
The Material Well-Being of the Poor and the Middle Class

American Enterprise Institute
for Public Policy Research
October 25, 2011

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I. Introduction

Question

- How has the material well-being of the poor and middle class changed between 1980 and today?
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I. Introduction

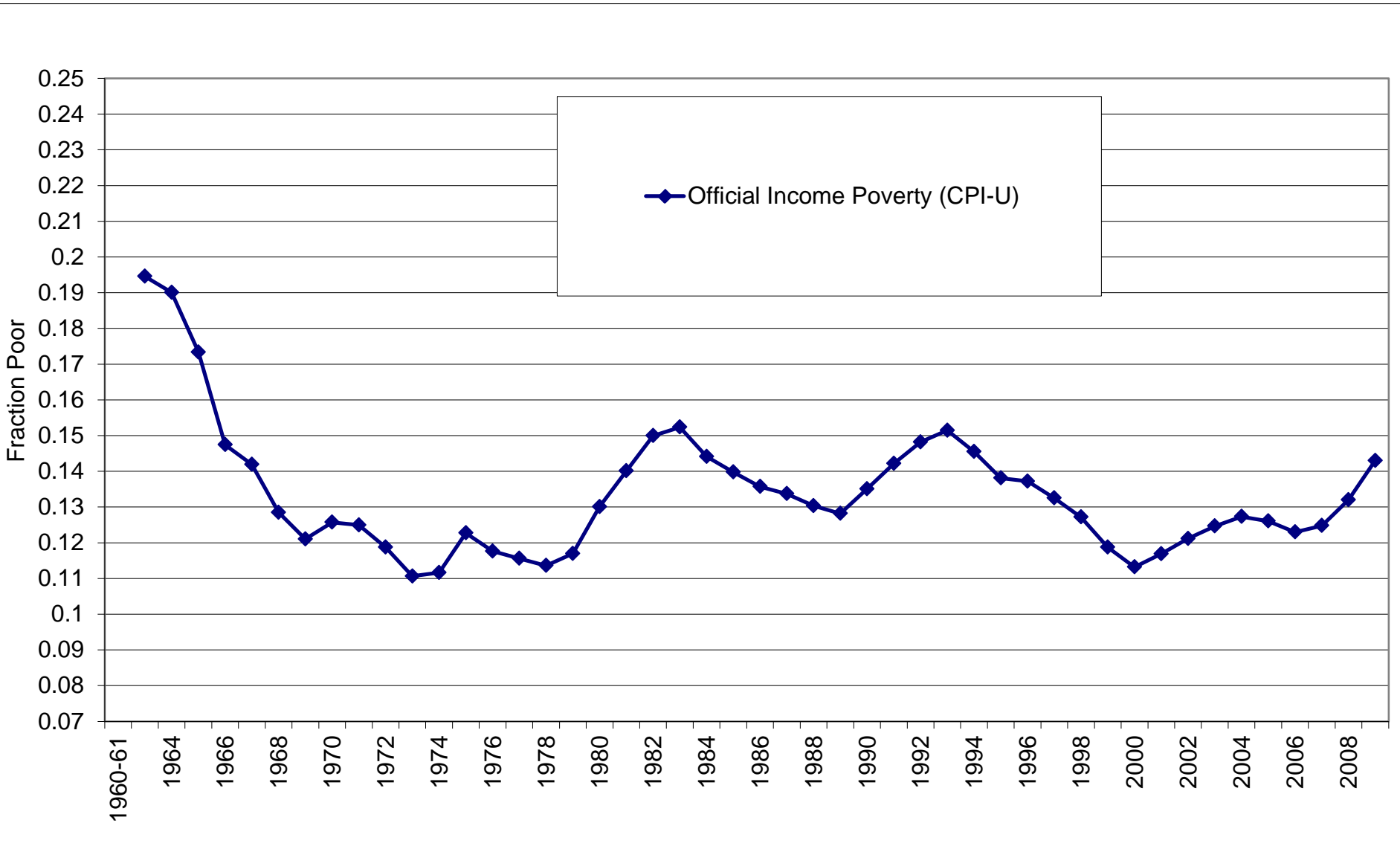
Conventional Wisdom on Poverty

- The poor are no better off than 30 years ago
 - “There has been little overall progress in combating poverty...”

-- Haskins and Sawhill (2010)
 - “...total official poverty rates are not much different today than they were in the late 1960s.”

--Meyer and Wallace (2009)
 - “...poverty fell during the first quarter-century after World War II. It is less certain whether poverty has declined in the past quarter century.”

-- Burtless and Smeeding (2001)
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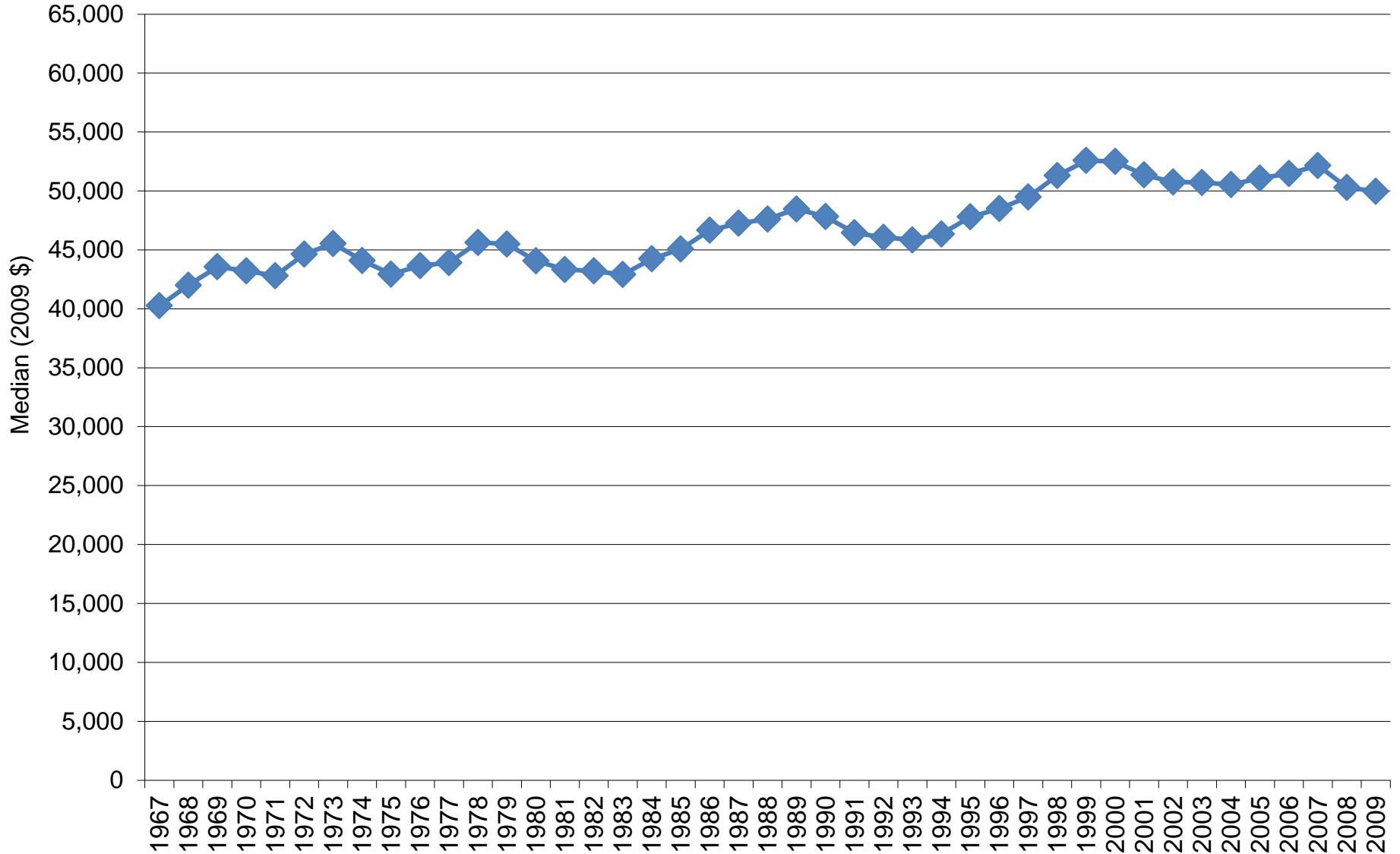


I. Introduction

Conventional Wisdom on the Middle Class

- The middle class has not benefitted from economic growth
 - Nearly 60 % of Americans believe that things have gotten worse for the middle class during the past decade
--CBS News (2007)
 - “...once you adjust for inflation the median income ...has stagnated for almost 38 years...”
--NPR (October 18, 2011)
-

Median Pre-tax Money Income, 1967-2009



I. Introduction

Conventional Wisdom Affects Policy Prescriptions

- “Government has spent \$5.3 trillion on welfare since the war on poverty began, the most expensive war in the history of this country, and the Census Bureau tells us we have lost the war.”
-- Bill Archer, 1995
 - “My friends, some years ago the Federal Government declared a war on poverty and poverty won.”
-- Ronald Reagan, 1988
-

I. Introduction

Conventional Wisdom Affects Policy Prescriptions

- “... the result of...failed policies...are now so painfully obvious: Middle-class working men and women and their families have been devastated.”
-- Lou Dobbs (2006)
 - “Post-industrial America turned out to be a bust. The time for neo-industrial America has arrived.”
-- Harold Meyerson (September 4, 2011)
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I. Introduction

Key point of our work

- When material well-being is better measured, there is evidence of substantial improvement for both the poor and the middle class over the past 3 decades.
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I. Introduction

Important caveats

- The Great Recession has considerably hurt both the poor and the middle class
 - It is important to distinguish between cyclical and secular trends
 - Improvements are even greater among the rich
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II. Background

Official Measures

■ Poverty

- ❑ Threshold: Set in 1960s; adjusted only for inflation using the CPI-U
- ❑ Income Concept: pre-tax money income

■ Median Income

- ❑ Income Concept : pre-tax money income
-

II. Background

Weaknesses of Official Measures

- Pre-tax money income measure misses key programs (Food Stamp Program, EITC, housing assistance, Medicaid, Medicare)
 - Income \neq well-being
 - Rely on a price index that is biased
 - Poverty thresholds: CPI-U
 - Median income: CPI-U-RS
-

III. CPI Bias

- Consensus estimate: CPI-U overstates inflation by > 1 percentage point per year (less bias in last ten years or so)
 - Bias due to new goods, improved goods etc.
 - Methods have changed but CPI-U does not reflect revisions
 - CPI-U-RS (applies latest methods) addresses some, but not all of this bias. It still overstates inflation by at least 0.8 percentage points per year.
 - Adjusted CPI-U-RS=CPI-U-RS minus 0.8 percentage points per year
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IV. Income vs Consumption

- Conceptually, consumption is a better measure of material well-being than income
 - Evidence suggests consumption is better measured than income for the poor--low percentiles of expenditures greatly exceed low percentiles of income
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V. Data

■ Income Data

- Current Population Survey – ASEC/ADF, 1980-2009
- Source for official income statistics

■ Consumption Data

- Consumer Expenditure (CE) Survey 1980-2009
 - Consumption = Nondurable expenditures + flow value of consuming housing and cars
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VI. Results

- How do official and conceptually better **income** and **consumption** based measures of poverty and median resources change over time?



Figure 6: Income Poverty Rates, 1980-2009

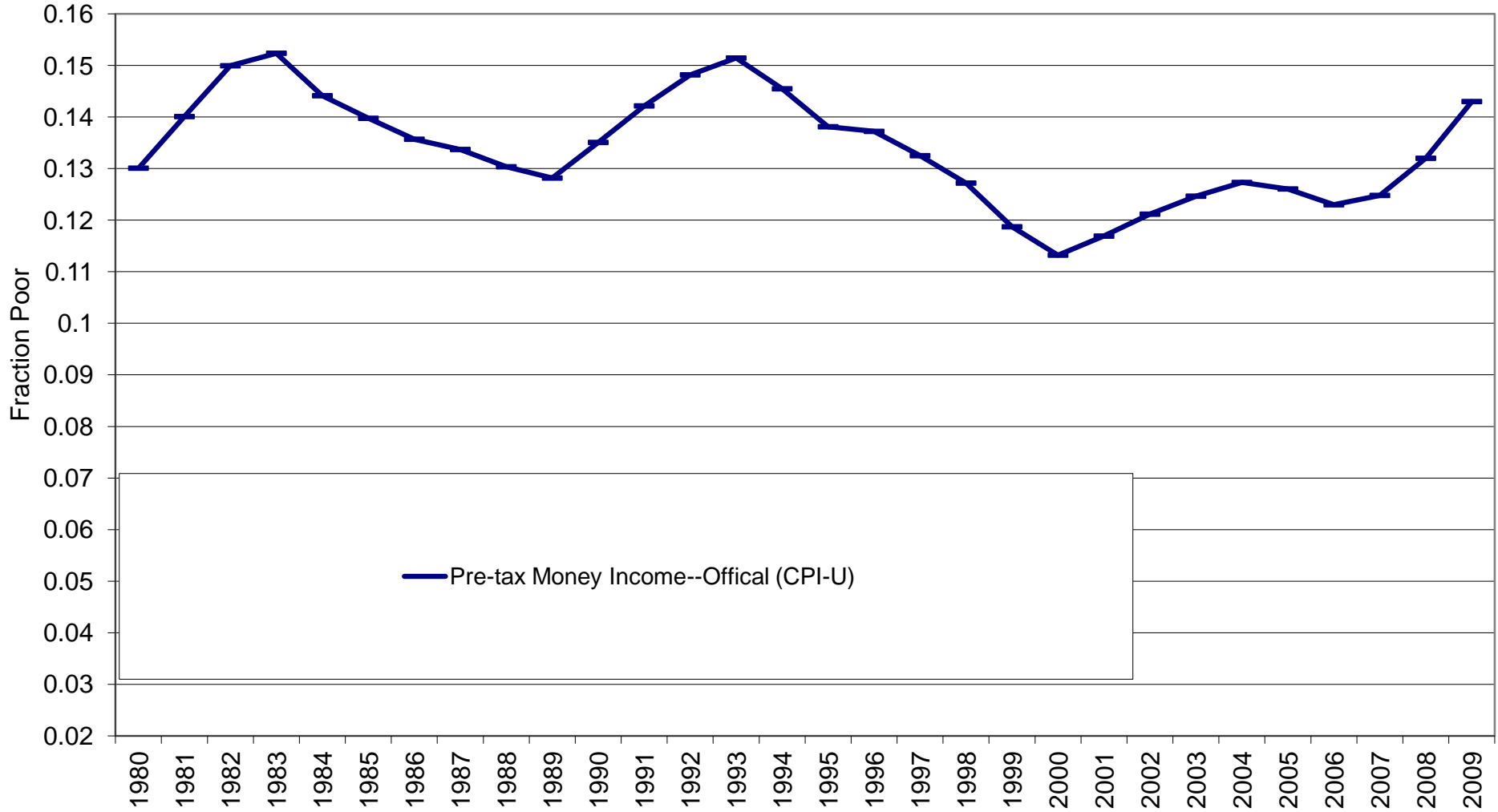


Figure 6: Income Poverty Rates, 1980-2009

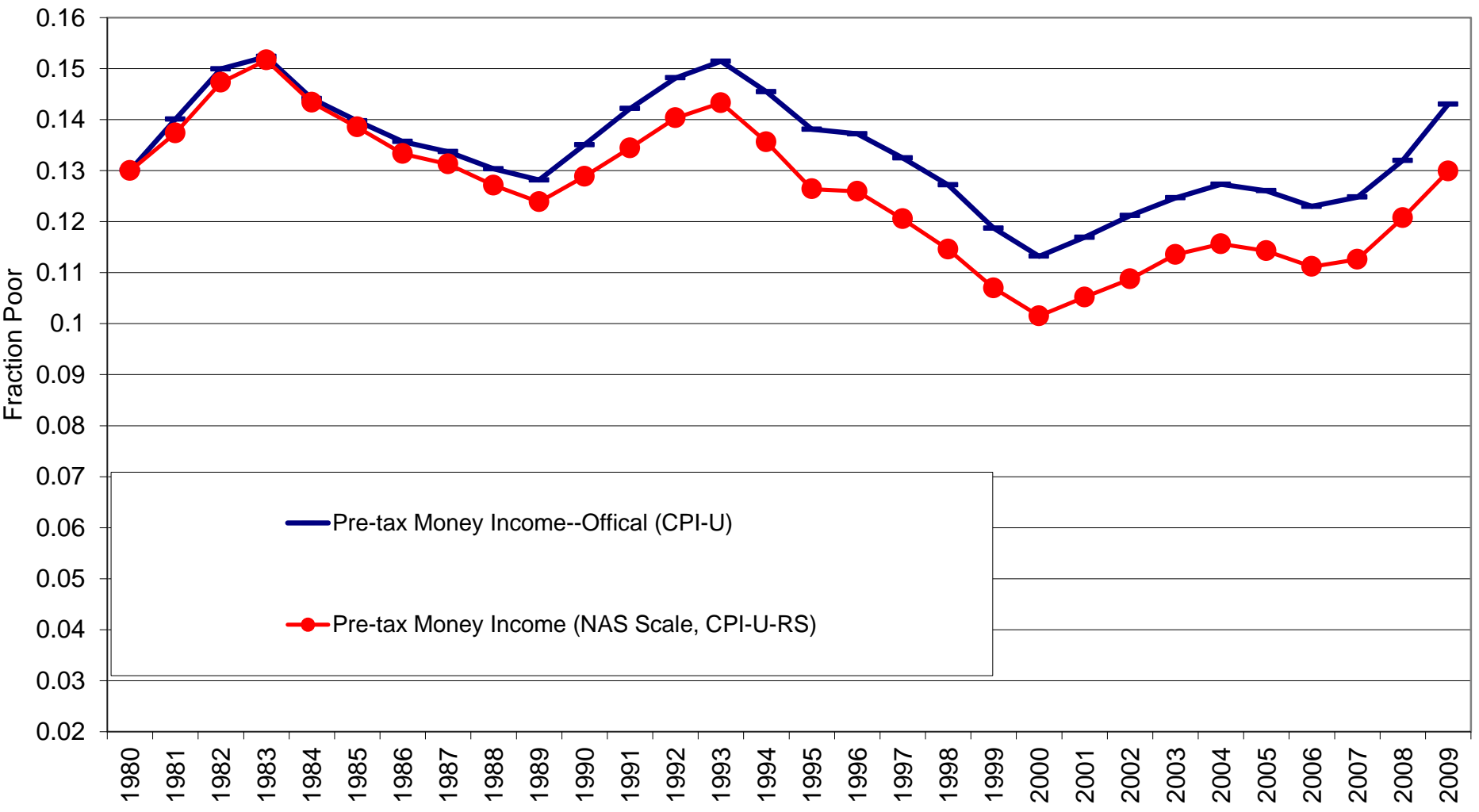


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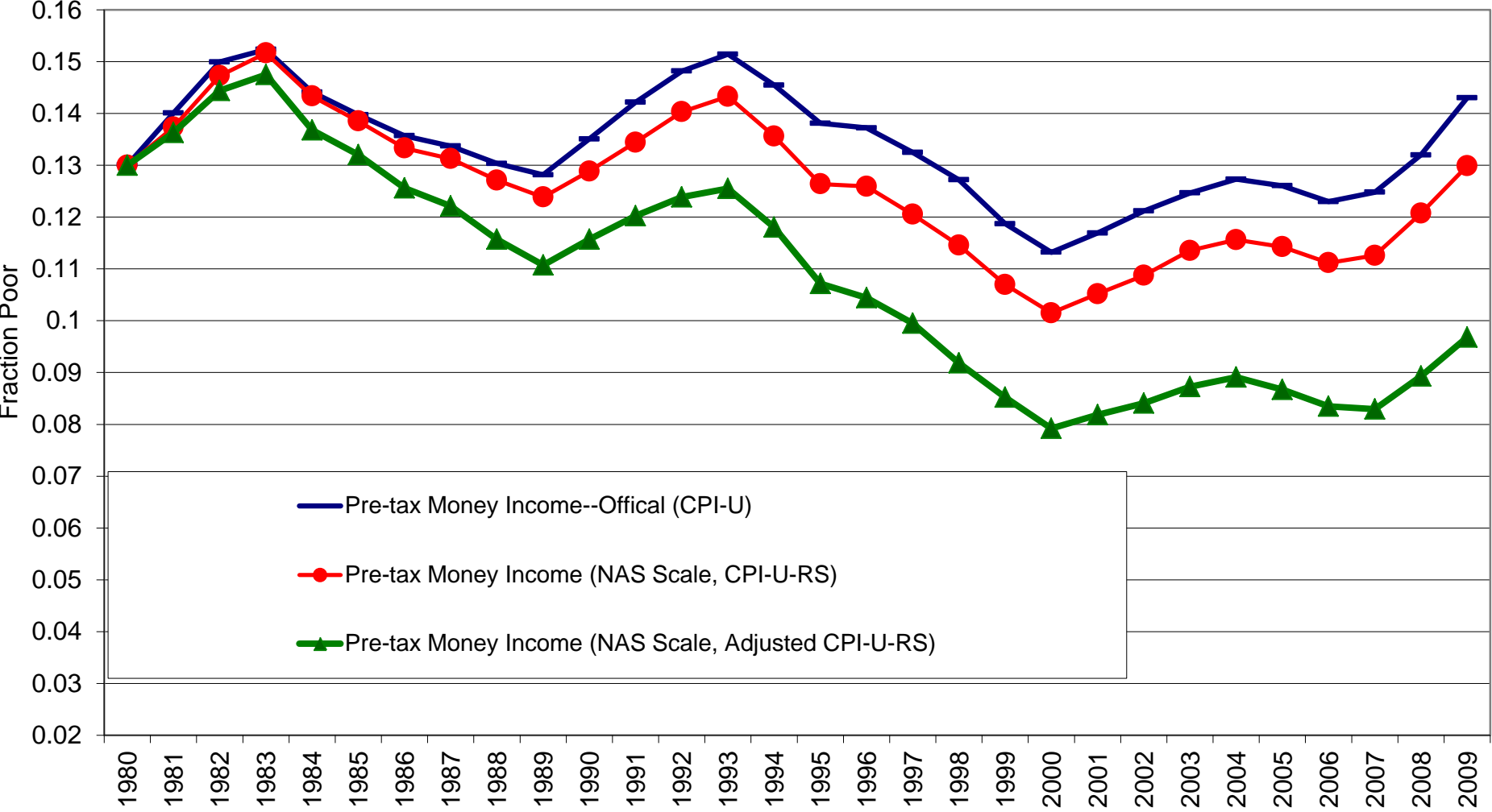


Figure 7: Consumption and Income Poverty Rates, 1980-2009

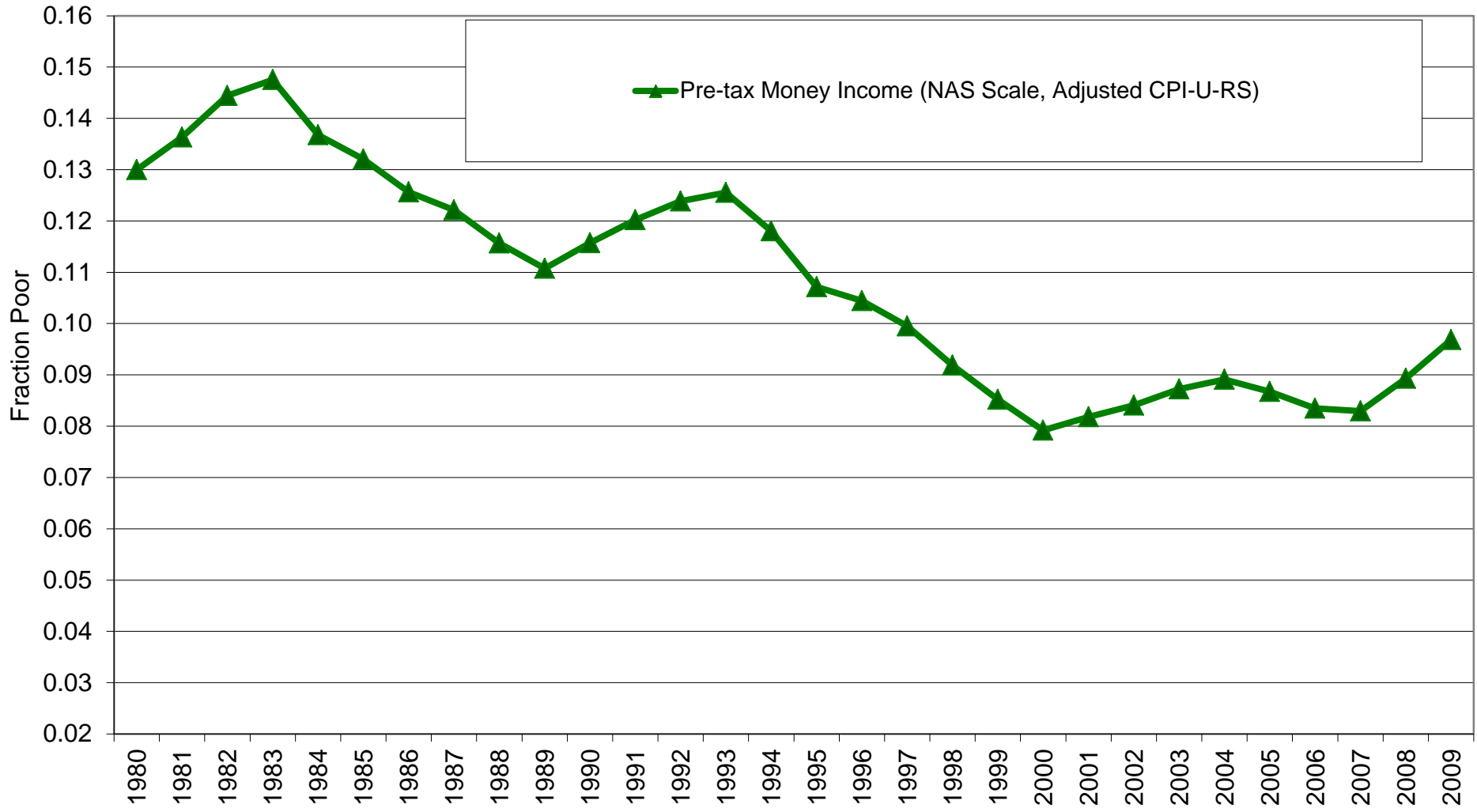


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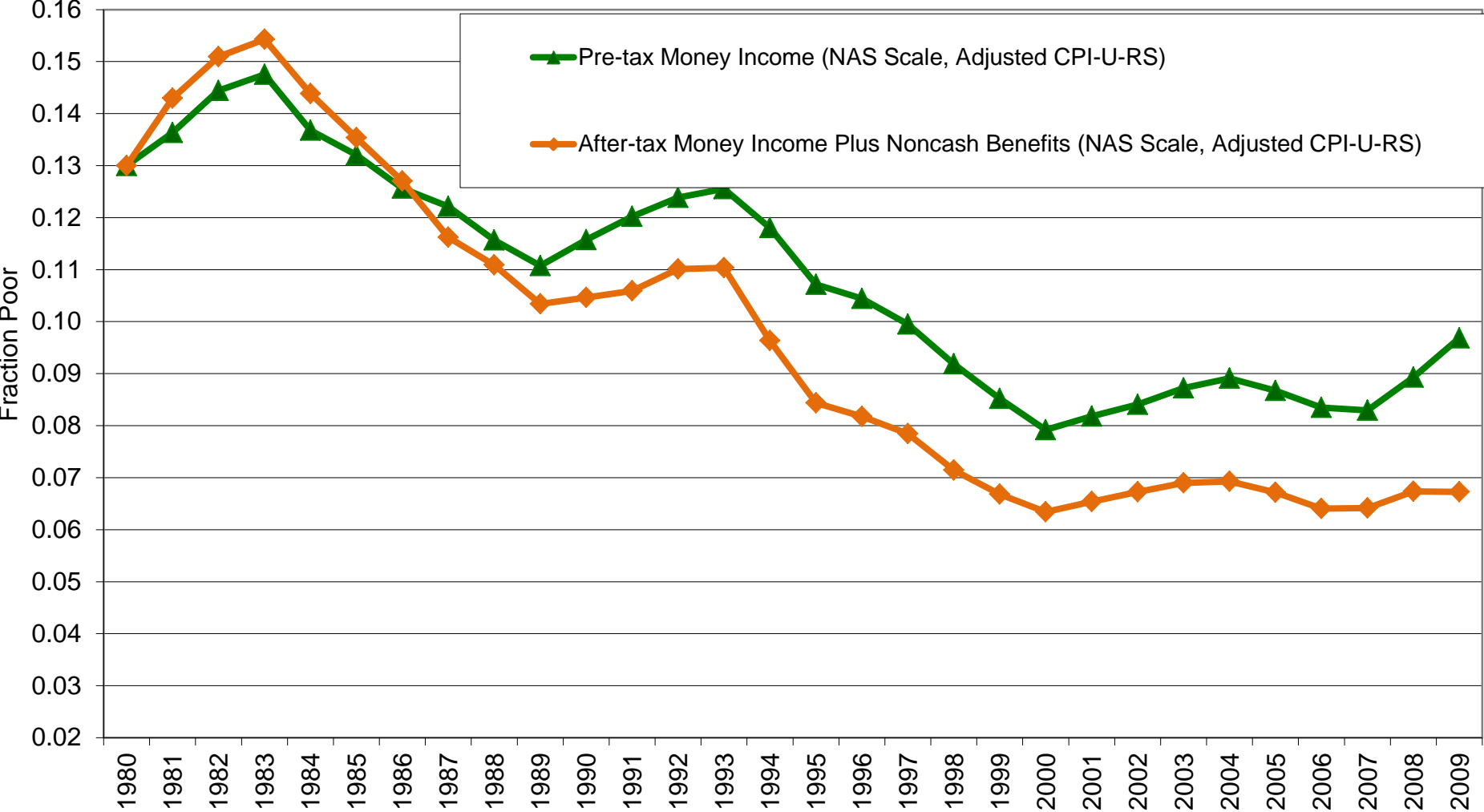


Figure 7: Consumption and Income Poverty Rates, 1980-2009

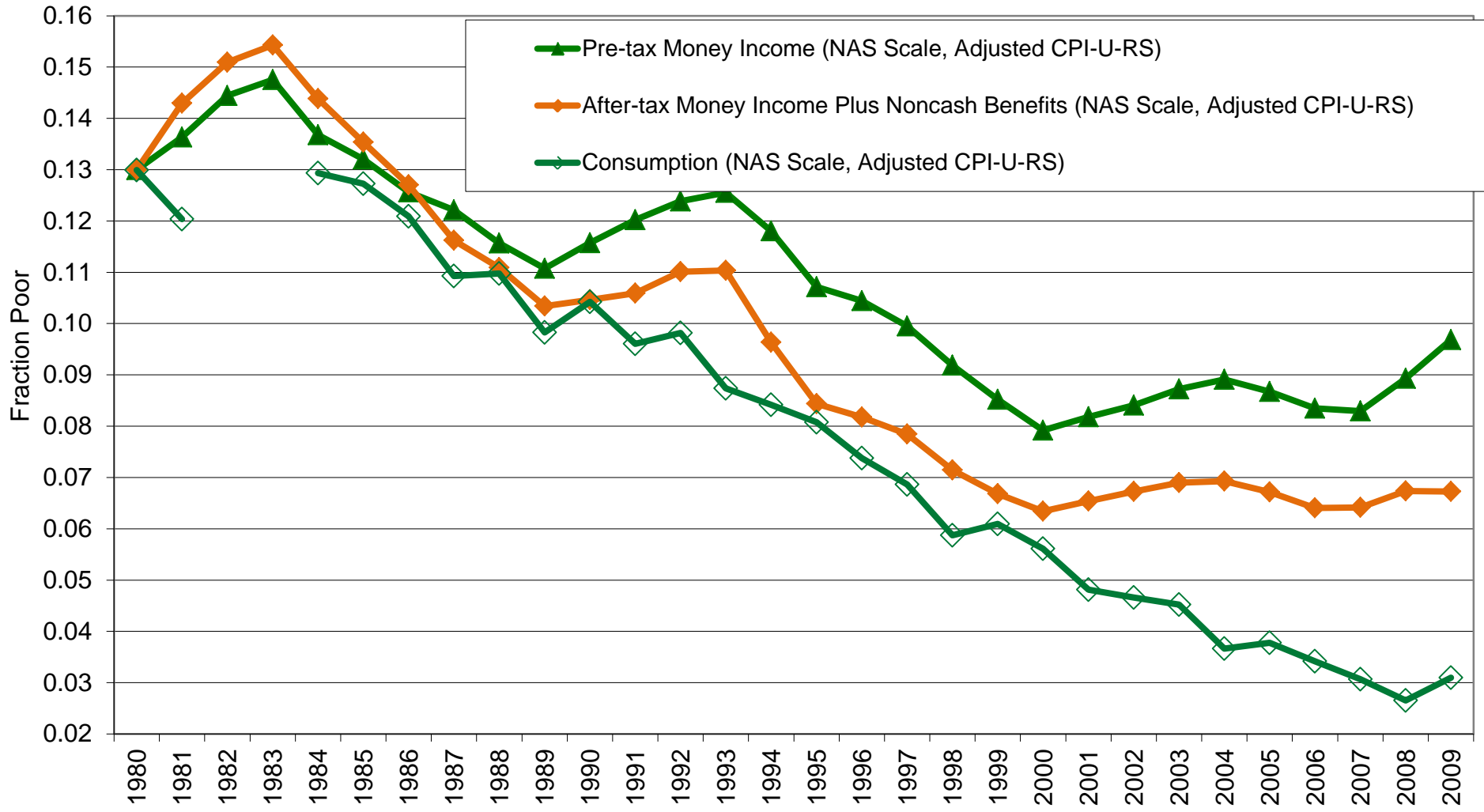


Figure 2: Median Pre-tax Money Income, 1980-2009

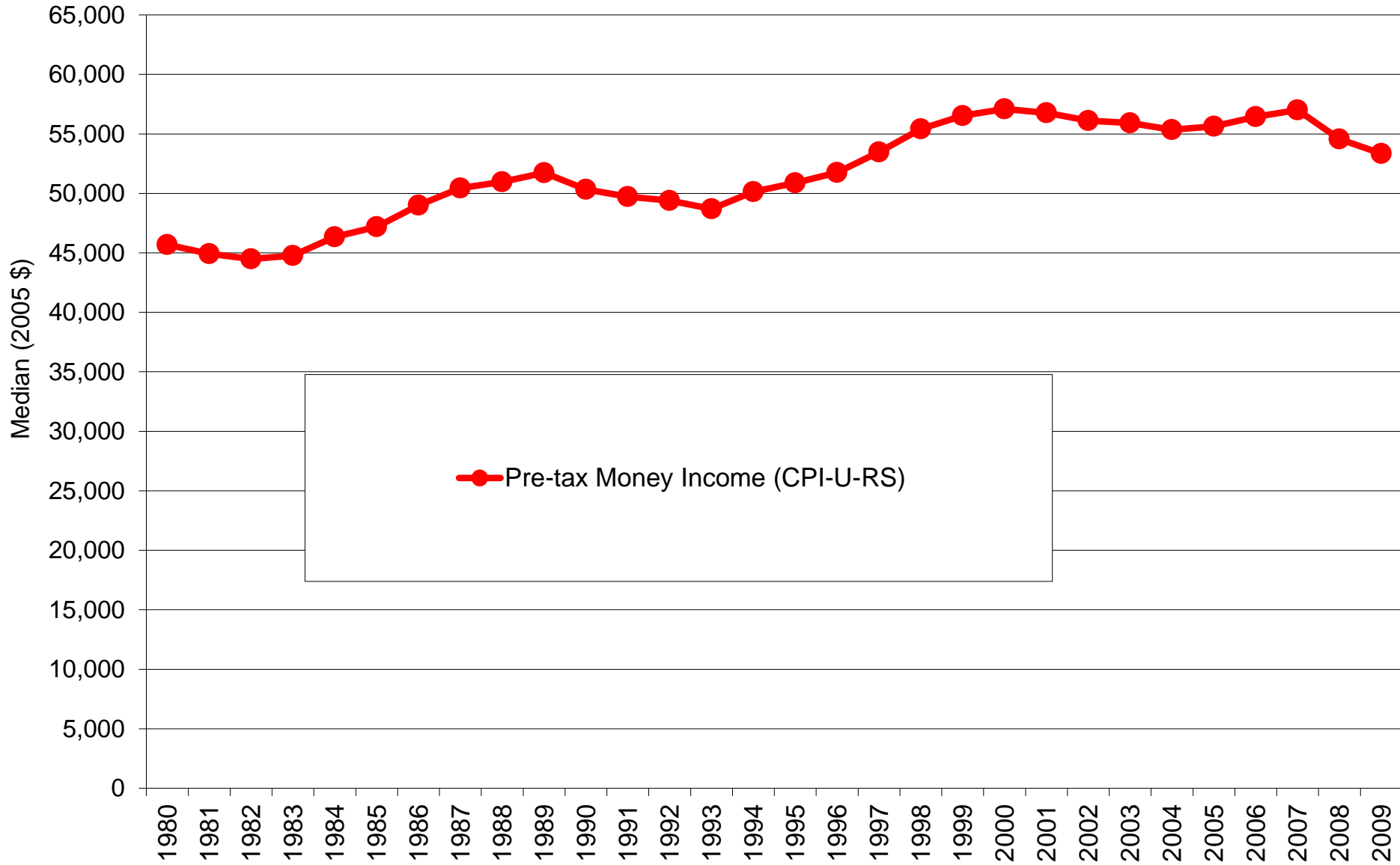


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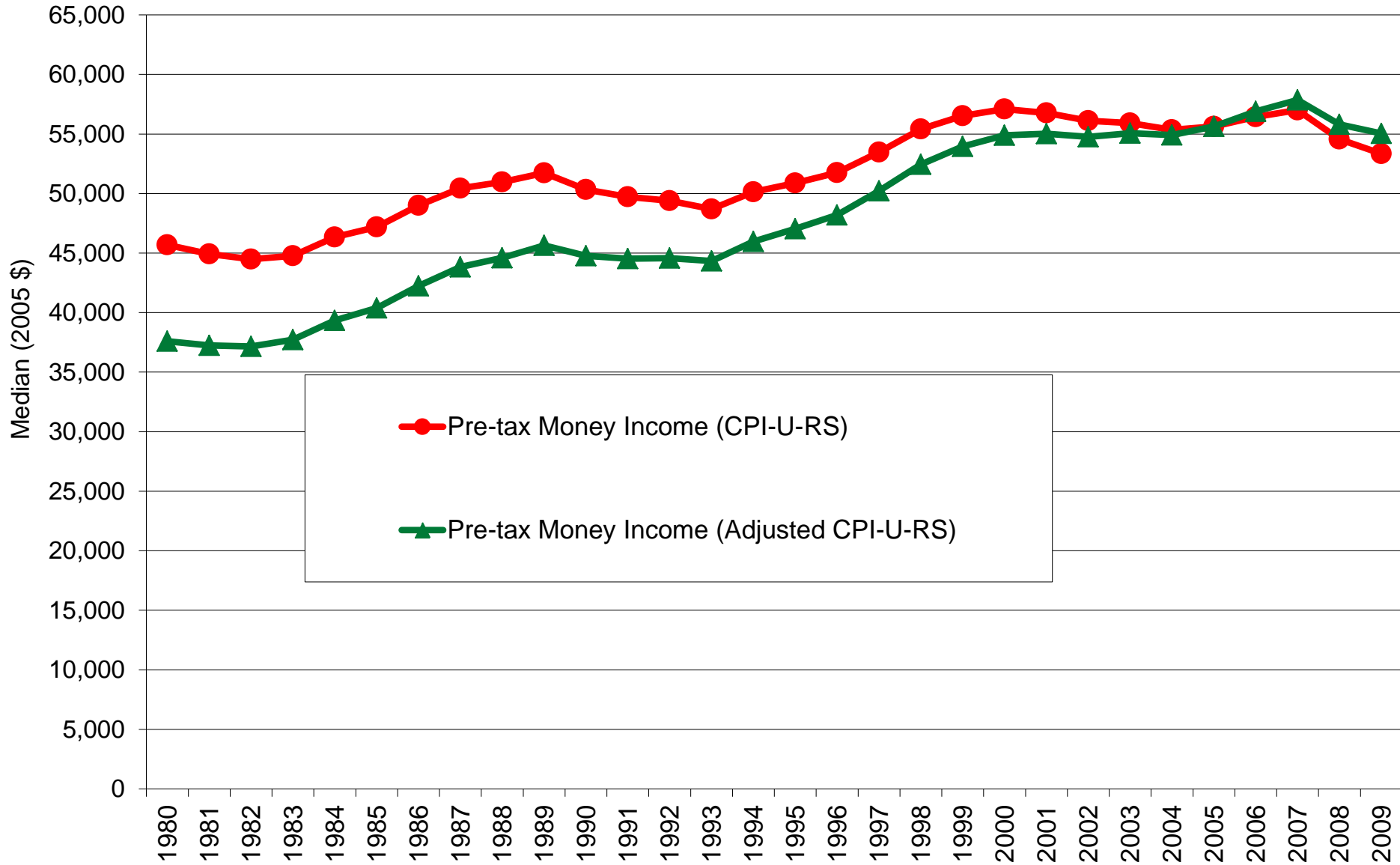


Figure 3: Median Income and Consumption, 1980-2009

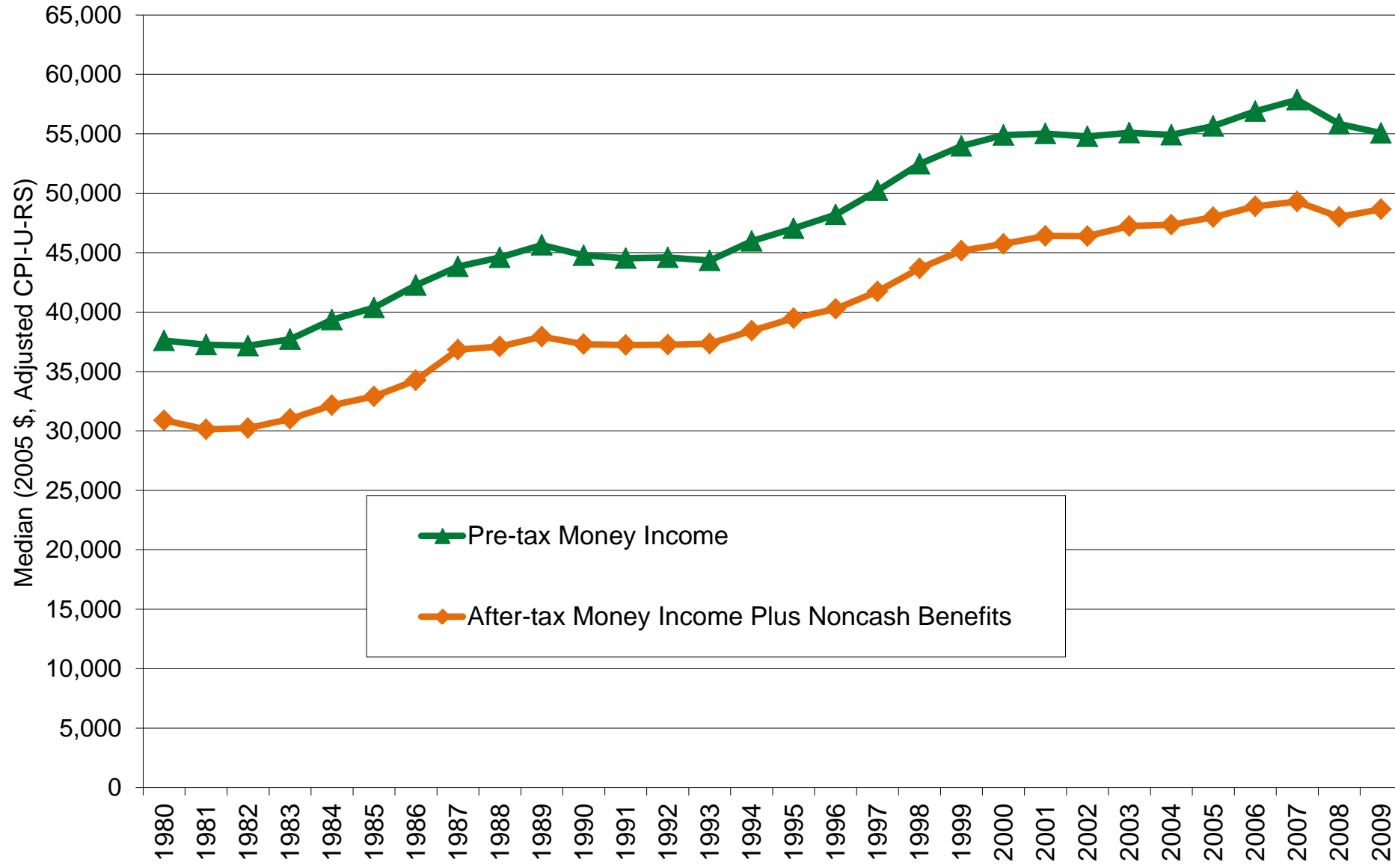
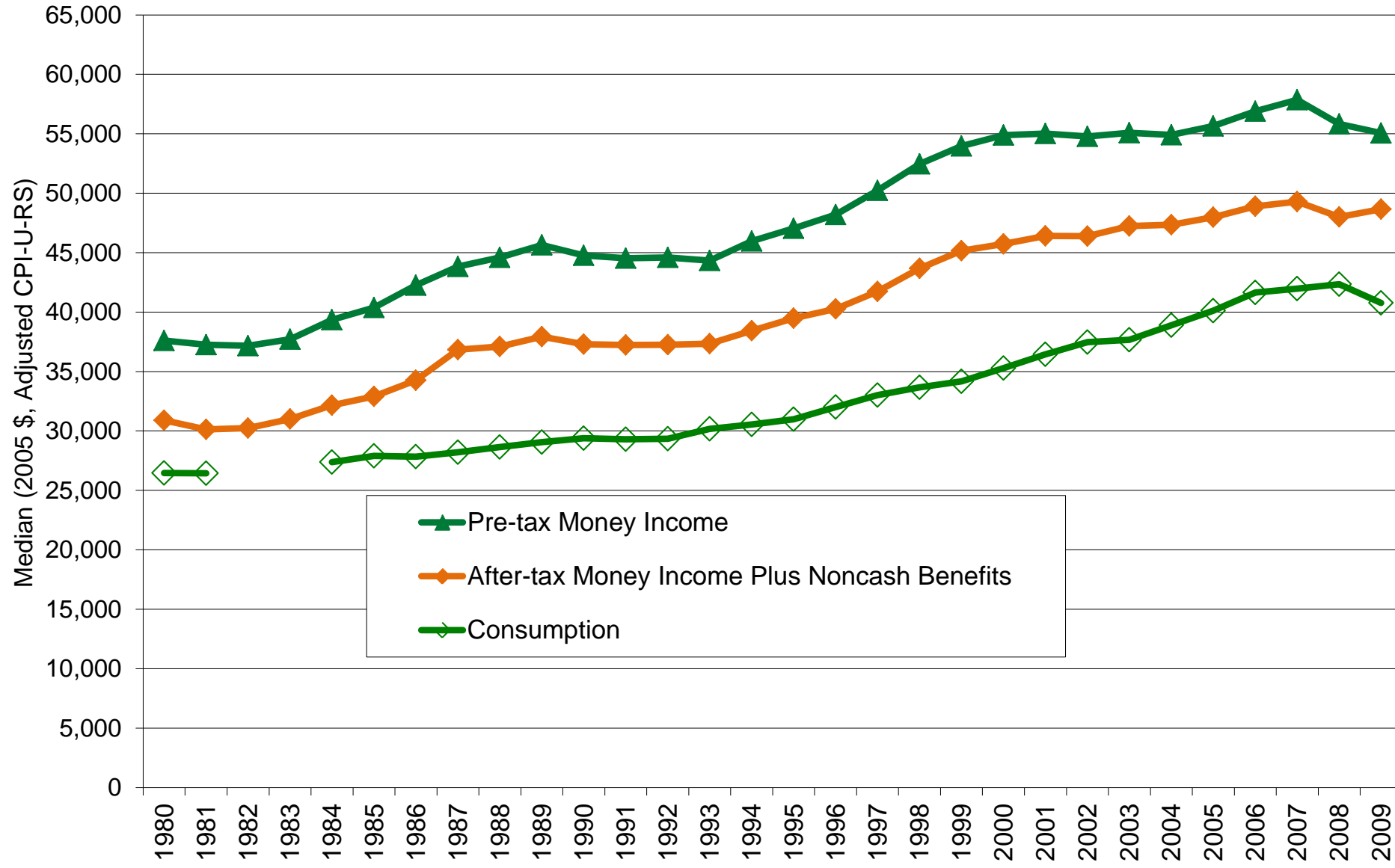


Figure 3: Median Income and Consumption, 1980-2009



VI. Results

- Do these patterns agree with other measures of well-being?

Table 2: Mean Housing and Vehicle Characteristics for Households in the Bottom Twenty Percent of the Income Distribution, 1981-2009

	2009	Differences		
		1989-1981	1999-1989	2009-1999
Housing Characteristics (American Housing Survey)				
Number of people in household	3.693	-0.186	-0.197	0.101
Number of rooms in unit	5.283	0.007	0.024	0.126
Number of rooms (adjusted for household size)	5.722	0.266	0.174	0.053
Square footage of unit	1,551	-	144	62
Square footage (adjusted for household size)	1,695	-	206	50
Water leak from inside in last 6 months	0.107	-	-0.043	-0.025
Water leak from outside in last 6 months	0.119	-	-0.061	-0.007
Unit has central or room air conditioning	0.830	0.133	0.174	0.114
Unit has central air conditioning	0.544	0.084	0.164	0.147
Unit has a dishwasher	0.422	-	0.089	0.111
Unit has a clothes dryer	0.679	-	0.086	0.112
Unit has a clothes washer	0.739	-	0.020	0.068

Table 2: Mean Housing and Vehicle Characteristics for Households in the Bottom Twenty Percent of the Income Distribution, 1981-2009

	2004 ¹	2009	Differences			
			1989-1981	1999-1989	2004 - 1999	2009 - 1999
Automobile Characteristics (Consumer Expenditure Survey)						
Whether own a car	-	0.763	0.013	0.029	-	0.031
Whether own multiple cars	-	0.222	0.003	0.011	-	0.000
Auto transmission	0.858	-	-0.003	0.057	0.035	-
Power breaks	0.898	-	0.165	0.123	0.010	-
Air conditioning	0.769	-	0.154	0.134	0.015	-
Power steering	0.917	-	0.125	0.120	0.034	-
Sun roof	0.071	-	-	0.022	0.000	-
Turbo charger	0.017	-	-	0.011	0.002	-
Four wheel drive	0.081	-	-	0.042	0.000	-

Table 1: Mean Housing and Vehicle Characteristics for Households in the Middle Twenty Percent of the Income Distribution, 1981-2009

	2009	Differences		
		1989-1981	1999-1989	2009-1999
Housing Characteristics (American Housing Survey)				
Number of people in household	3.461	-0.261	-0.136	0.072
Number of rooms in unit	6.036	0.118	-0.027	0.162
Number of rooms (adjusted for household size)	6.389	0.382	0.193	0.136
Square footage of unit	1,993	-	138	147
Square footage (adjusted for household size)	2,088	-	200	153
Water leak from inside in last 6 months	0.091	-	-0.026	-0.010
Water leak from outside in last 6 months	0.104	-	-0.061	-0.028
Unit has central or room air conditioning	0.882	0.134	0.101	0.065
Unit has central air conditioning	0.670	0.138	0.137	0.124
Unit has a dishwasher	0.698	-	0.077	0.090
Unit has a clothes dryer	0.881	-	0.030	0.057
Unit has a clothes washer	0.897	-	0.006	0.044

Table 1: Mean Housing and Vehicle Characteristics for Households in the Middle Twenty Percent of the Income Distribution, 1981-2009

				Differences			
		2004 ¹	2009	1989-1981	1999-1989	2004 - 1999	2009 - 1999
Automobile Characteristics (Consumer Expenditure Survey)							
Whether own a car		-	0.948	0.004	-0.020	-	0.015
Whether own multiple cars		-	0.368	-0.002	-0.003	-	0.044
Auto transmission		0.817	-	-0.020	0.058	0.038	-
Power breaks		0.911	-	0.187	0.133	0.028	-
Air conditioning		0.835	-	0.154	0.160	0.048	-
Power steering		0.921	-	0.078	0.140	0.039	-
Sun roof		0.101	-	-	0.036	0.016	-
Turbo charger		0.012	-	-	0.010	-0.007	-
Four wheel drive		0.133	-	-	0.053	0.042	-

VII. Proximate Causes of Changes

- Taxes very important for poverty, fairly important for median
- Cash Transfers, particularly Social Security (UI in last two years)
- Noncash transfers have little effect on changes over time
- Demographics can explain little
- Rise in earnings tells much of the story.
Employment flat for men, rises sharply for women
- Economic growth

VII. Conclusions

- Unlike official measures, better measures of material well-being indicate considerable improvement for both the poor and middle class over the past 3 decades
 - Median income and consumption rose > 50%
 - Income poverty falls > 6 percentage points
 - Consumption poverty falls 10 percentage points
 - Price adjustment very important
 - Other indicators of well-being also show improvement--housing and vehicle characteristics have noticeably improved
-

End

X. Income/Consumption Differences

- Consumption/Income differences due partly to saving/dissaving and durables, especially for older households.
 - We suspect measurement error in income is a substantial part of the difference for other groups, such as single mothers.
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Home, Car and Appliance Ownership of Income Poor, CE Survey, 1960-2005

	1960- 1961	1972- 1973	1980- 1989	1990- 1999	2000- 2005
	(11)	(12)	(13)	(14)	(15)
Homeowner	0.409	0.393	0.399	0.361	0.385
Own a car	0.545	0.602	0.645	0.671	0.687
# of rooms	.	5.077	5.255	5.160	5.156
# of Bedrooms			2.571	2.567	2.608
# of Bathrooms			1.419	1.235	1.336
Appliances					
Microwave			0.253	0.639	0.845
Freezer			0.298	0.257	0.236
Disposal			0.158	0.226	0.271
Dishwasher			0.194	0.237	0.314
Window Air Conditioning	.	0.156	0.216	0.243	0.272
Central Air Conditioning	.	0.053	0.156	0.258	0.382
Washer			0.597	0.603	0.635
Dryer			0.394	0.463	0.538
Television			0.623	0.923	0.957
Computer			0.043	0.140	0.392
Stereo			0.307	0.508	0.639
VCR			0.265	0.592	0.770

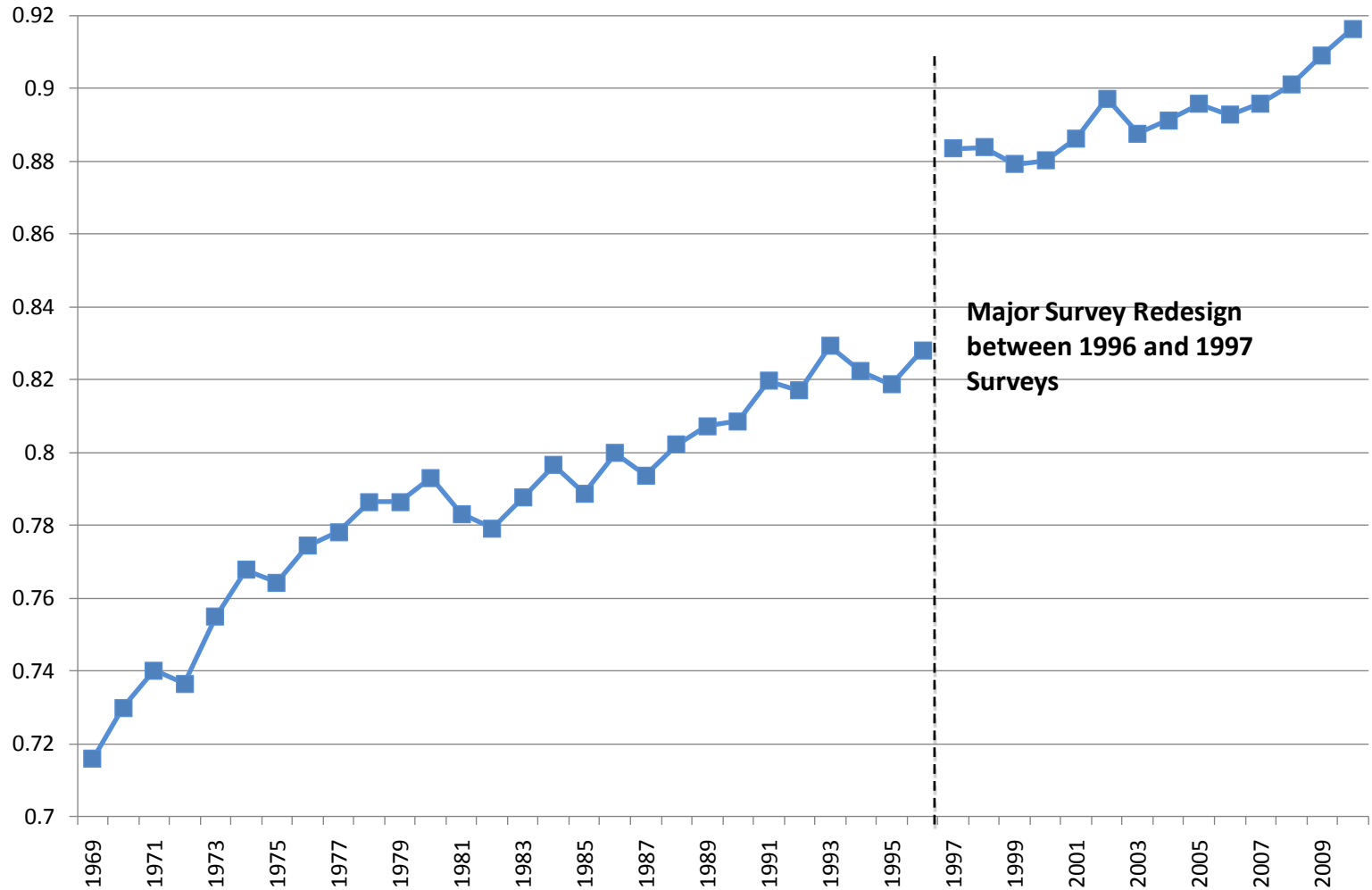
Table 3: The Effect of Changes in Demographic Characteristics on Changes in Median and 10th Percentile of Income and Consumption, 1980-2009

		Change 1980-2000	Change 2000-2009
A. Consumption			
	10th Percentile		
	Actual Change	23.3%	16.8%
	Change due to demographic characteristics	3.4%	0.5%
	Median		
	Actual Change	28.6%	15.2%
	Change due to demographic characteristics	3.3%	2.6%
B. After-tax Income Plus Noncash Benefits			
	10th Percentile		
	Actual Change	31.4%	1.9%
	Change due to demographic characteristics	3.5%	-3.6%
	Median		
	Actual Change	39.9%	7.2%
	Change due to demographic characteristics	3.0%	0.0%

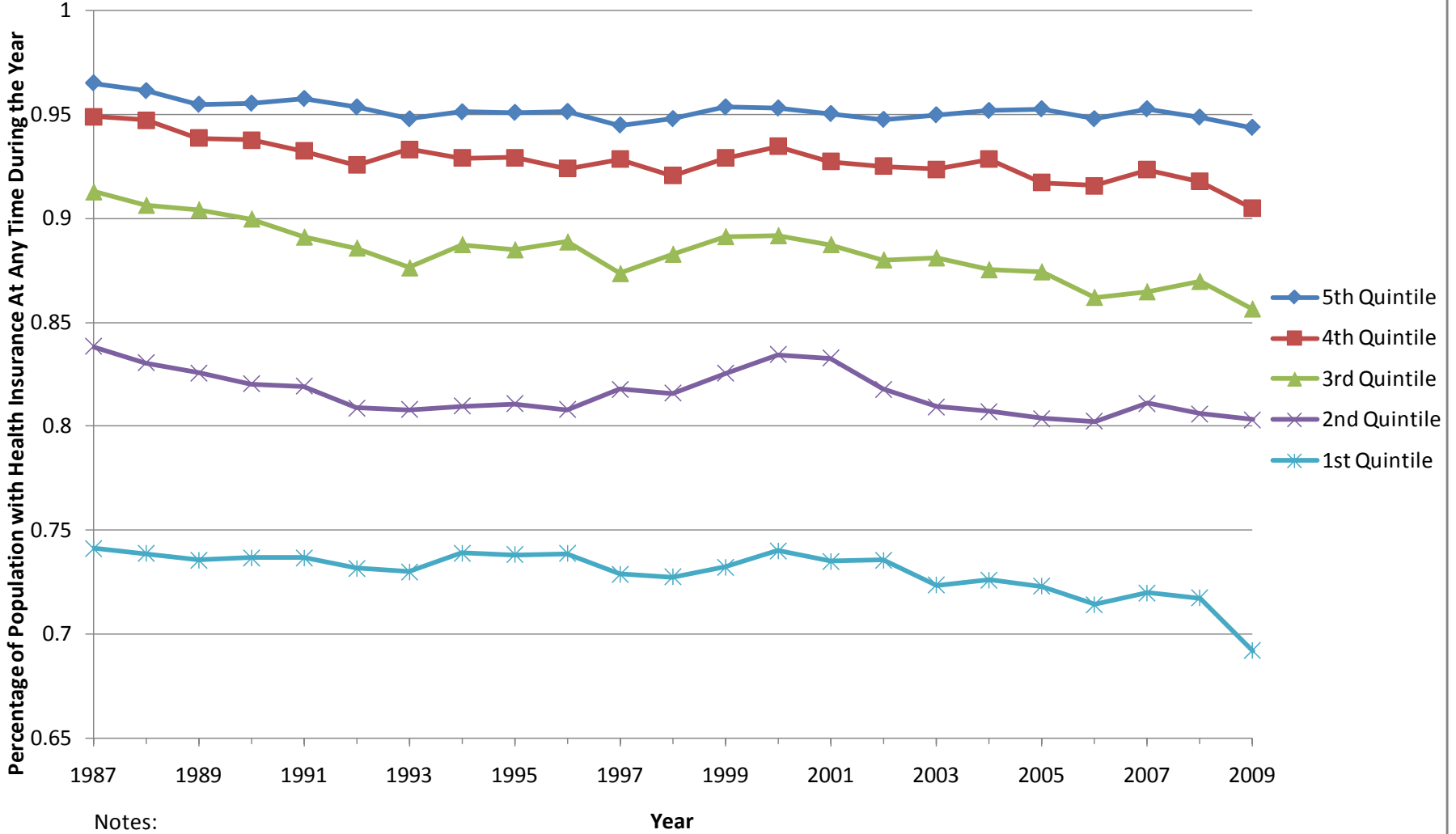
Table 4: The Effect of Changes in Demographic Characteristics on Changes in Poverty, 1980-2009

		1980	2000	2009	Change 1980-2009
A. Consumption Poverty					
	Actual Poverty	0.130	0.056	0.031	-0.099
	Predicted poverty holding within group poverty at 1980 rate				
	Changes in family type	0.130	0.141	0.142	0.012
	Changes in family type and employment	0.130	0.138	0.145	0.016
	Changes in family type and race	0.130	0.153	0.162	0.032
	Changes in family type, education, and employment	0.130	0.104	0.103	-0.027
B. After-tax Income Plus Noncash Benefits Poverty					
	Actual Poverty	0.130	0.063	0.067	-0.063
	Predicted poverty holding within group poverty at 1980 rate				
	Changes in family type	0.130	0.139	0.143	0.013
	Changes in family type and employment	0.130	0.137	0.155	0.025
	Changes in family type and race	0.130	0.148	0.158	0.028
	Changes in family type, education, and employment	0.130	0.115	0.124	-0.006

Share of Children Under Age 15 With A Doctor Visit in the Last 12 Months, 1969-2010



Health Insurance Coverage by Quintile of After-Tax Income Plus Non-Cash, Non-Health Benefits



Notes:

Year

Figure 8c: Income Poverty Rates, 1980-2009

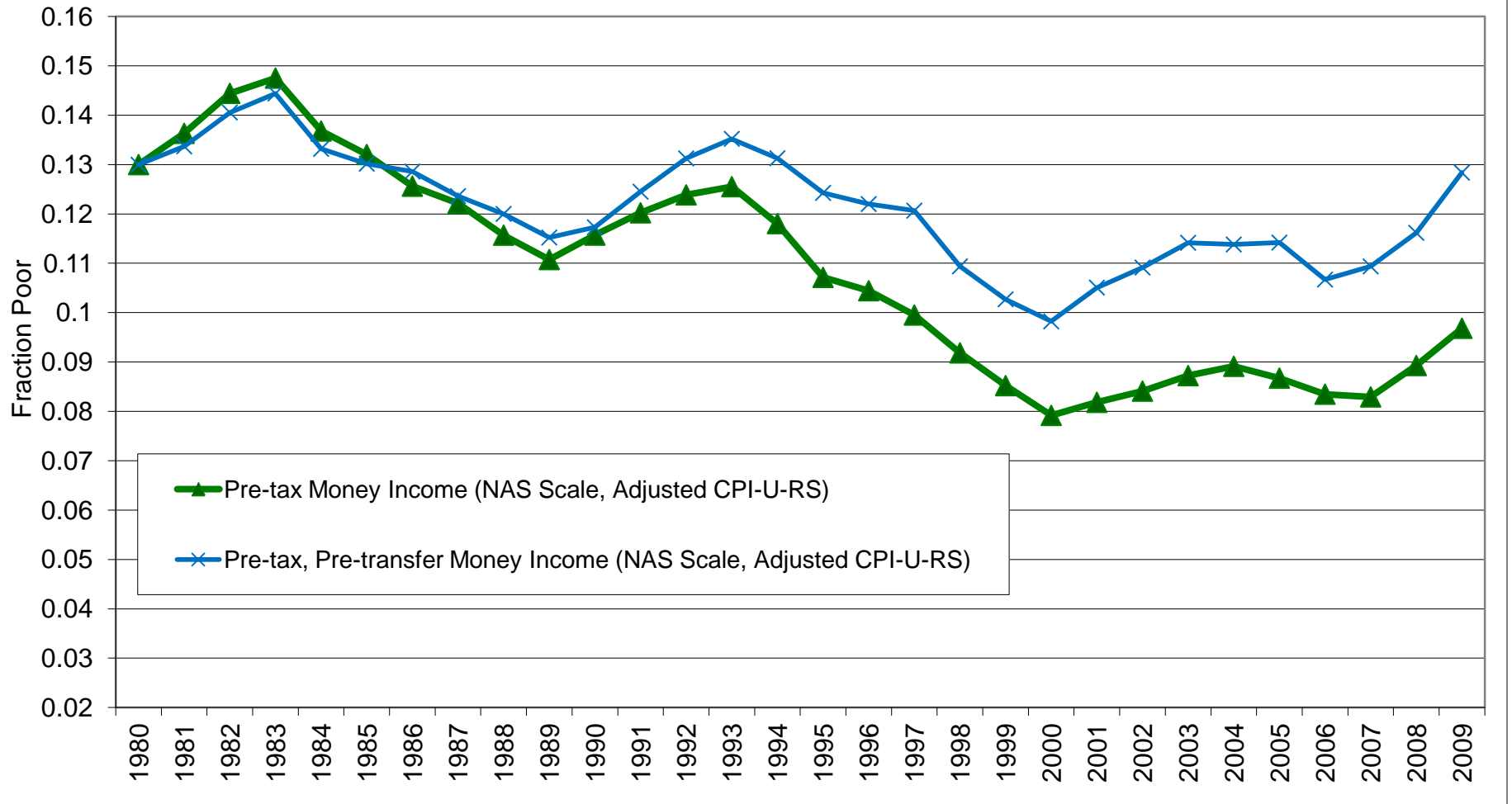


Figure 8a: Median Pre-tax Money Income with and without Transfers and Pre-tax and After-tax Earnings, 1980-2009

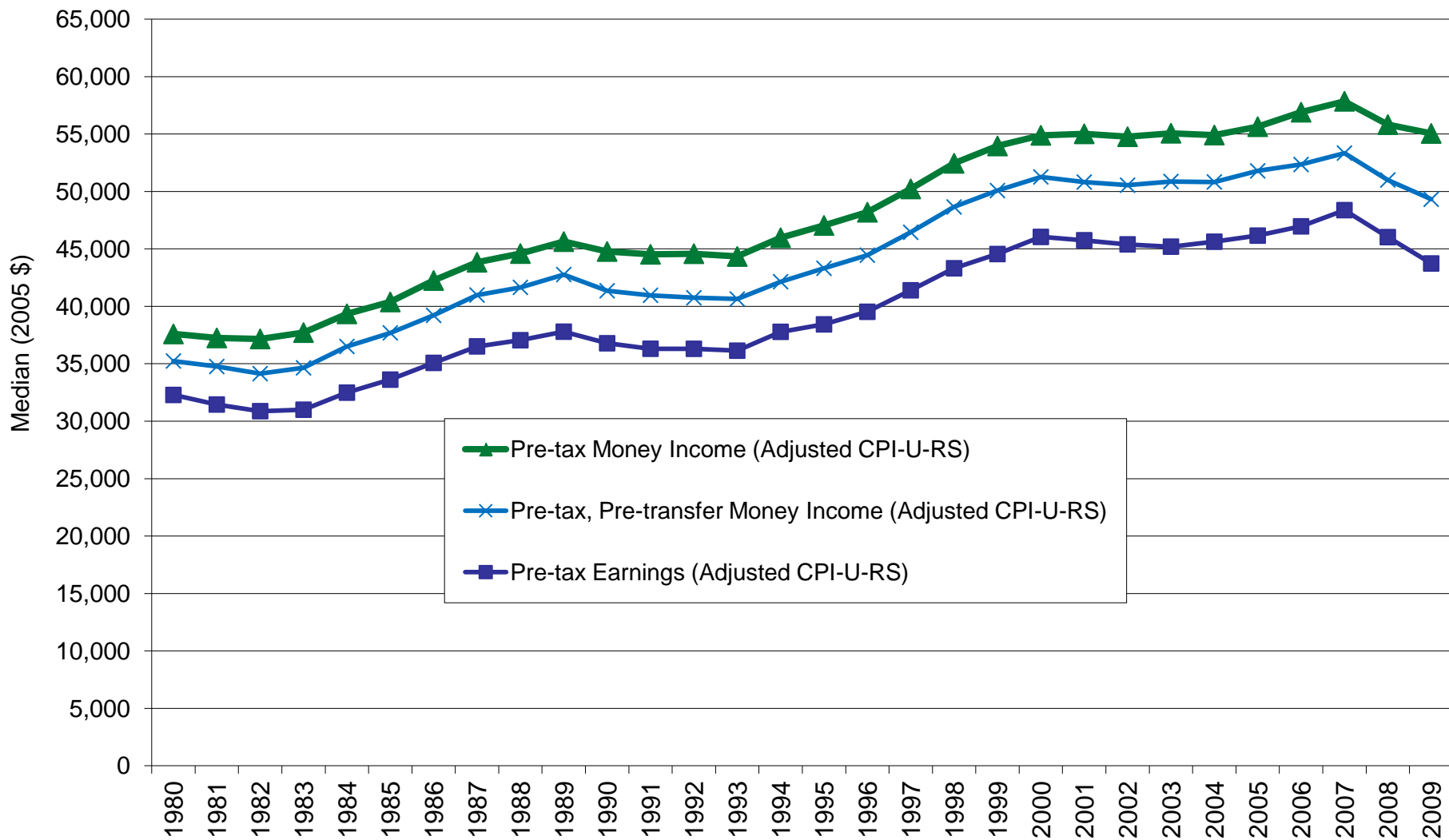


Figure 1: Percentiles of Income and Expenditures, All Families, CPS and CE Survey, 1993-2003

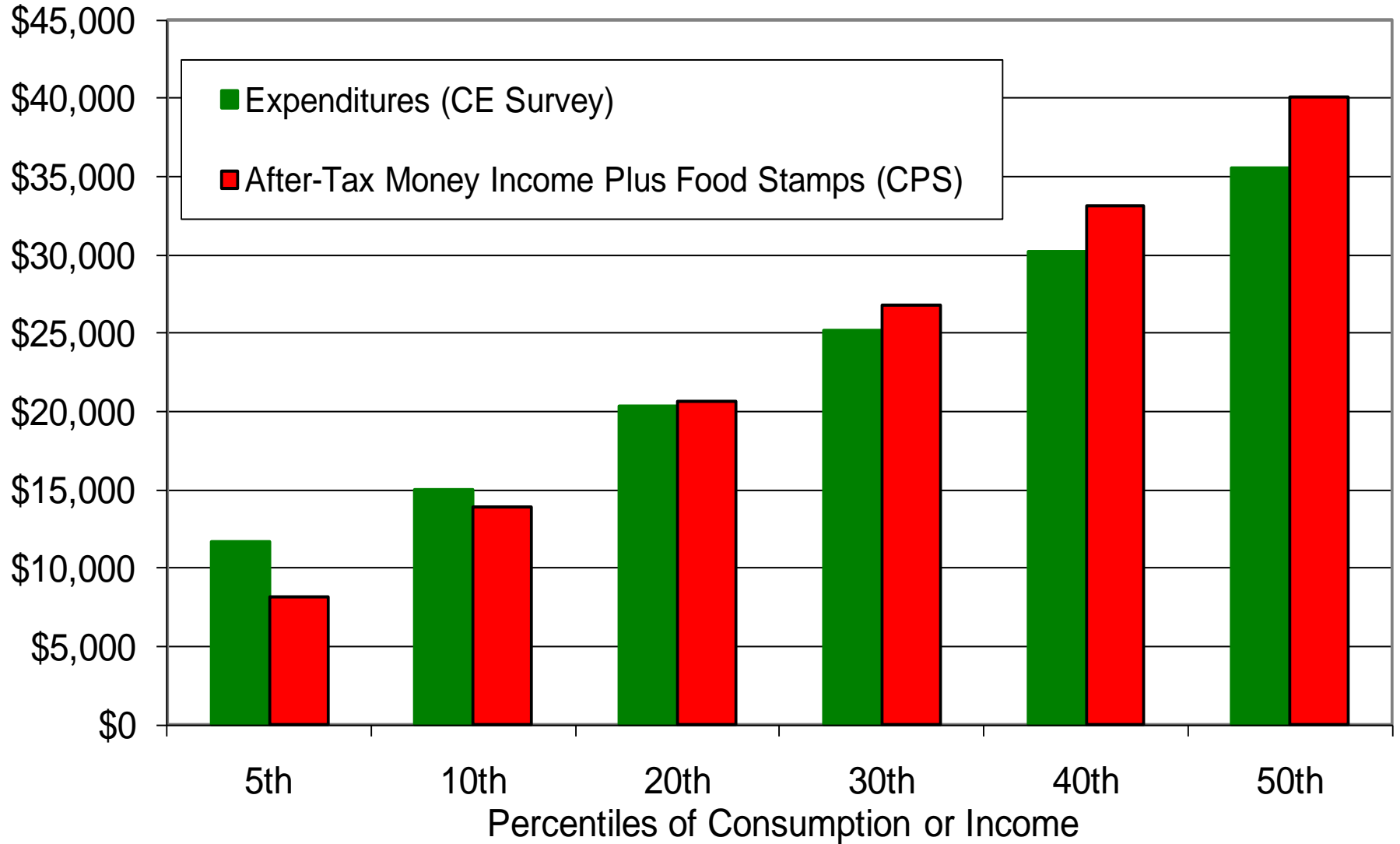
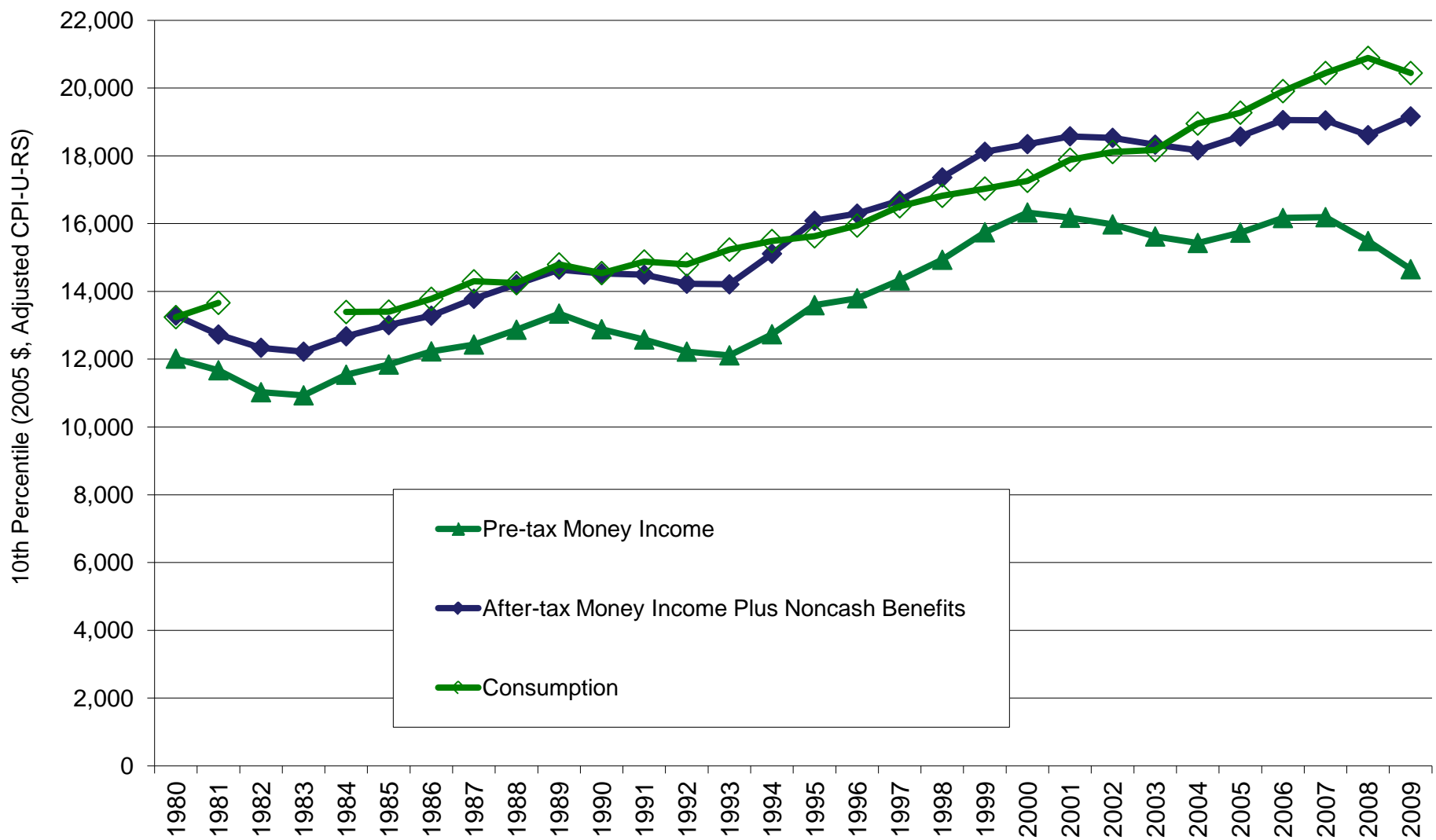


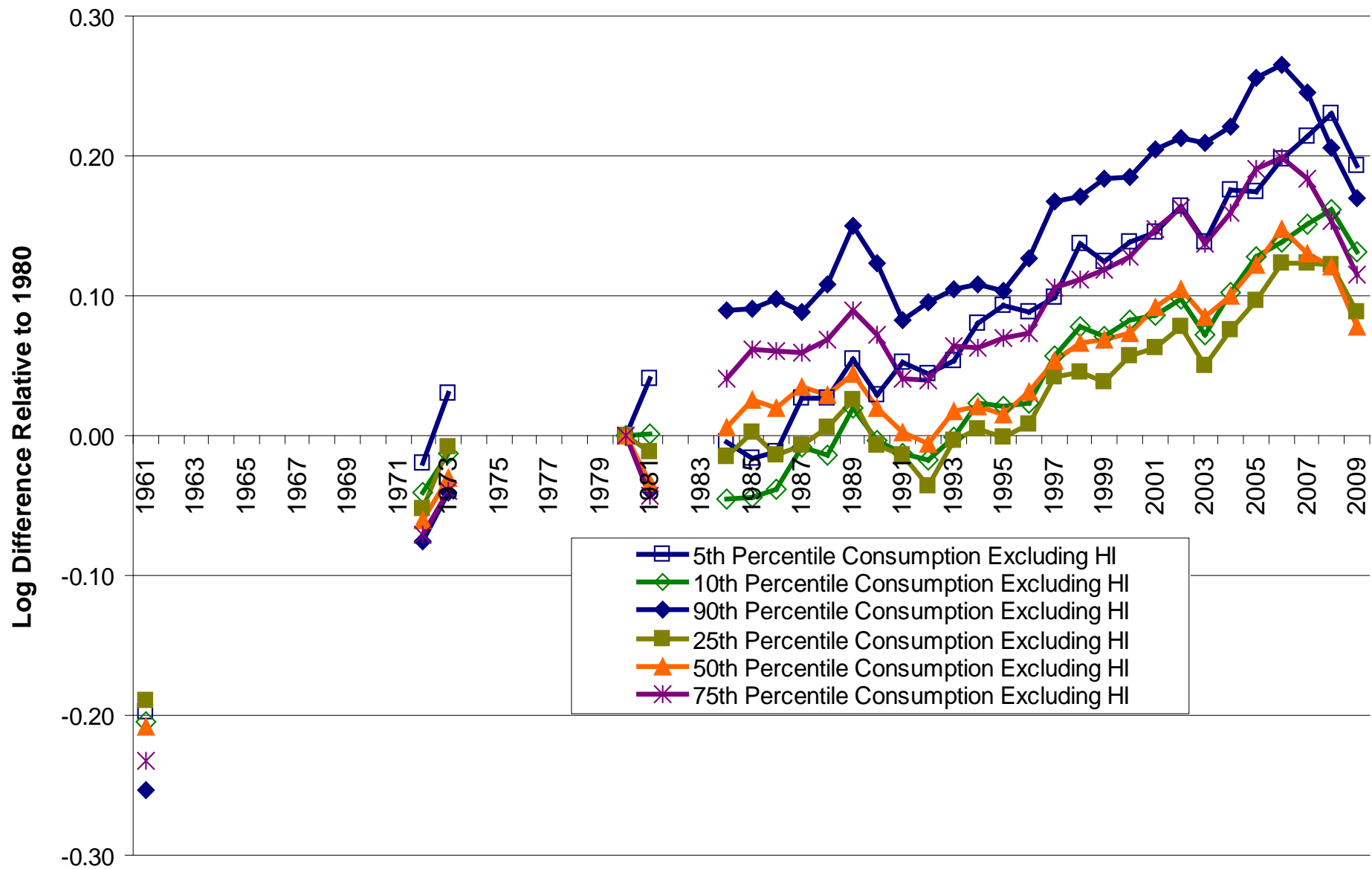
Figure 5: 10th Percentile of Income and Consumption, 1980-2009



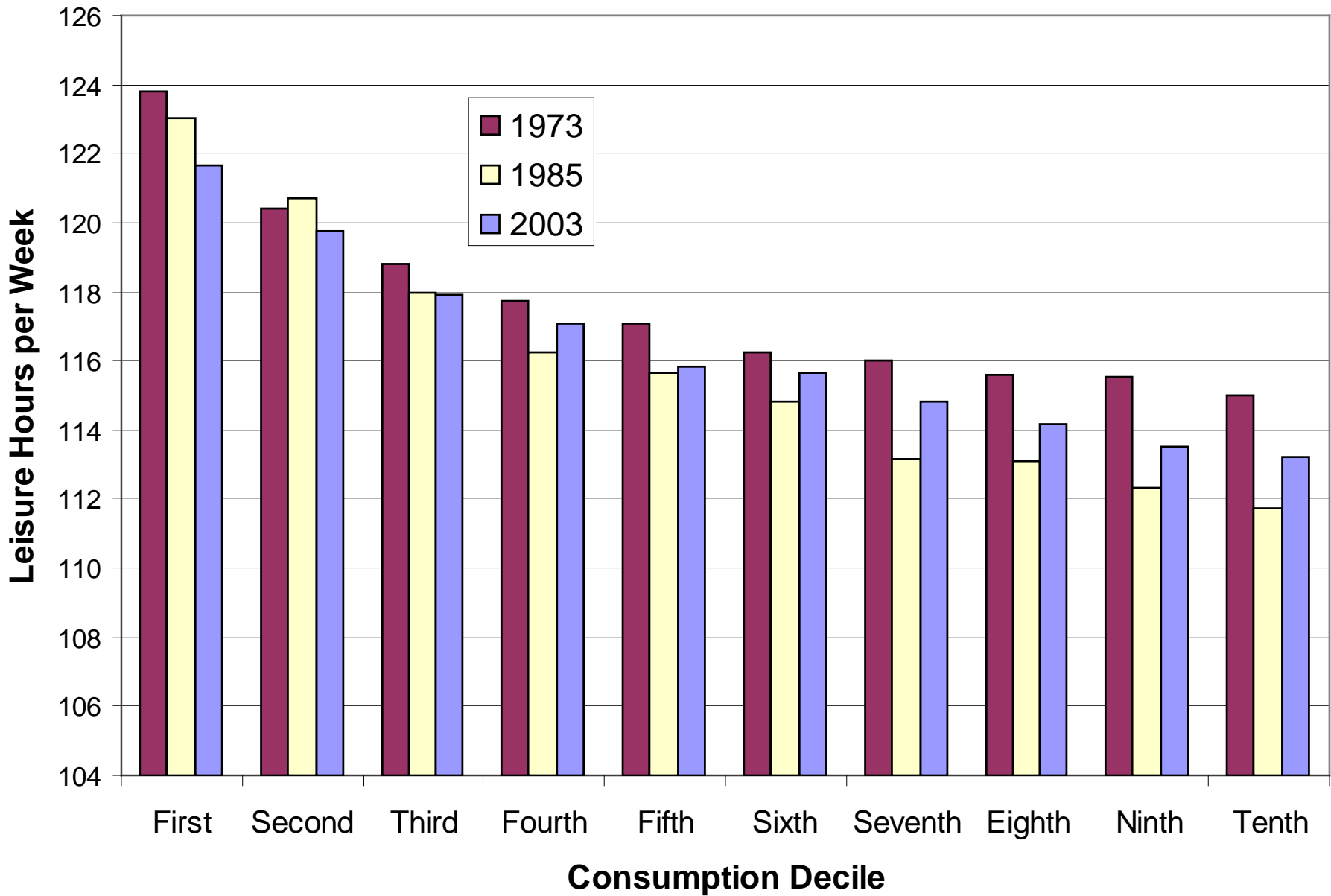
XI. Other Indicators: Leisure

- Welfare reform has meant a decline in non-market time for single mothers.
 - Aguiar and Hurst suggest that leisure has risen faster for the low educated.
 - To examine C and L jointly at the household level we need to predict leisure for each household member.
 - U.S. time-use data are in almost all years for one household member (not all members) and are not available in consumption datasets.
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Real Changes in Consumption at Various Percentiles, 1961-2009



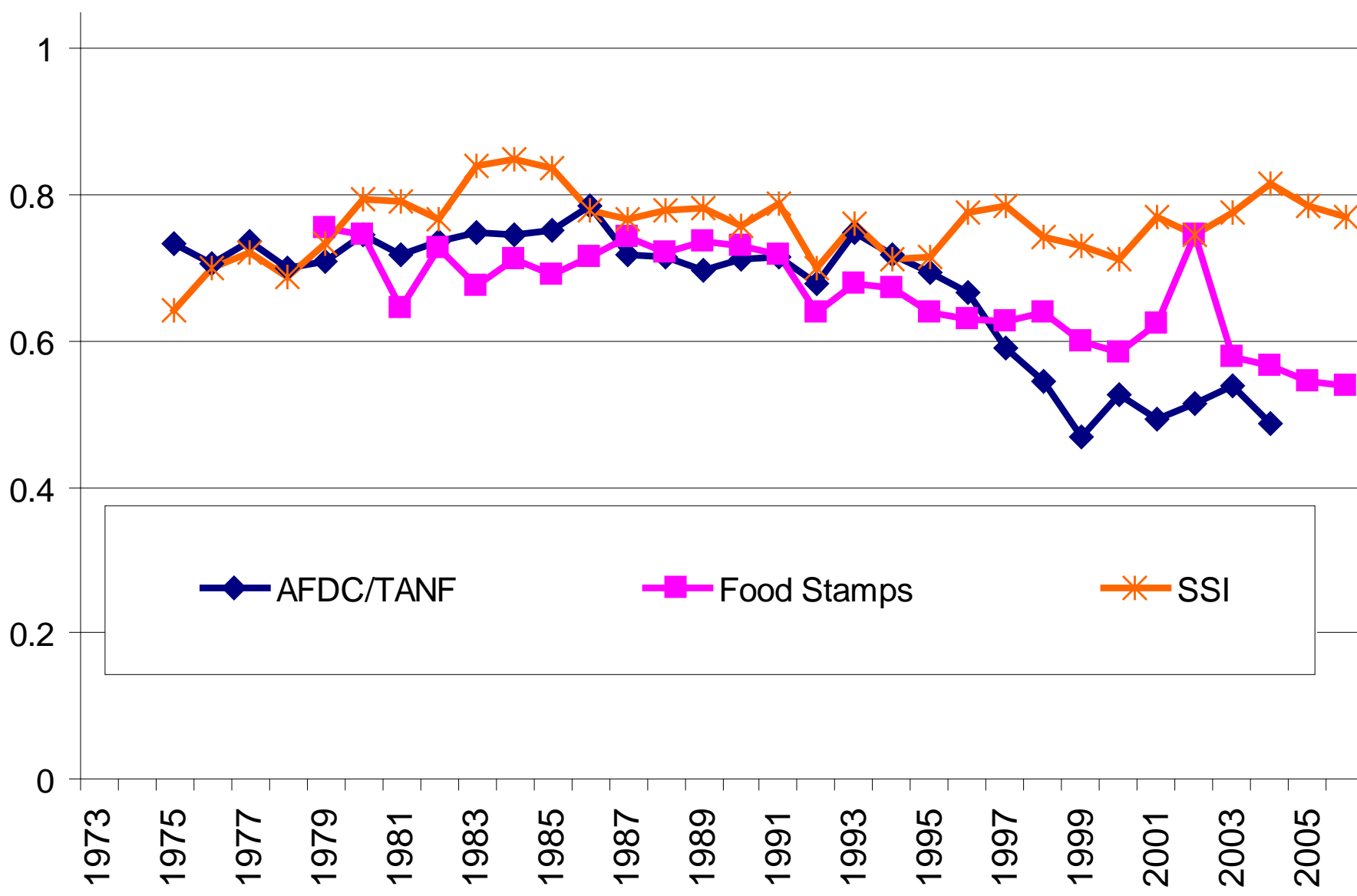
Mean Hours of Leisure by Consumption Decile



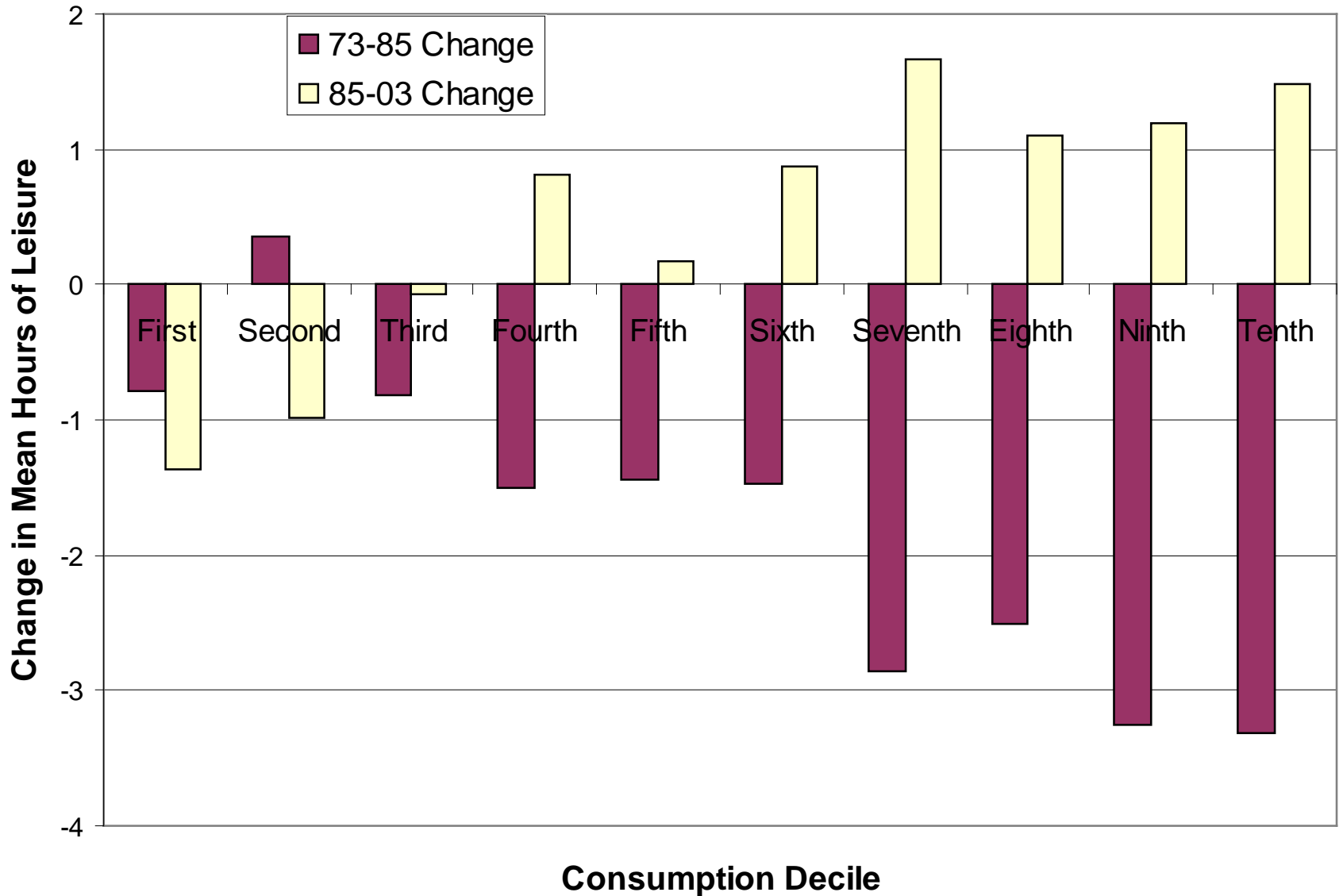
V. Consumption Data

- Subtract OOP medical spending. Main measure excludes value of health insurance.
 - Estimated average cost of public and employer sponsored HI by state or region and year. Use NMES, NMCES, and Foster-Higgins data (also compared to Kaiser data). Used Medicaid and Medicare spending by state/year.
 - Conceptually unclear how to translate cost into value. We use cost, but only up to 1/3 of total consumption. This is a compromise.
 - Health insurance coverage, public housing, unavailable in some years.
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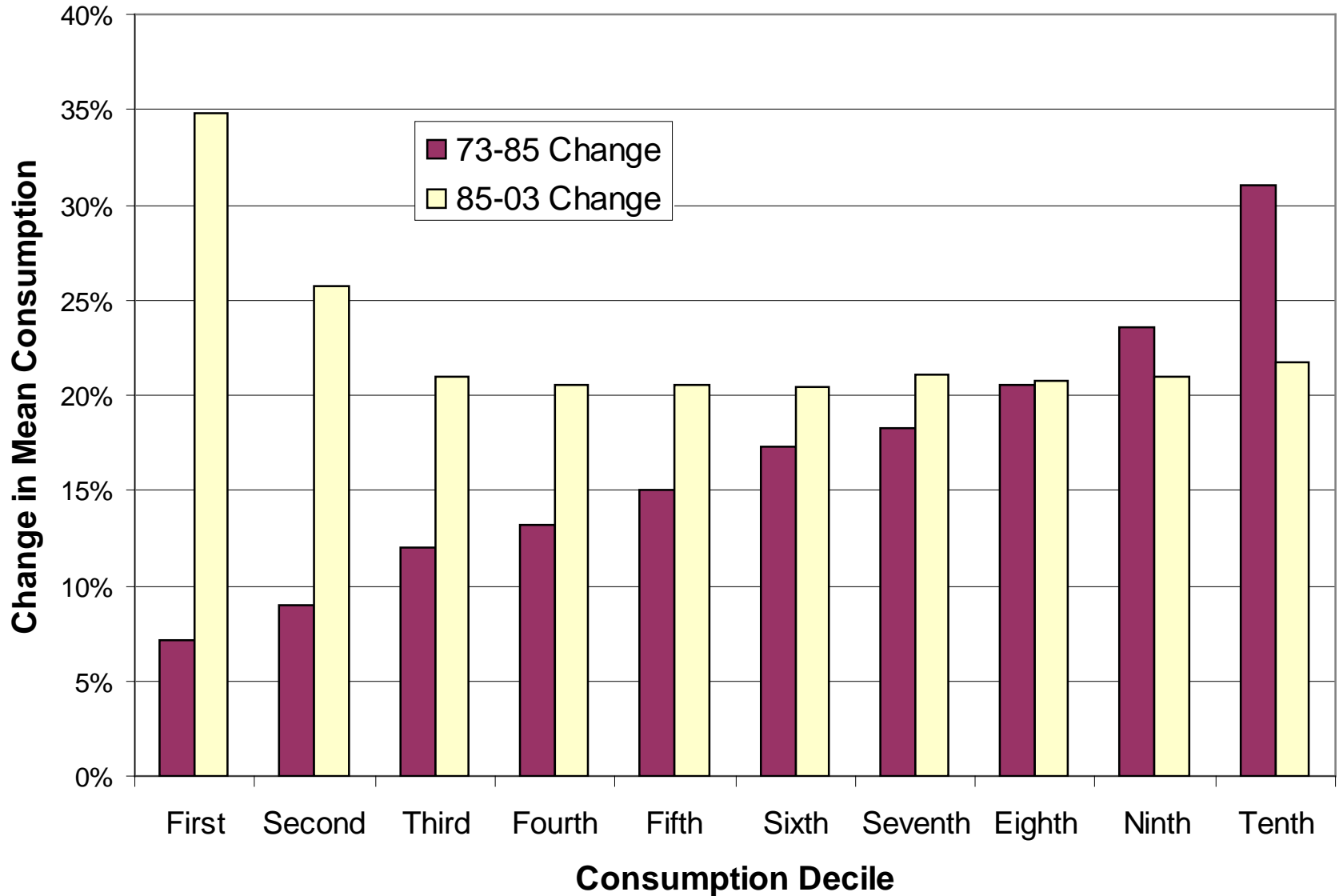
Reporting Rates for Dollar Amounts of Transfer Programs, CPS



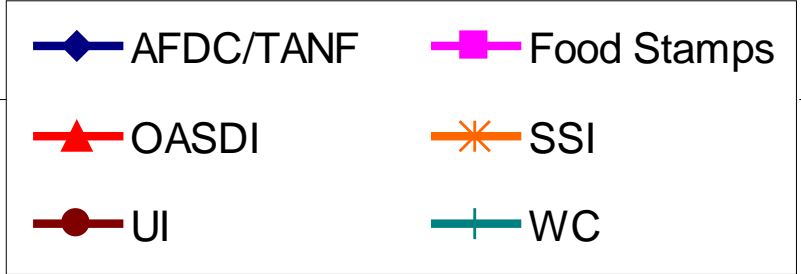
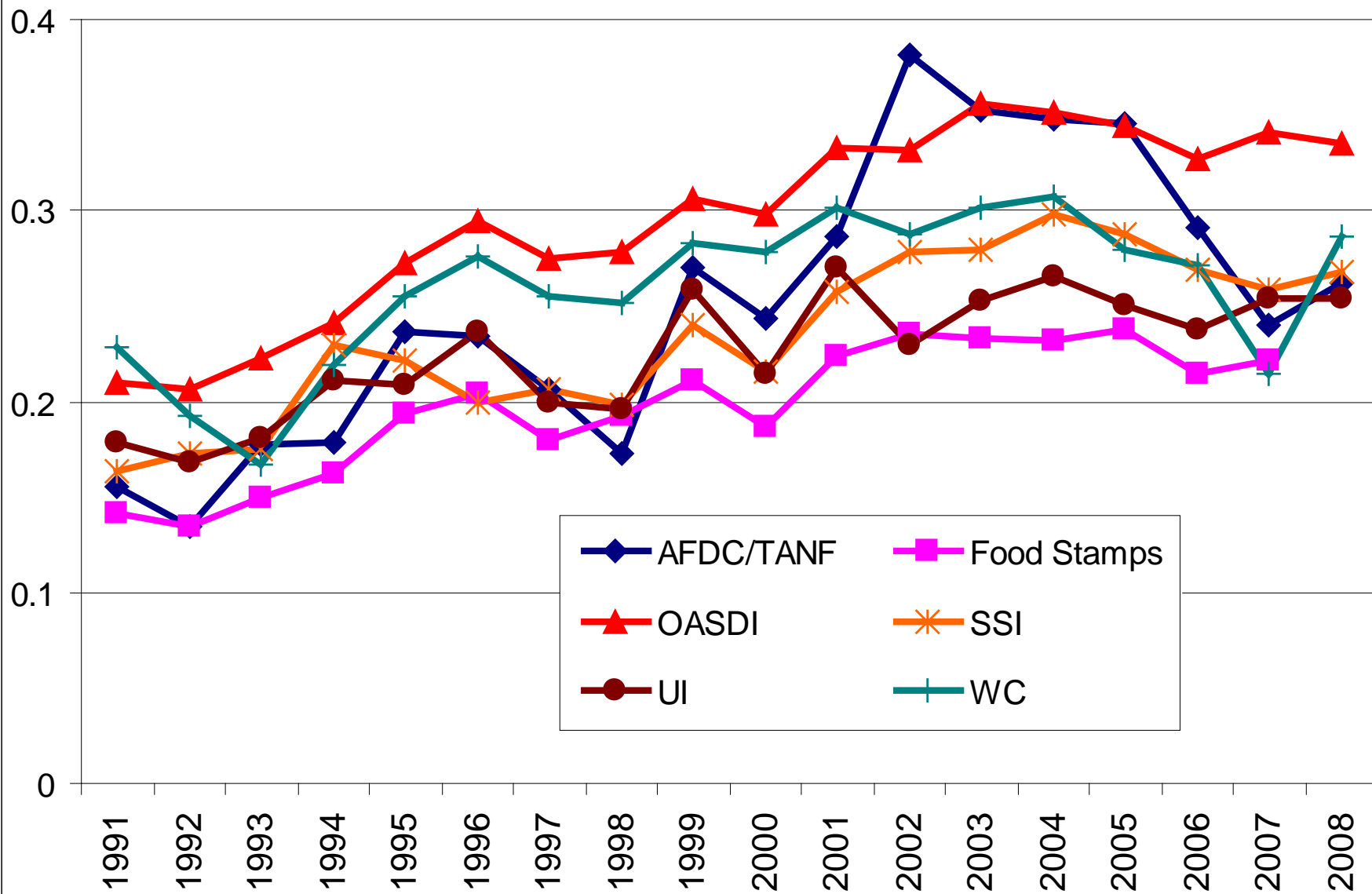
Change in Leisure by Consumption Decile



Change in Consumption by Consumption Decile



Share of Dollars Imputed, CPS



Ratios of CE Expenditure Measures to National Aggregates, 1980-2008

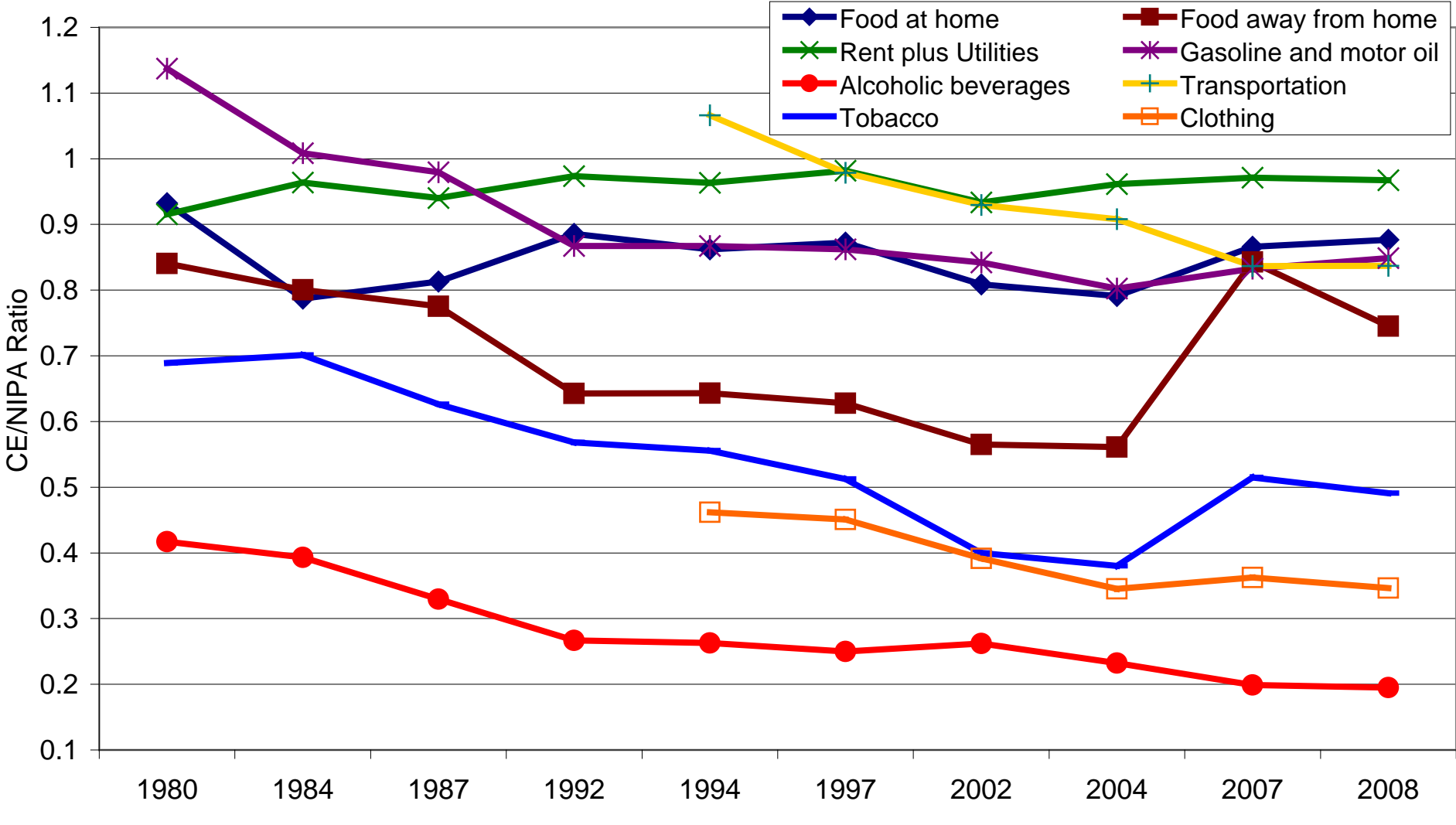


TABLE 1: UNEMPLOYMENT PATTERNS BY PLACE AND DEMOGRAPHICS 2007-2010

	2007	2010	Percentage Point Change
TOTAL	4.6	10.2	5.6
Sex			
Men	5.1	11.8	6.8
Women	4.0	8.4	4.4
Age			
18-25	8.8	17.0	8.2
26-35	4.6	10.6	6.0
36-49	3.7	9.0	5.4
50-64	3.2	7.7	4.5
Education			
Less than High School	10.8	19.8	9.0
High School Graduate	5.5	13.7	8.1
Some College	4.1	9.4	5.3
College Graduate	1.9	4.9	2.9
Race/Ethnicity			
White, non-Hispanic	3.8	8.6	4.8
Black, non-Hispanic	7.9	16.5	8.6
Other, non-Hispanic	4.8	9.6	4.8
Hispanic	5.5	13.0	7.5
Marital Status			
All Married	2.8	7.0	4.2
All Single	7.0	14.2	7.3
Parenting Status			
With Children	4.3	10.7	6.4
Without Children	4.7	9.4	4.7