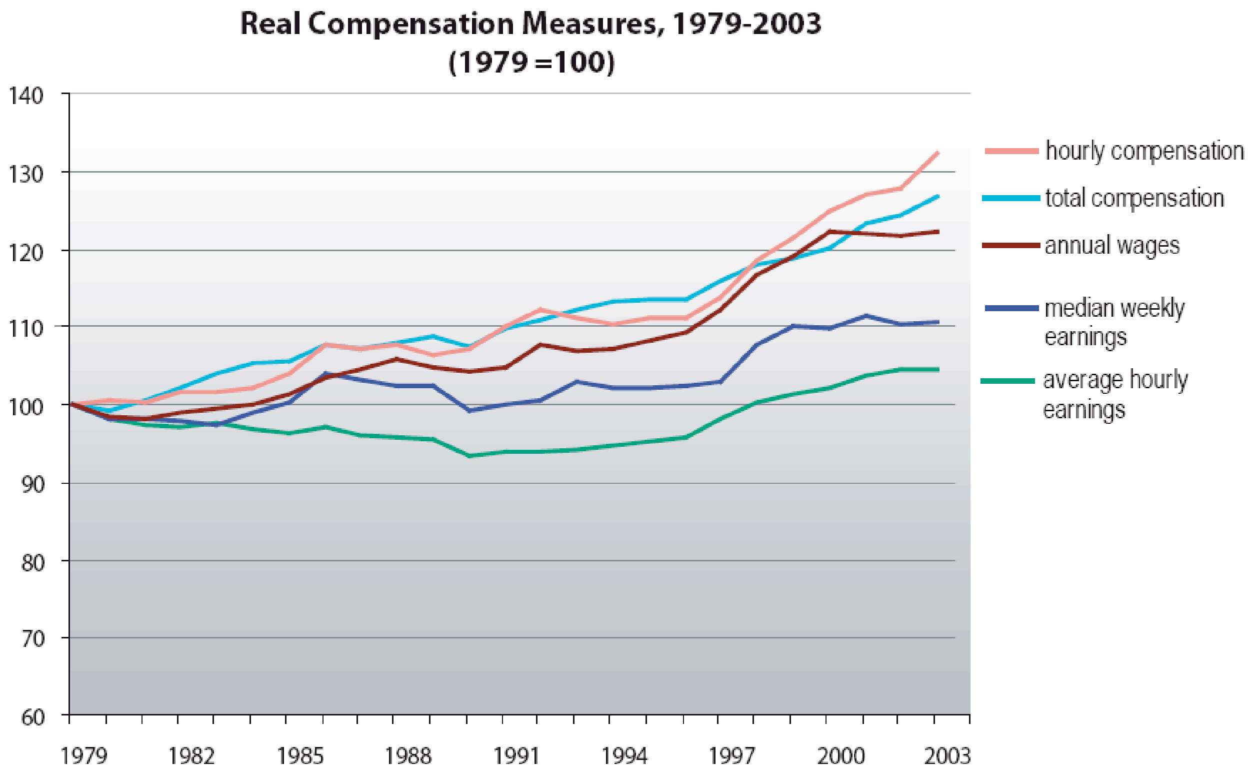


Source: Pakko, Micheal R. "Labor's Share" National Economics Trends, St. Louis Federal Reserve Bank, August 2004, page 1, http://research.stlouisfed.org/publications/net/20040801/netpub.pdf

• 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: ECU21012I and the Current Employment Statistics Survey, Series Id: CES0500000006.

- All series deflated with CPI-U-RS, the best price index the BLS offers
- With this price index, even average hourly earnings, the lowest line, shows some growth since 1979.
- Other measures of compensation show moderate to strong growth
- Hourly compesation series is up over 30%
- Real growth using any of these is understated—CPI handles quality changes poorly

Why are these compensation measures so different?

Average Hourly Earnings (the pessimistic series that peaked in 1972) excludes

Commissions (unless earned and paid at least monthly)
Bonuses (unless earned and paid each pay period)
Tips
Employer 401 (K) contributions
Health and Dental Benefits
Other Fringe Benefits

Hourly Compensation series (the series showing 30% real growth from 1979-2003 includes all of these.

Commissions and bonuses are used more widely than they were 30 years ago.

Fringe benefits have been growing pretty steadily over the last 30 years as a proportion of total compensation and the rate of growth in fringe benefits exceeds that of wages and salaries.

Excluding benefits when thinking about standard of living is grossly misleading.

The Hourly Compensation series also is a wider sample of the work force.

Average Hourly Earnings looks at "production and non-supervisory workers" about 80% of the work force. The Hour Compensation series includes self-employed workers and federal employees. Also includes managers, a group excluded from Average Hourly Earnings. So some of the gains found in the Hourly Compensation series might be due to high-end workers pulling up the average.

Best way to deal with this is to look at the median rather than the average. But we don't have median hourly wage data. We do have median income data.

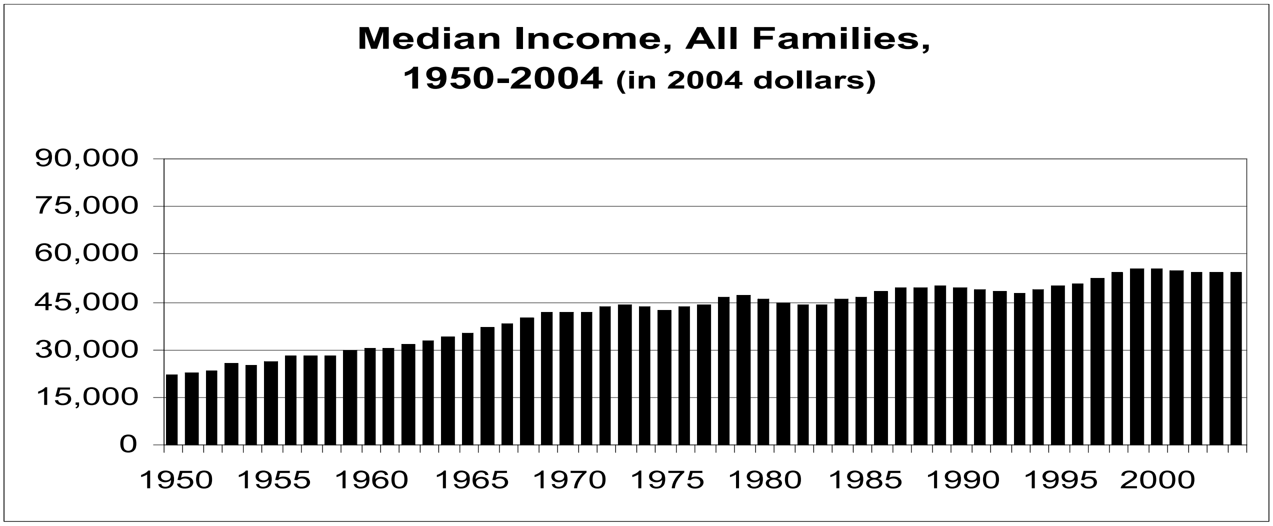
Exhibit 1. Comparing five BLS sources of compensation data

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

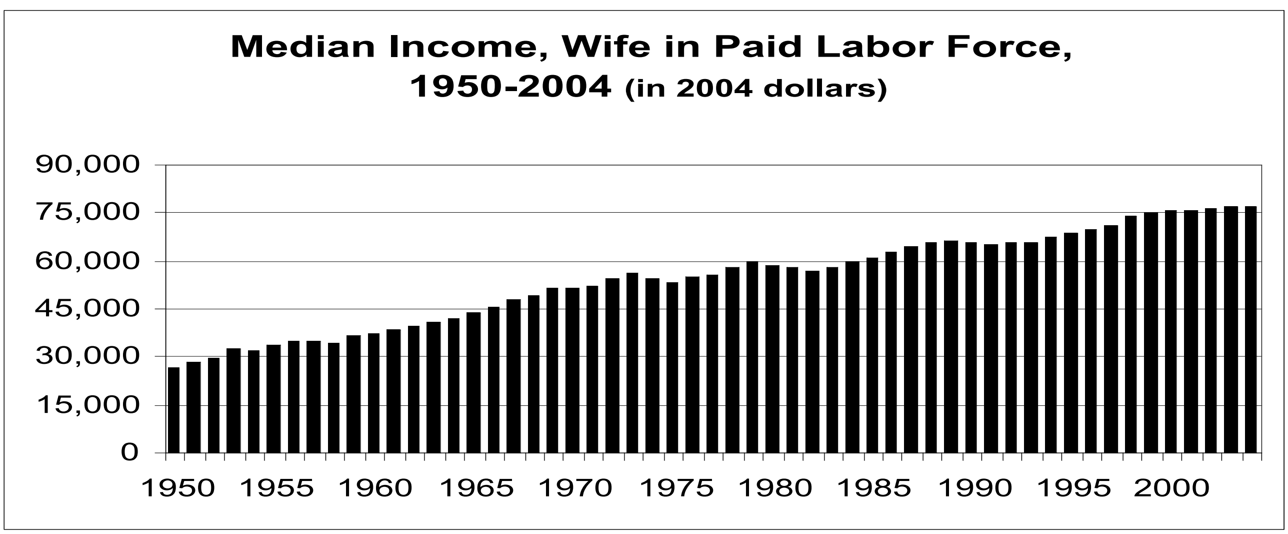
[1] The number of sampled establishments shown includes only the establishments included in the Employment Cost Index component of the National Compensation Survey. The total number of establishments in the National Compensation Survey sample is more than 22,000.

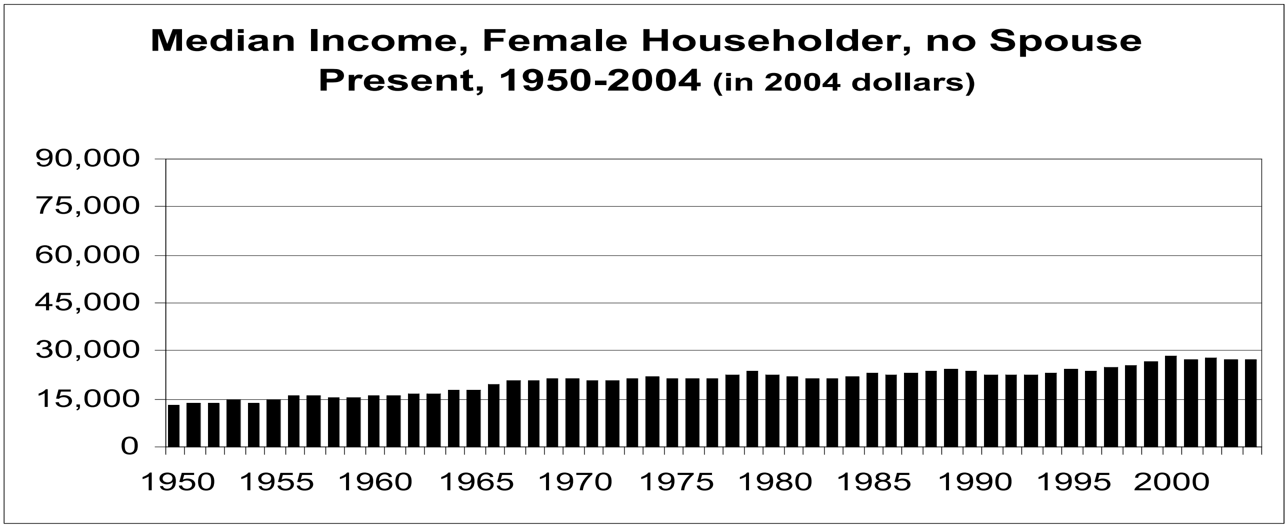
[2] Although the National Compensation Survey collects information about workers' full- or part-time status, BLS does not estimate Employment Cost Indexes for full- and part-time workers separately.

Chart 6—Income is far from stagnant



But we know that more women are working today than before. That could be the cause of the increase in median family income. Looking at median income of families where both spouses work:





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%

How is income defined in the preceding charts?

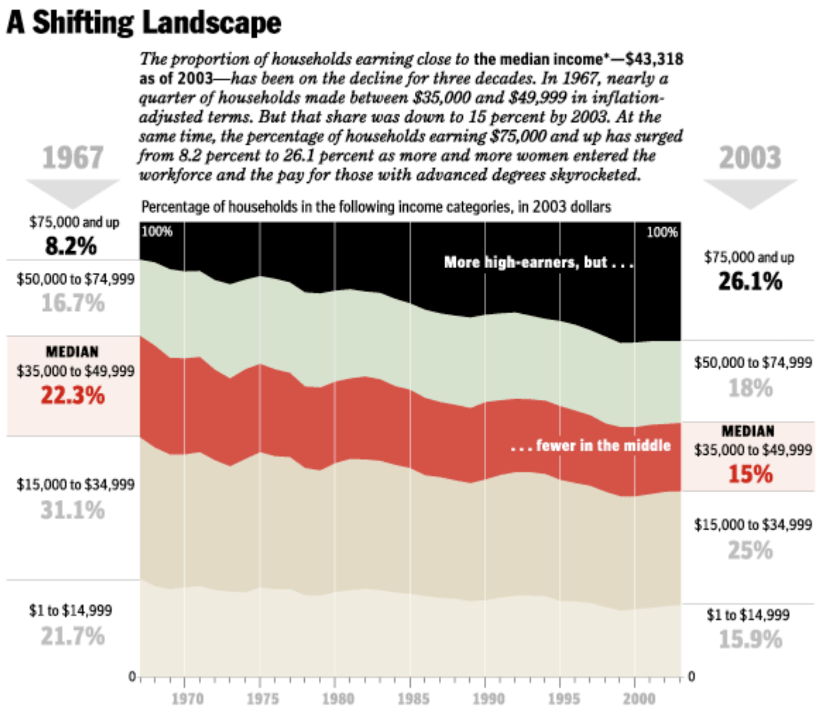
For each person in the sample 15 years old and over, the CPS asks questions on the amount of money income received in the preceding calendar year from each of the following sources:

1. Earnings
2. Unemployment compensation
3. Workers' compensation
4. Social security
5. Supplemental security income
6. Public assistance
7. Veterans' payments
8. Survivor benefits
9. Disability benefits
10. Pension or retirement income
11. Interest
12. Dividends
13. Rents, royalties, and estates and trusts
14. Educational assistance
15. Alimony
16. Child support
17. Financial assistance from outside of the household
18. Other income

From http://www.census.gov/population/www/cps/cpsdef.html

So it includes lots of stuff beyond wages and salaries. But it also **doesn't** include benefits—employer contributions to health care or retirement, for example, except as it gets converted into income. And it is also corrected for inflation by an imperfect price index that overstates inflation and understates real growth.

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



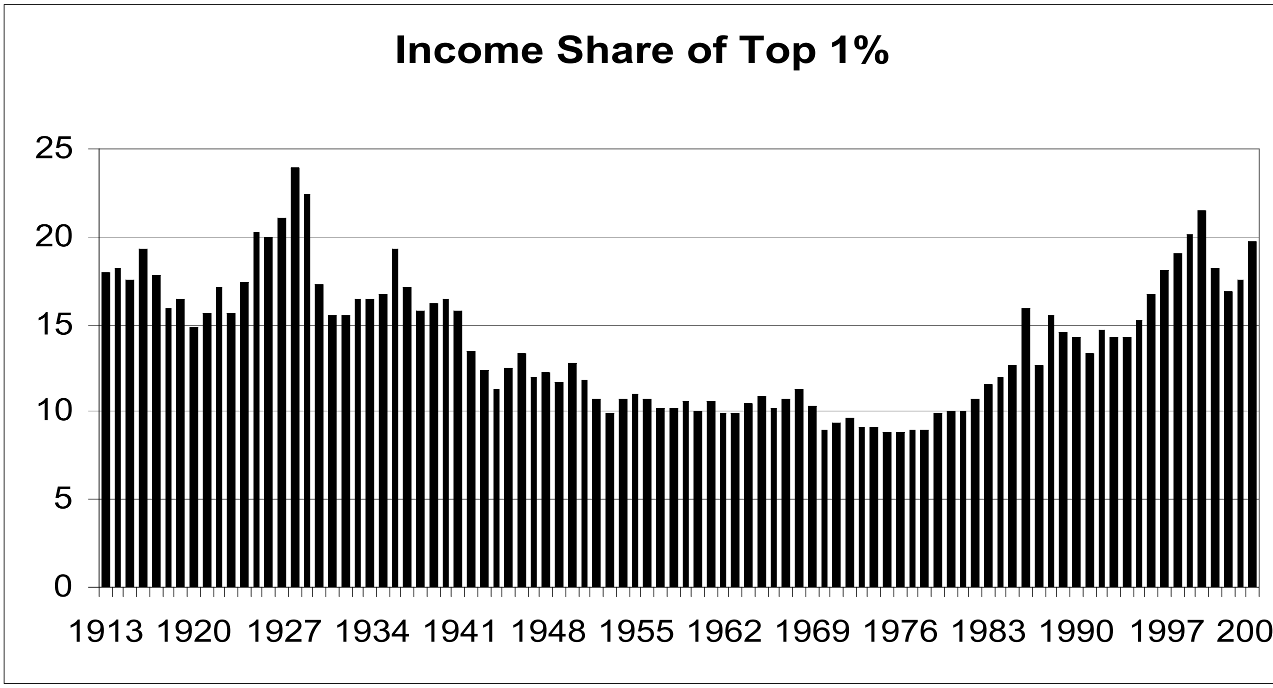
Source: Witte, Griff. "As Income Gap Widens, Uncertainty Spreads: More U.S. Families Struggle to Stay on Track," *Washington Post* 20 Sept. 2004, A01.

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.

THERE ARE FEWER PEOPLE IN THE 35-50K (and poorer groups) BECAUSE THEY'VE MOVED INTO THE HIGHER INCOME CATEGORIES:

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



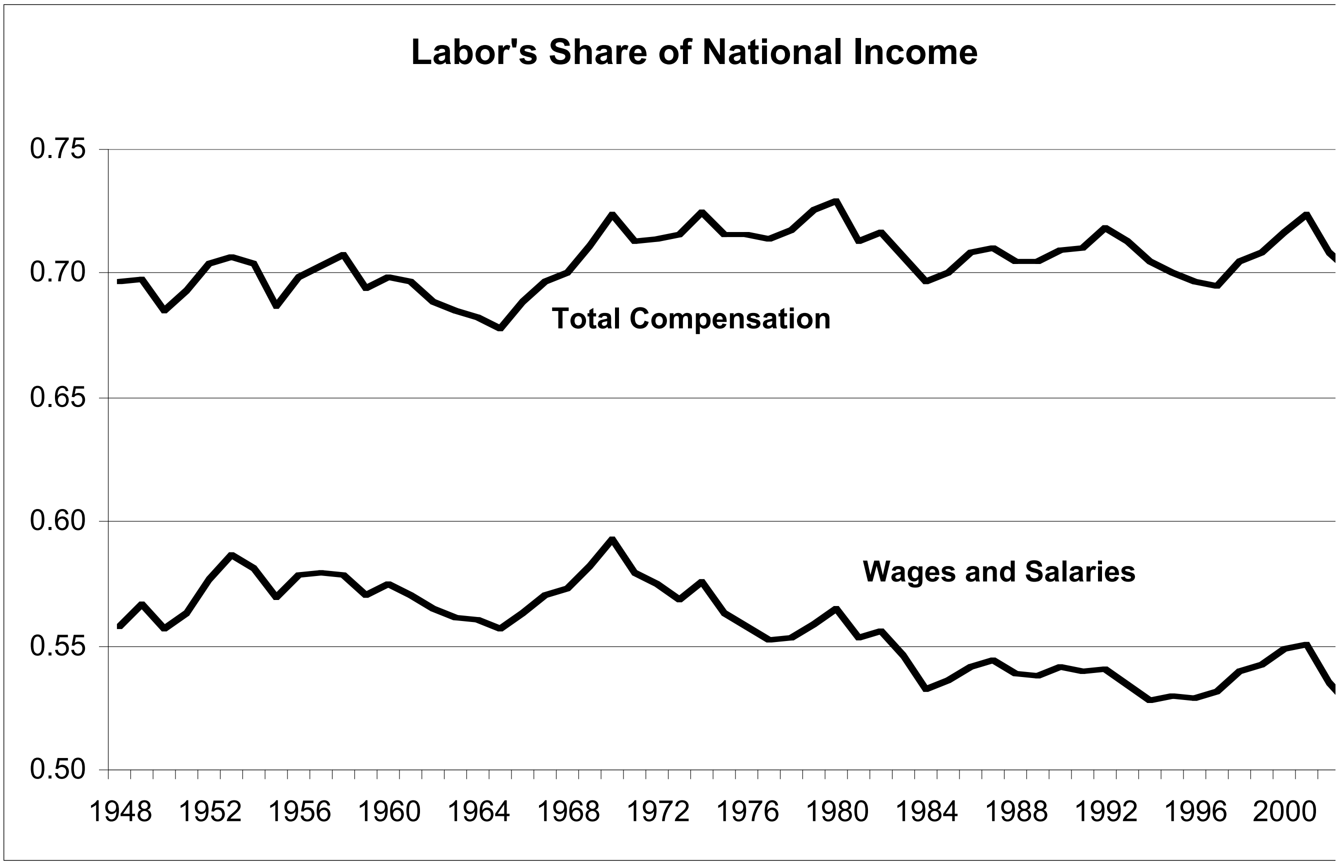
"Wealth is not a pizza." — P.J. O' Rourke

The people in the top 1% are not the same people every year and certainly not every decade. "They" don't sit around figuring out how to get a bigger share of the pie and passing laws to keep the rest of treading water.

Between 1930 and 1939, the income of the top 1% fell 7%. Did that mean that the other 99% did better? They did not. That was the worst economic decade of the 20th century. The fall in the well-being of the top 1% was symptomatic of everyone's suffering rather than an indication that the pie was divided more fairly.

I suspect people care more about the absolute size of their slice than they do about whether they are getting a bigger or a smaller share. Especially when you have no idea of what your share of the pie is. You might be able to tell me your money income last year. You would have a harder time telling me your compensation—your money income plus a monetary value for the fringe benefits you received—health and dental care and any retirement contribution of your employer. You might even be able to tell me whether your compensation last year is larger than it was five years ago. But even if you knew the full number inclusive of fringe benefits and that number five years ago, there's no way you know whether you've "fallen behind" or "gotten ahead" of other Americans—whether you're ranking in the income distribution has gone up or down. Unless you're Sergei Brin. He's gotten ahead. He founded Google, going from somewhere near the middle to the very top. When he and others did that, they may have increased the share "going to the top 1%." But the top 1% of the population didn't necessarily get richer. Just the amount of money in the top 1%. They are not the same thing.

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



Source: Pakko, Michael 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.

Starting around 1973, the poverty rate, which had been falling steadily, basically leveled out. Despite the increase in income since 1973, the poverty rate stayed almost constant, suggesting that a rising tide no longer lifted all boats—that a healthy economy could no longer dent poverty. An alternative explanation for the stagnant poverty rate is the increase in divorce. As the above table shows, every type of family experienced a dramatic drop in the rate of poverty among members of the group between 1960 and 2003. Looking at the last column of the above chart, what would you guess is the overall decrease in poverty between 1960 and 2003? Something between 20% and 30%. Yet the overall rate fell from 13.3% to 12.8%, a much much smaller percentage change of a mere 4%. FOUR PERCENT! How can that be? The answer is the surge in the divorce rate as the next table shows.

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.

Between 1967 and 2004, the proportion of families made up of single women with children almost doubled, from 6.2% to 11.9%. Over half of these families (51.2%) were poor in 1967. By 2003, "only" 37.3% of these families were poor. A huge improvement but still a long way to go. Despite this improvement, the overall poverty rate hardly budged because these single-mother families became a bigger proportion of the total.

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

	Expenditure decile 1	2	3	4	5	6	7	8	9	10	Overall
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 combined[1]											
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 combined[2]											
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

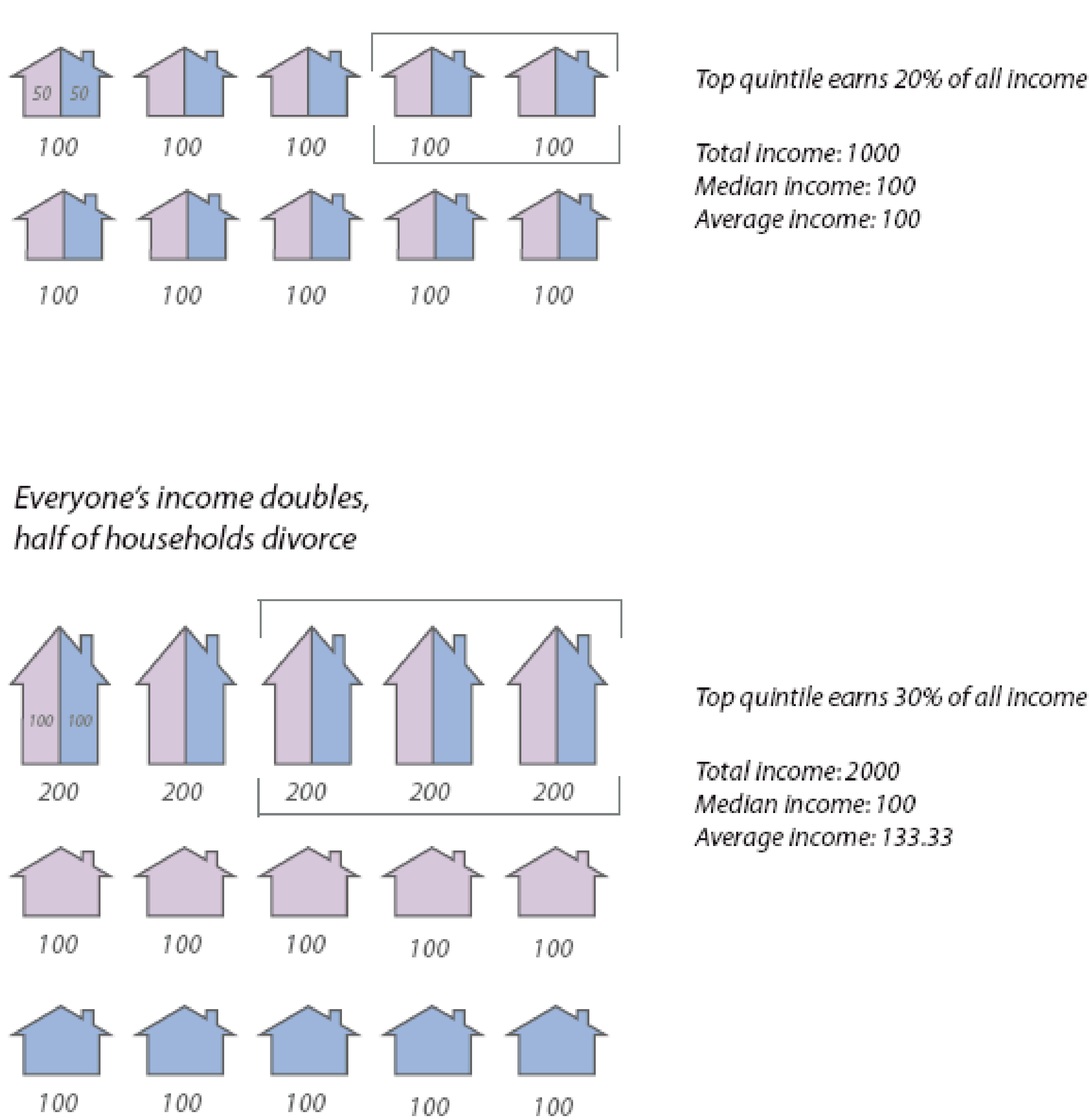
[1] Stoves combined includes gas stoves, electric stoves, and other stoves. [2] Dishwashers combined includes built-in dishwashers and portable dishwashers.

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



The Census Bureau often looks at the share of income going to the top 20% or the middle 20% or the bottom 20%. These comparisons suffer from the same problems mentioned above—they're not the same people. Divorce can mask what is really going on.