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FEELING THE PINCH: WHY INCOME GAINS REMAIN ELUSIVE FOR MANY AMERICAN FAMILIES

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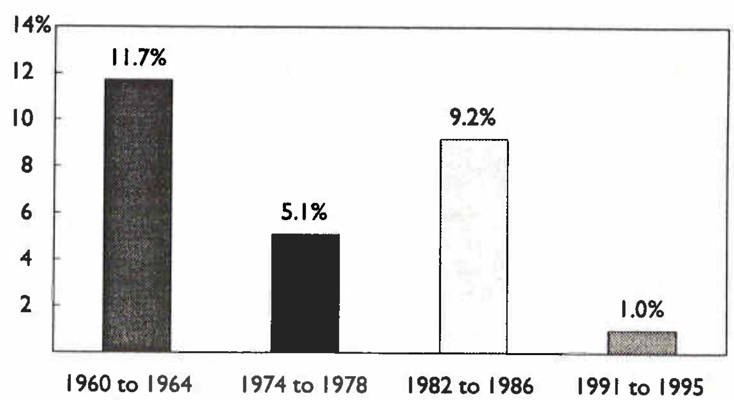
On September 26, 1996, the U.S. Bureau of the Census announced that real median family income increased in 1995 by 1.8 percent.[1] Unfortunately, many American families will find these apparent gains in income elusive. Since 1991, the growth in family income has stagnated, falling far below increases recorded during any four-year period of economic growth since 1960. In traditional married families with only the husband working, incomes have continued to decline. Only increases in the labor force participation of women, income from other sources, and the number of full-time workers also working at a second job have helped to keep the level of family income from falling across the board.

Chart 1

Real Median Family Income Stagnates for the First Time During a Four-Year Period of Economic Growth



Source: Heritage Foundation calculations of Census Bureau Data

Not since World War II has the American economy come out of a recession, grown for four consecutive years, and failed to produce a significant increase in family income. No matter how one breaks down the numbers—by region, age, marriage, or education—the

1 Unless otherwise noted, family income statistics come from Heritage Foundation calculations of data published by the U.S. Census Bureau in "Money Income in the United States: 1995," September 26, 1996, and various years. The terms real median family income and family income are used interchangeably.

Families Enjoying Growth in Real Income Vary Considerably

Since 1991, family income has increased for some types of families while declining significantly for others, such as traditional married families with only the husband working. Baby-boomers who saw their family income rise 5.3 to 11.1 percent during the 1980s recovery are wondering why, after four years of economic growth, their family incomes actually have declined.[6]

Growth in family income since 1991 also has varied considerably by region and by education. While family incomes rose 5.7 percent in the Midwest, they declined by 2.5 percent in the Northeast. Only families with either a doctoral degree or less than a 9th grade education have seen their family incomes rise;[7] everyone else's incomes have declined.

Table 1

Growth in Real Median Family Income Varies Considerably by Demographic Characteristics

	1960-1964	1974-1978	1982-1986	1991-1995
By Type				
Married Wife Working	13.1%	4.8%	10.2%	3.6%
Married Wife Not Working	9.7%	1.6%	5.7%	-3.8%
Single Male	13.9%	5.3%	8.1%	-4.3%
Single Female	11.3%	1.2%	3.7%	5.4%
By Region				
Northeast	14.3%	0.3%	12.6%	-2.5%
Midwest	13.2%	4.1%	6.5%	5.7%
South	16.1%	8.3%	8.4%	2.5%
West	6.1%	7.0%	9.7%	0.9%
By Age				
15 to 24	14.2%	6.1%	-8.6%	-0.5%
25 to 34	10.4%	3.2%	5.3%	2.1%
35 to 44	11.8%	2.7%	11.1%	-0.7%
45 to 54	14.3%	5.0%	10.3%	-0.9%
55 to 64	14.6%	9.1%	6.3%	1.1%
65+	11.3%	3.9%	7.9%	2.0%
By Education*				
Less Than 9th Grade	N/A	N/A	N/A	3.7%
9th to 12th Grade	N/A	N/A	N/A	-6.9%
High School Graduate	N/A	N/A	N/A	-1.2%
Some College	N/A	N/A	N/A	-3.6%
4 yr. Degree	N/A	N/A	N/A	-0.5%
Doctorate Degree	N/A	N/A	N/A	2.4%
Total	**11.7%**	**5.1%**	**9.7%**	**1.0%**

Note: Since the end of World War II there have been four periods where a recession has ended and there were four consecutive years of economic growth

* Because of significant changes to the survey questions on educational attainment in 1992, family income data prior to 1991 are not directly comparable.

Source: Heritage Foundation calculations of Census Bureau Data

Other Measures of Income Also Are Growing Slowly

Family income is not the only measure of income that is growing either slowly or not at all. For example, from 1991 to 1995:

- The income for all households grew in 1995 for the first time in six years, but only in the Midwest.[8] In all other regions, household income continued to stagnate. Since 1991, real median household income has increased just 1.1 percent, and the income of single men and women living alone has not increased at all.
- Real median weekly earnings for women working full-time declined by 1.7 percent.[9] For men working full-time, the decline was even worse: 3.3 percent. In addition, 4.4 million Americans are working two jobs (one full-time) just to make ends meet.[10]

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6 Baby-boomer families correspond roughly to the 35-to-44-year-old and 45-to-54-year-old age groups in the 1990s and the 25-to-34-year-old and 35-to-44-year-old age groups in the 1980s.

7 The rise in family income for the least educated may be related to the fact that most are retired.

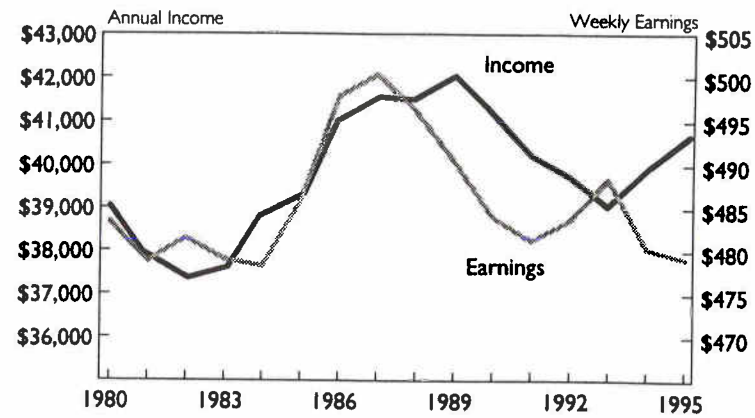
8 Households include single persons. Families, by definition, include two or more people related by blood or marriage.

typical American family has seen real income stagnate or decline compared with the economic recoveries of the 1960s, 1970s, and 1980s (see Chart 1).[2] This dismal economic performance, despite lower unemployment, explains why American workers continue to believe they are working harder and harder yet failing to get ahead.

Family Income Grows Slowly While Real Earnings Continue to Fall

By most measures—family income, employment, wages, or economic growth—the 1991-1995 economic recovery has been by far the slowest since the end of World War II.[3] After reaching a peak of $42,049 in 1989, real median family income declined by 7.2 percent from 1989 to 1993. The initial decline can be attributed to the 1990-1991 recession, but family income continued to fall as the recovery got underway in 1992 and 1993. Despite increases in 1994 and 1995, real median family income is just 1.0 percent more than it was in 1991, and remains 3.4 percent below 1989.

Chart 2



Source: Bureau of Labor Statistics and Census Bureau.

Since 1993, family income has grown while real median weekly earnings for full-time workers have declined (see Chart 2). This apparent anomaly arises because the weekly earnings of full-time workers are only one part of family income. Other sources of family income include second jobs and the earnings of spouses and children. Family income also includes interest income, dividends, and Social Security, all of which have been growing faster than wage and salary income since 1993.[4] Only the increasing participation of women in the labor force and income from other sources have kept family incomes from falling overall.[5]

The decline in real median weekly earnings since 1993 also raises a serious question about President Clinton's claim that most of the new jobs created since 1992 are high-paying jobs. If it is true that most of the recent employment growth has been in jobs paying above median wages, real median weekly earnings should be increasing. The data show, however, that real median weekly earnings for both men and women have declined from 1991 to 1995, suggesting that most of the job growth since 1991 has been in lower paying (below the median) jobs.

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2 Since the end of World War II, there have been four periods during which a recession has ended and has been followed by four consecutive years of economic growth: 1991 to 1995, 1982 to 1986, 1974 to 1978, and 1960 to 1964.

3 Scott Hodge *et al.*, "Is There a 'Clinton Crunch'?: How the 1993 Budget Plan Affected the Economy," Heritage Foundation *Backgrounder* No. 1078, May 1, 1996, p. 3.

4 Other sources of family income include unemployment benefits, workers compensation, private pensions, and public assistance.

5 Frank Levy, "Is Anxiety About Living Standards Justified?," Competitiveness Policy Council, September 1996.

- Real average annual pay has increased only 1.2 percent to $18,271.[11] This is an increase of just 0.2 percent per year compared to a 1.0 percent increase per year from 1982 to 1986.
- Real disposable income per person increased at less than half the pace of the economic expansions in the 1960s and 1980s, and 1 percent less than that of the 1974-1978 period.[12]
- Real hourly compensation increased at less than half the pace of the economic expansions in the 1970s and 1980s, and only one-fifth the rate of increase in the 1960-1964 period.[13]

Conclusion

Although the most recent data on family income seem encouraging, a more careful examination shows that the American economy continues to perform well below its potential, and many families are being left behind. For the first time in 50 years, the American economy has failed to raise family incomes significantly during four consecutive years of economic growth after a recession. Growth has been weak because of high taxes and burdensome regulations that limit productivity gains and lower the real earnings of American workers.[14] Policies that focus on addressing these problems—and especially on reducing the tax burden on Americans—will unleash America's growth potential and allow all families, not just a select few, to enjoy higher incomes and realize their American dream.

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9 Bureau of Labor Statistics, "Usual Weekly Earnings of Wage and Salary Workers," July 18, 1996, and various years. Real weekly earnings of full-time workers can decline while family income rises, because family income includes income from a variety of other sources such as second jobs, unemployment benefits, Social Security, and public assistance.

10 Bureau of Labor Statistics, "The Employment Situation," September 6, 1996.

11 Bureau of Labor Statistics, "Average Annual Pay by State and Industry," September 25, 1996, and various years. Real average annual pay reached a record high of $18,488 in 1988 and since has seesawed up and down.

12 Council of Economic Advisers, *Economic Report of the President, February 1996*. From 1991 to 1995, real disposable income per person increased 1.5 percent per year. From 1960 to 1964 and 1982 to 1986, real disposable income per person increased 3.3 percent per year.

13 Bureau of Labor Statistics, "Productivity and Costs," March 6, 1996, and various years. From 1991 to 1995, real hourly compensation increased 0.4 percent per year. From 1982 to 1986, real hourly compensation increased 1.3 percent per year.

14 See Daniel J. Mitchell, "The Historical Lessons of Lower Tax Rates," Heritage Foundation *Backgrounder* No. 1086, July 19, 1996; Mark Wilson and Angela Antonelli, "How to Raise Take-Home Pay Without Destroying Jobs," Heritage Foundation *F.Y.I.* No. 102, May 17, 1996.