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More on Middle Class Income …



# Say hello to the modest good life for me

*Anxiety over middle class living is complex, but probably not as warranted as the hand-wringing might suggest*

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It's a tough economic world out there today.

You don't have to bury your nose in the news very long before you get the idea that middle class America today is like a ball of Play-Doh in the hands of a child; it's getting squeezed, pulled, hammered, cut, pinched, rolled, tossed around and, finally, left out to dry.

It's enough to give middle class folks an inferiority complex, and it's starting to show: Fewer Americans now than at any time in the past 45 years believe they're moving forward in life, according to surveys in a recent report on the middle class by the Pew Research Center (see Chart 1).

Across the Ninth District and nation, people fret that the middle class lifestyle many simultaneously aspire to and feel entitled to is becoming harder to reach and more difficult to hold on to—a notion reinforced by official government statistics and repeated like economic waterboarding by journalists, bloggers, pundits and politicians.

Gone are the wistful days of the 1960s and 1970s, when it seemed that everyone—well, every dad at least—had a good manufacturing job that paid enough for mom to stay home and for the family to afford all the trappings of middle class life: a house in a decent neighborhood, good health care, paid vacation, a pension to retire on and college for the kids.

So much for nostalgia, right? Government data portray a stagnant middle class. And like the saying goes, if you're not getting ahead, you're falling behind. It's enough to make a middle class guy mutter a few no-class expletives.

But what if all this isn't true, or is only partially true? What if the middle class in the Ninth District is continuing to get ahead, particularly in the big picture? This *fedgazette* article takes a close look at changes in middle American income, wages and living standards since 1979 in Ninth District states and finds that middle class living might not be as bad, threatened or besieged as is commonly portrayed.

## A look at income malaise

The first step in this analysis is a palate cleanser: Back away from today's challenging economic environment to get the big picture. Clearly, many people are suffering from various maladies stemming from rising unemployment, higher inflation and the current housing crisis. But examining the progress of the middle class over the long haul gives a broader, less emotional view of generational change.

From this bird's-eye perspective, there are many ways to compare income growth over time, each of which paints a different picture. Trends in per capita income growth since 1979, for example, are quite positive. In each district state, average income per person went up by at least 50 percent in real (or inflation-adjusted) terms; in Minnesota, it leapt by 71 percent. But average income masks the distribution of those gains, and much of that new income went to top earners, thus inflating the overall average.

That's why researchers often prefer the median measure—or the exact middle observation—as a good proxy for how the average Joe in the middle class is doing. And by median standards, he hasn't done all that well over the past couple of decades. The Economic Policy Institute reported that nation-

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wide median hourly wages grew a scant 10 percent from 1979 to 2006; the U.S. Census Bureau reported an almost-as-scant 13 percent increase in median household incomes.

What's to argue over, except for the crumbs of this paltry growth? Plenty, because commonly used measures of income and wages understate the long-term gains made by middle class households and workers. Official government data haven't necessarily been wrong; they might more accurately be called incomplete, because important considerations are excluded, overlooked or improperly estimated. Factoring in these items boosts wage and income growth considerably, at both the national and district levels.

For example, many reports that fret over sluggish income growth adjust for inflation using the consumer price index. Though logical at face value, the CPI has long been criticized—for example, by the Boskin Commission in 1996—for likely overstating inflation, possibly by as much as 1 percent or more per year. The personal consumption expenditures deflator (used in this analysis) is widely believed to be a more accurate gauge of inflation over time. Such a matter might seem trivial, but in the long term it becomes significant. When income figures are adjusted using the PCE, nationwide median household income growth from 1979 to 2006 jumps to 20 percent—seven percentage points higher than the same income figures that use the CPI.

For the Ninth District, moving from CPI-adjusted income to PCE-adjusted income pushes median household income growth over this period from 10 percent to 17 percent. (All figures hereafter are PCE-adjusted.)

Income gains differed considerably among district states; household income grew by 32 percent in South Dakota and 24 percent in Minnesota, compared with meager growth of between 8 percent and 12 percent for Montana, Wisconsin and the Upper Peninsula of Michigan (see Chart 2).

The gains for most states are not particularly robust, especially when compared with earlier periods. From 1969 to 1979, for example, every district state except Wisconsin saw median income grow between 9 percent and 19 percent (Wisconsin trailed at 5 percent).

## Compositional effects

But there are additional measurement issues to consider that further clarify the gains that have been made by the district's middle class. For example, one might think that a household is a household, and comparing those from different periods would be a reliable barometer of change and improvement. But the composition of households has changed significantly over the years. As a result, the median household today is different from the median household circa 1979. Those differences have a marked effect on income and, by extension, any growth trends attached to it.

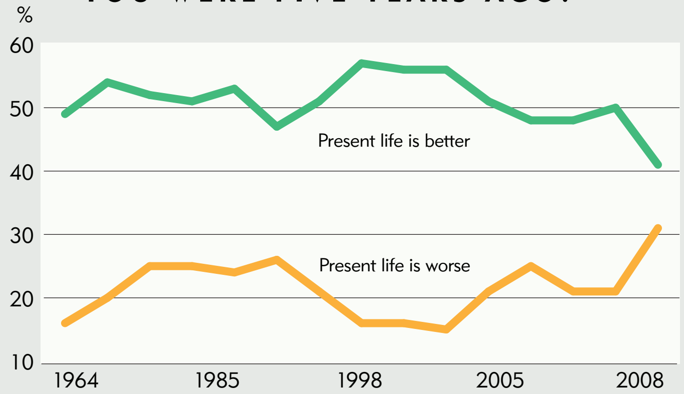
For example, married couples in the Ninth District made up 63 percent of all households in 1979; female and male householders (with no spouse present) were 32 percent of the total, and all other households (for example, multifamily, unrelated adults) accounted for the remaining 6 percent. (Figures exceed 100 percent because of rounding.)

Now fast-forward to 2006: Married couples in the district made up 51 percent of households, female and male householders 39 percent, and all other households 10 percent (see Charts 3 and 4). This is important because the income of a household is closely associated with the characteristics of the people living in it, the most predictive of which are educational attainment and the presence of a married couple. Married-couple households in the district, for instance, earn more than twice as much as either female- or male-headed households. So as the share of the highest income group (married couples) gets smaller, the median observation automatically moves toward a household subgroup that traditionally has a lower income.

Here's a simplistic example to illustrate the effect of household composition changes. Suppose there are 10 people (five men and five women) each making $34,000 per year, and together they make up six households: four married couples with household incomes of $68,000, one male- and one female-headed household, both with income of $34,000. The middle income observation for these six households is $68,000, the income of a typical married couple.

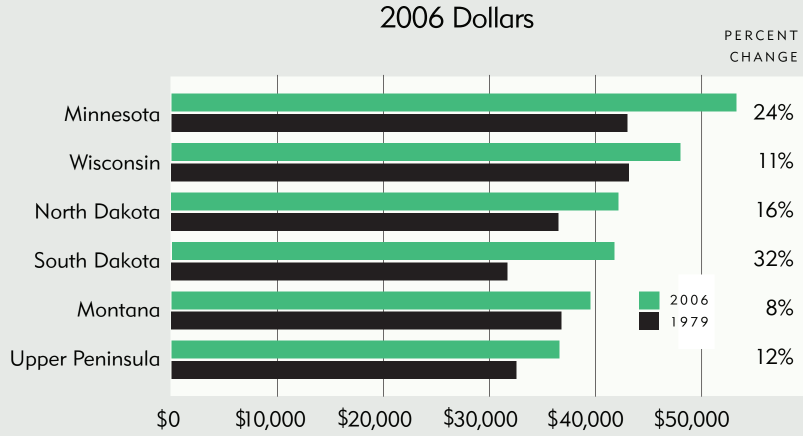
The next year, one of the married couples is divorced. That leaves three married households and four single-headed households—two headed by men and two headed by women. Now let's say every person gets a 10 percent pay raise. Is everyone better off? You certainly could argue that. But because of the compositional shift, the median for these seven households plummets to $37,400 because the middle-ranked observation (with the raise) is now a single-headed household.

CHART 1
**COMPARING PAST AND PRESENT: ARE YOU BETTER OFF NOW THAN YOU WERE FIVE YEARS AGO?**




Intervals between years are unequal.
Source: Pew Research Center

CHART 2
**MEDIAN HOUSEHOLD INCOME**
2006 Dollars




Sources: U.S. Census Bureau, authors' calculations

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One of the Minneapolis Fed's congressionally mandated responsibilities is to gather information on the Ninth District economy. The *fedgazette* is published bimonthly to share that information with the district, which includes Montana, North and South Dakota, Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan.

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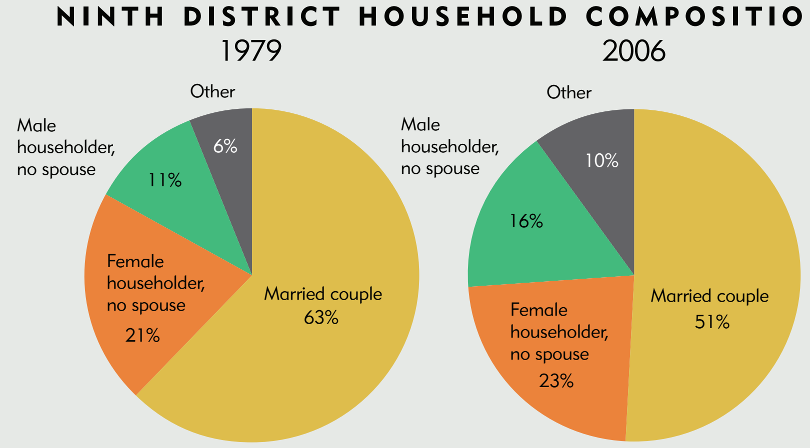
CHARTS 3–4
**NINTH DISTRICT HOUSEHOLD COMPOSITION**




Sources: U.S. Census Bureau, authors' calculations

This example exaggerates the actual decline in married couples, but it demonstrates why the overall household median can be misleading. In the district, every state saw a decline in married households roughly in line with the national trend.

## Comparing neighborhood castles

Given these subtle socio-statistical influences, analyzing similar household subgroups offers a better apples-to-apples comparison of economic progress over time. Such a comparison shows greater positive income gains in the Ninth District—between 20 percent and 45 percent for most household types, though there are large differences among subgroups and among district states (see Chart 5).

For example, married households in the district (still easily the largest subgroup despite its decline) saw median income gains of 32 percent from 1979 to 2006. That growth, for married households with and without children, was 15 percentage points greater than the district's overall (adjusted) median income growth of 17 percent. Gains were higher for married households in all district states, but again there were notable differences, ranging from 45 percent in South Dakota to 16 percent in Montana.

Female-headed households also saw larger income gains than the overall district median. Their income jumped 35 percent over 1979 levels, raising incomes to a still comparatively modest level of $24,000 in 2006. However, such households with children saw much slower growth of 17 percent.

Male subgroups consistently trailed the rest of the field. Male-headed households in the district saw their income rise just 13 percent; more ominously, males with children saw their income decline by 7 percent. (Breakouts of smaller subgroups at the state level, like males with kids, are hindered by a lack of reliable samples in small states like Montana and the Dakotas. However, district averages include all observations from these states.) Yet despite sluggish growth, median income of male householders is still significantly higher than their female counterparts, who saw strong income growth.

## Data geek squad

That's still not the whole income story; in fact, household income growth was likely stronger still from 1979 to 2006 than even adjusted figures here reflect, because data do not accurately account for all forms of income. More to the point, household income data exclude certain kinds of compensation that have been growing rapidly.

Here's how: The federal government measures household income in several ways. The two most prominent are money income (used in this analysis) and personal income. Money income, put together by the Census Bureau, is basically what it sounds like—income received as money. This includes wages, pension income, stock dividends and so forth. It does not include employment-based fringe benefits like health care coverage and retirement contributions paid for by employers, which are a critical underpinning of the middle class lifestyle. Equally important, these excluded items grew rapidly over the past 30 years. For example, health care benefits paid by employers rose by 250 percent per person, after adjusting for inflation.

On the other hand, personal income (the other commonly used measure) is a broader gauge of total income and includes nonwage benefits and other compensation that contribute to a household's well-being. Growth in personal income exceeds that of money income by about 10 percentage points over the period studied in this analysis, which suggests that real median household income has grown more than Census money income figures indicate.

Continued on page 4

# The long-term snapshot from different angles

The choice of time frame—the starting and ending points—leaves a subtle but distinct impression on any trend analysis. But rarely are there obvious dates or a time frame that both the half-fulls and half-empties can agree on, because shifting the dates merely creates different implications.

For example, much of the attention given to middle class wages and income focuses on the short term, typically the period since about 1999, when strong growth began to wane leading into the 2001 recession. Between 1999 and 2006, median household income as reported by the U.S. Census Bureau declined by 2 percent nationwide, and was negative for Minnesota and Wisconsin and very modest for the Dakotas and Montana. That certainly feels stagnant—maybe worse.

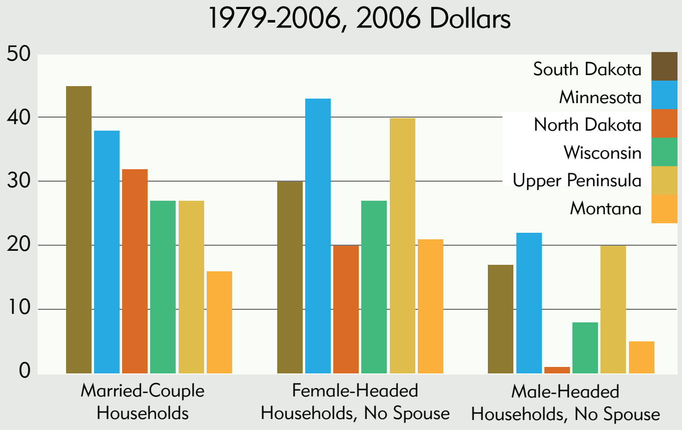
While such short-frame analysis is neither inappropriate nor inaccurate, it can be misleading. Income growth tends to be dynamic and cyclical; it doesn't steadily rise, instead accelerating for a time and then slowing down, often in sync with business cycles and other short-term economic fluctuations. From 1989 to 2000, for example, median household income in the United States rose 8 percent. But a closer look shows that median income remained flat from 1989 to 1996, then leapt 8 percent in the remaining years.

Indeed, the 1979–2006 time frame comes with its own caveats. For starters, it leaves out the two most recent years—which have been a struggle for many—only because detailed income data were not yet available at the start of this analysis.

But 1979 is also a very conservative—or high—starting point. That date was chosen because it was a census year, which offers rich household data at the state level. But it was also an economic high point, just before the onset of a high-inflation, recessionary period. Moving the starting date by a few years in either direction would have set it before the start of a high-growth period (the late 1970s) or just after a period of very slow growth (the early 1980s), which would have modestly, but noticeably, increased growth rates.

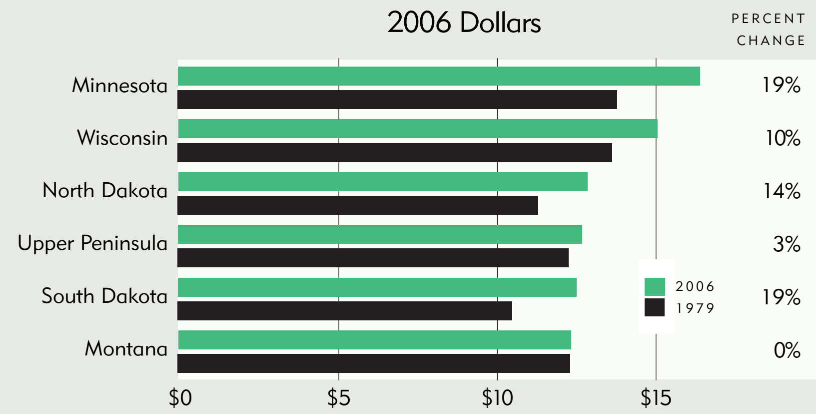
*—Terry J. Fitzgerald & Ronald A. Wirtz*

CHART 5 **PERCENT CHANGE IN MEDIAN INCOME BY HOUSEHOLD SUBGROUP**
1979-2006, 2006 Dollars




Sources: U.S. Census Bureau, authors' calculations

CHART 6 **NINTH DISTRICT MEDIAN HOURLY WAGES* BY STATE**
2006 Dollars




*Wage and salary workers, ages 18 to 64
Sources: U.S. Census Bureau, authors' calculations

**Say hello** from page 3

Unfortunately, household data on nonmonetary income are not available. However, a conservative back-of-the-envelope calculation suggests that median household income growth that included such compensation would be at least 5 percentage points higher.

Adding up these three adjustments—for PCE, composition and missing compensation—brings median household income growth for most household types in the district to a range of 25 percent to 50 percent—well above the 10 percent median increase we started with, and pretty strong evidence that middle America has not stagnated over the past generation.

## Wagering some growth

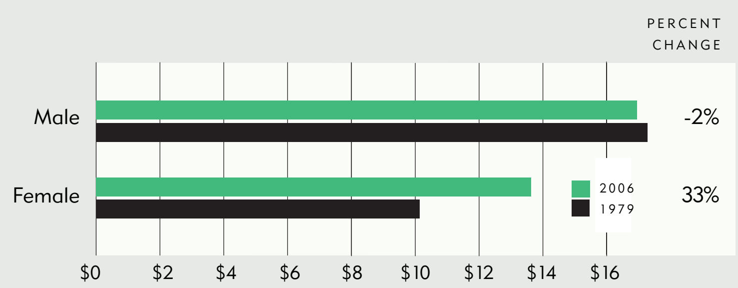
Those concerned over middle class progress also seize upon median hourly wages as a measuring stick, which reinforces the notion of stagnation even more than analyses based on household income.

District states saw very modest hourly wage gains of 14 percent from 1979 to 2006; median wages in Montana saw no gains, and the Upper Peninsula of Michigan had a very small gain (see Chart 6). Such figures bolster the common argument that the good old days when a person could get a family-supporting job out of high school are long gone.

But as is the case with median household data, a lot of caveats tag along with any conclusions. For instance, median hourly wages mask the variation among subgroups. Females had much larger increases in median wages, while male wages were roughly flat. Furthermore, college-educated groups saw much larger gains than less-educated groups, which had small or negative gains (see Charts 7 and 8).

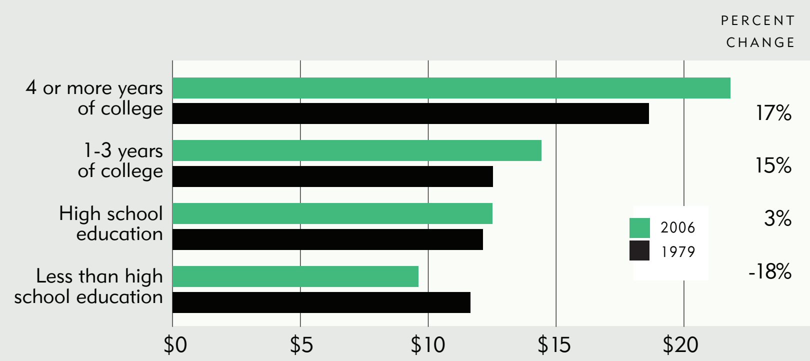
And again there are compositional changes to consider. In district states, workers with at least some college increased from 39 percent in 1979 to 64 percent in 2006. So in 1979, a high school diploma denoted a better-than-average education, which often translated into higher wages. Today, simply finishing high school puts the worker

CHART 7 **NINTH DISTRICT MEDIAN HOURLY WAGES* BY GENDER**
2006 Dollars




*Wage and salary workers, ages 18 to 64
Sources: U.S. Census Bureau, authors' calculations

CHART 8 **NINTH DISTRICT MEDIAN HOURLY WAGES* BY EDUCATION ATTAINMENT**
2006 Dollars




*Wage and salary workers, ages 18 to 64
Sources: U.S. Census Bureau, authors' calculations

roughly in the bottom one-third of all workers for educational attainment, and wages have reacted rather predictably. To expect otherwise ignores the value of education on worker productivity.

As with household income, there are other technical reasons why median wage data probably don't fully reflect what people are really earning. For example, commonly cited "average hourly earnings" data from the Bureau of Labor Statistics cover only production and nonsupervisory workers, a narrowing sector of the overall economy that has seen less wage growth than other labor groups. In fact, the data are unrepresentative enough that the BLS is expanding the AHE series to include data on all employees, and plans to reduce or eliminate data on only production and nonsupervisory workers.

Similar to median household income, hourly wage data also do not include nonwage income, which now makes up 30 percent of total worker compensation, according to the BLS. Research in the September 2007 *Region* magazine (also published by the Minneapolis Fed) estimates that total compensation growth—wages plus benefits—was about 8 percentage points higher than wages alone during 1975–2005. (Go to minneapolisfed.org for more details. See also the September 2008 *Region* for a closer look at household income in middle America.)

## Lost (income) generation?

While people's income appears to have grown more than is often recognized, it has not likely grown as strongly since 1979 as it did during the preceding 30 years, especially for certain kinds of households and workers.

The point of this analysis is not to bury or deny gains of the distant past, nor gloss over what's happened since. The intent is to help frame the discussion. Reportedly sluggish income growth is the source of considerable angst. That anxiety gets compounded in tough economic times—like the current environment, where unemployment and inflation are rising, and public confidence is falling. In the midst of this, it's not surprising that people question economic progress.

Too often, however, short-term trends are overlaid onto long-term, generational trends. Growth never proceeds in a perfectly straight or universally upward fashion, which is something the nostalgia for the good old days fails to recollect. While the past 30 years might not have been the apex of middle class progress in America, it's also misguided to believe that middle class progress has stalled over the past three decades. f

# Just what is the middle class, and other stuff

Any discussion of the middle class is more complicated than it might first seem. Look no further than the simple exercise of defining the middle class. Indeed, there's no official government definition, but the government provides a wealth of data that allow anyone with a spreadsheet to create one.

As a 2007 report by the Congressional Research Service (CRS) pointed out, "What constitutes the middle class is relative, subjective, and not easily defined."

Researchers often use median income data—the exact middle observation, where half are doing better and half more poorly—as a proxy for the middle class. (This *fedgazette* analysis focuses on median income and wage data.) Other statistical definitions of the middle class include the use of the middle "quintile" (households earning between the 40th and 60th percentile of the population) or the middle three quintiles (between the 20th and 80th percentile). Using the latter definition, the middle class earns roughly between $19,000 and $92,000 a year, according to the 2007 CRS report.

But how people view their own income status is the antithesis of Lake Wobegon: Everybody sees themselves as average. Some surveys have found that upward of 90 percent of the population considers itself middle class. But there is also a lot of variation in who professes to be middle class. A 2008 survey by the Pew Research Center found that only about half of all adults put themselves in the middle class. But four in 10 with annual family incomes below $20,000 called themselves middle class; one-third of those with incomes over $150,000 said the same. Few people report themselves to be rich.

Such subjective definitions add to the complexity of any middle class analysis, and comparisons with other analyses need to consider and factor in the many definitions and adjustments used in this analysis.

**DATA SOURCE:** Median household income and median hourly wage series were calculated using 1980, 1990 and 2000 U.S. Census data and from the Census Bureau's American Community Survey from 2005 and 2006. These data were obtained from the Integrated Public Use Microdata Series (IPUMS-USA) maintained by the Minnesota Population Center. The 1980 census (which samples 5 percent of the population) contains data on approximately 200,000 households and 560,000 people in district states. The 2005 ACS and 2006 ACS (which sample 1 percent of the population) each contain district data for about 55,000 households and 138,000 people.

**DATA LIMITATIONS:** Although there are a large number of household observations, statistical considerations still limit how finely the data can be subdivided at the geographic level. This is especially true in the Upper Peninsula of Michigan, but it is also a major consideration for less populous states like Montana, North Dakota and South Dakota. For example, a reliable estimate was not available of the median household income of single male householders with children in North Dakota because the sample group is too small.

The data available from the annual ACS for 2005 and 2006 contain far fewer observations than are available from the 1980 federal census. So to obtain a more reliable estimate, data from both recent years were combined; estimates of median hourly wage and median household income for 2006 were derived from data for 2005 and 2006. Since states experienced an increase in wages and income during 2006, statistics here may slightly underestimate the growth in incomes and wages during the 1979–2006 period. However, this effect is very small, and does not change the story.

Data for the exact portion of Wisconsin that lies within the Ninth District are not available, so the entire state is included in this analysis. The Upper Peninsula is the only part of Michigan that is located in the Ninth District, but data for just the U.P. were available, and therefore are included in the analysis. However, the population of the U.P. is very small, which makes for even smaller (and less precise) estimates of subpopulations. Nonetheless, these data should provide a reliable—if inexact—sense of long-term trends.

## Definitions, terminology

**HOUSEHOLD:** A household consists of all the people who occupy a housing unit. A house, an apartment or other group of rooms, or a single room, is regarded as a housing unit when it is occupied or intended for occupancy as separate living quarters. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit (such as partners or roomers), also counts as a household. For the purposes of this analysis—to maintain more uniformity across households in each category—all members must be of one family (related by birth, marriage or adoption) and there must be at most one married couple present. About 10 percent of households in the district do not satisfy these requirements and are assigned to a generic "all other" category.

**HOUSEHOLDER:** A householder is typically the person (or one of the persons) in whose name the housing unit is owned or rented.

**WAGE DATA AND WORKERS:** The median hourly wage is for wage and salary workers between the ages of 18 and 64.

**INFLATION ADJUSTMENTS:** All data are adjusted for inflation using the implicit price deflator for personal consumption expenditures as published by the U.S. Bureau of Economic Analysis.

**CENSUS MONEY INCOME:** Data on consumer income collected in the Current Population Survey by the Census Bureau cover money income received (exclusive of certain money receipts such as capital gains) before payments for personal income taxes, Social Security, union dues, Medicare deductions and other items. Money income does not include income-like, noncash benefits such as food stamps, health care coverage, rent-free housing and other government-based services. Money income also does not include noncash benefits provided by private employers, including subsidized health care coverage, retirement accounts and assistance programs for things such as education, child care and transportation.

*—Terry J. Fitzgerald & Ronald A. Wirtz*

# Supersize me

*Consumption trends suggest middle class continuing to get ahead*

By RONALD A. WIRTZ
Editor

In the debate over the direction of middle class lifestyles, there is a scene oddly similar to one in the "Wizard of Oz": Pay no attention to all those things going on behind the garage door.

Money doesn't buy happiness, as the cliché tells us. In the vein of this research on middle class progress, rising income is not the be-all and end-all for a contented life. But rising income is the gatekeeper to a higher standard of living that most people seek—indeed, have come to expect—over the generations and the course of their lifetime.

No matter how you crunch the data, there are examples of lackluster income growth for some kinds of households and in certain locations—stagnation that can't be calculated away. And many are getting the double whammy today with the onset of much higher expenses for necessities such as gasoline and food, provoking complaints that the middle class standard of living is going in the tank.

But a long-term generational assessment of middle class progress has to look at the majority of the population over time, because there are always exceptions to long-term trends, and periods of slow growth tend to be balanced by periods of rapid growth. Throughout U.S. history, the middle class has had to persevere through periods of economic stress, and today is no different.

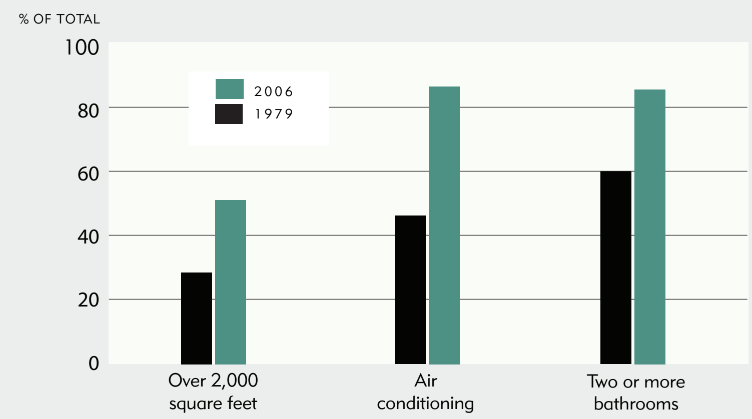
So in the big picture, is the middle class better off today than the previous generation? Given the many caveats to income and wage growth trends since 1979 (see cover article), it helps to take a look at how people actually live for additional clues. A look at the middle class through the lens of consumption shows that it enjoys considerably more creature comforts than previous generations.

## They don't call it a castle for nothing

Few assets demonstrate an improving standard of living better than people's homes, which are unequivocally larger and have more amenities than in the past. In 1979 the median size of new single-family houses in the Midwest was 1,605 square feet, according to U.S. Census data. By 2007 median size had grown 29 percent to 2,064 square feet. Nationwide, new homes grew 40 percent in size to 2,277 square feet. Many more homes today have air conditioning as a standard feature, and they boast more bathrooms (see Chart 9).

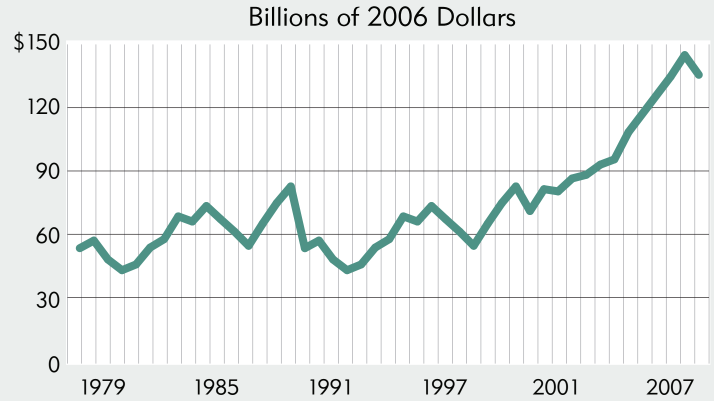
But that's brand-new housing, you might say, and not everyone in the middle class can afford what's getting built today. OK, but for those living in an older home, there is a good chance they've spent some money adding on an extra room or remodeling a bathroom or kitchen. Between 1979 and 2006, annual spending on improvements to existing, owner-occupied housing increased 167 percent (inflation-adjusted) to $144 billion, according to residential improvements and repairs statistics from the U.S. Census Bureau (see Chart 10).

CHART 9
**AMENITIES IN NEW ONE-FAMILY MIDWEST HOMES**




Source: U.S. Census Bureau

CHART 10
**IMPROVEMENTS TO OWNER-OCCUPIED HOUSING UNITS**
Billions of 2006 Dollars




Source: Residential Improvements and Repairs Statistics, U.S. Census Bureau

## I want, therefore I am

It's also useful to peer into people's homes to see what possessions they have and how they live.

Like past generations, people have accumulated more stuff over time, evident in the number and size of garages—the prevalence of three-stall garages in new Midwestern homes rose from 18 percent in 1993 to 32 percent in 2007—and the rapid expansion of the mini- and self-storage sector, which was virtually nonexistent in the 1970s and is now a staple in communities large and small.

Today, more homes are likely to sport amenities that were seen as luxuries a few short decades ago. According to the most recent iteration of an annual survey by the Pew Research Center, only 32 percent of respondents said the microwave oven was a necessity in 1996; 10 years later, 68 percent of respondents said they couldn't get by without one. In 1996, cell phones were not even part of the survey; in 2006, almost half said they were a necessity (see Chart 11).

For regular items on surveys going back to 1973—like clothes dryers, dishwashers and air conditioners—"this march toward necessity has tended to accelerate in the past 10 years," the Pew report noted, adding that income has a direct effect on whether a person views goods and gadgets as necessities rather than luxuries. "The old adage proclaims that necessity is the mother of invention. These findings serve as a reminder that the opposite is also true: invention is the mother of necessity."

Some of this demand stems from the fact that many new electronic devices and household conveniences—cell phones, televisions, microwaves, computers—have become cheaper over time. Regardless, it means that more households can afford items once seen as luxuries.

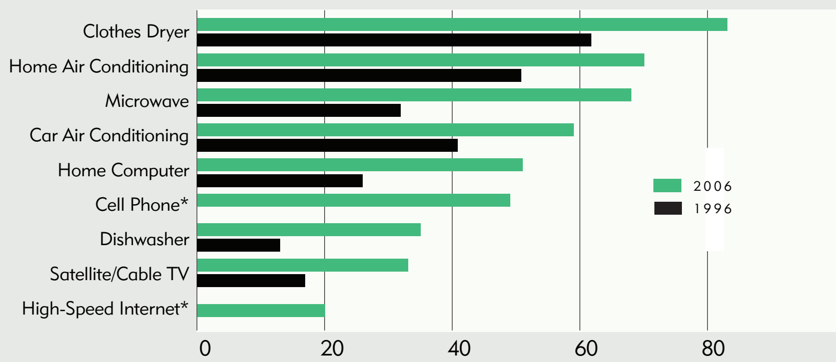
The Consumer Expenditure Survey, from the Bureau of Labor Statistics, has collected detailed data on consumer spending going back to 1984. As you might expect, growth in consumer expenditures was strongest at the top, following income gains. But spending by the middle income quintile (and the middle three quintiles, in fact) rose significantly as well (see Chart 12).

The CES also gives a conservative estimate of consumer spending, particularly over time; it's well established that consumption growth as measured by the CES is much smaller—and likely less accurate—than personal consumption expenditures tallied by the U.S. Bureau of Economic Analysis, based on national income and product accounts, which are used to calculate gross domestic product, among many things. The disadvantage of BEA figures is that expenditures are not broken down by income.

So what are people spending their money on? BEA figures show steep increases in expenditures for housing

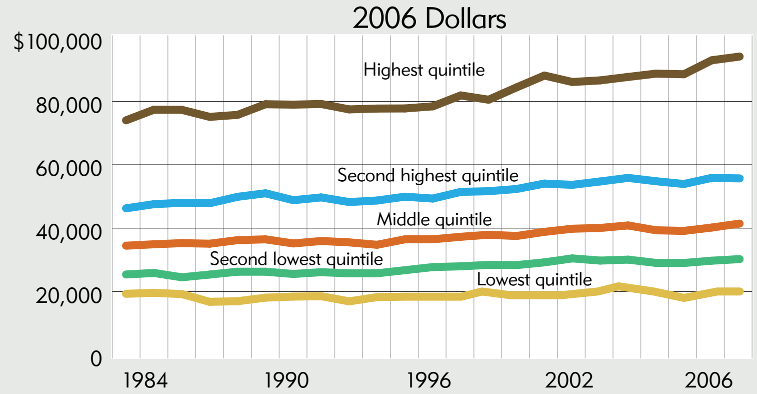
Continued on page 8

CHART 11
**WHAT PEOPLE NEED: PERCENT SAYING ITEM IS A NEED RATHER THAN A LUXURY**



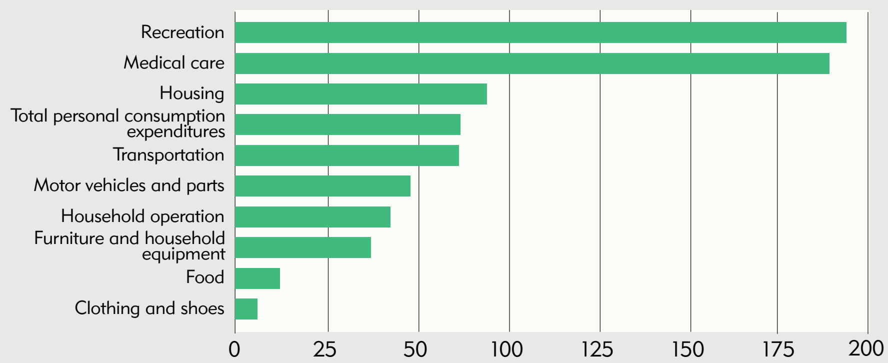

* Item not included in 1996 survey.
Source: Pew Research Center

CHART 12
**CONSUMER EXPENDITURES BY INCOME QUINTILES***
2006 Dollars




*As measured by consumer units, which roughly equate to households.
Source: Bureau of Labor Statistics

CHART 13
**PERCENT CHANGE IN PERSONAL CONSUMPTION EXPENDITURES**
1979-2004, 2004 Dollars per Person




Source: Bureau of Economic Analysis

**Supersize** from page 7

and health care from 1979 to 2004 (the most recent categorical figures available; see Chart 13). Though costs for both have been increasing faster than inflation, consumption is also higher for each—bigger houses with more amenities and more visits to more health care practitioners, be they family doctors, specialists, therapists or dentists.

It's true that the rising cost of health care has pushed it out of reach for some: Nationally, health care coverage has sagged slightly, the number of uninsured has been rising, and workers and their families are paying more for that coverage. However, it's also true that employer costs have gone up even faster, and workers' share of health care premiums has actually dropped since the mid-1990s, according to the Employment Benefits Research Institute.

Still, many people might feel that they're spending more for the same generic health care product. But the data suggest that the care received is leading to better health—not everywhere and in all ways, but overall. These net gains are translating into longer life: Since 1979, life expectancy for males is up five years to more than 75 years. Life expectancy for women has increased less (about two and half years), but exceeds 80 years. That's probably not all due to health care spending, but neither is it likely a coincidence or statistical anomaly: Older people are increasingly saying they are in better health (see Chart 14).

At the other end of the age scale, infant mortality rates have been halved since 1979, dropping from 13.1 to 6.6 per 1,000 births. The effect is hard to overstate. Since 1980, about 4 million people have been born in the United States each year. The reduction in the infant death rate means that every year, 26,000 more infants get a chance at life today than would have without such improvement. For middle-class families, lower infant mortality goes to the heart of improving quality of life.

But paychecks are not just going toward health care and houses. People are also having more fun with their money: Entertainment spending has increased more than any other category. Increased entertainment spending is possible in part because of lower inflation-adjusted expenditures for things like food and clothes. That trend is likely to shift in the opposite direction due to recent higher prices for food, gas and other energy. But at the same time, a declining housing market will likely lower (or at least moderate) annual living expenses, and the past several years have witnessed unprecedented discounts on cars and trucks.

## I'm fine, you're not

Living standards are a squishy concept, because money alone doesn't dictate how comfortable one feels. A household earning $90,000 in rural North Dakota or Montana will likely feel richer than a household bringing home the same figure in the Minneapolis suburbs.

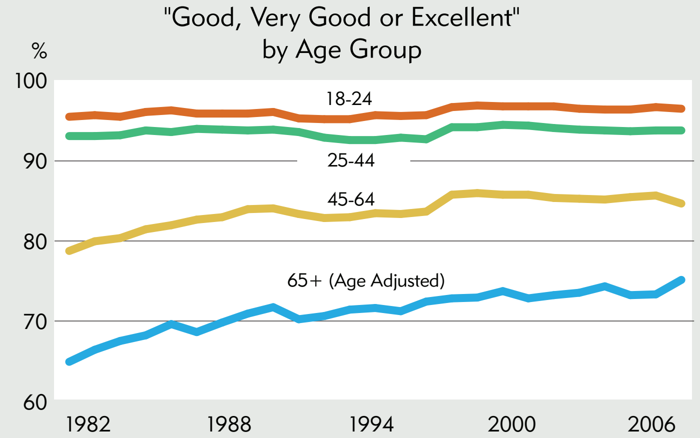
Nor are all expenditures a net benefit to a household in terms of quality of life. As more parents work, daycare expenses often become a large and unavoidable expense with murky net benefits. In other cases, possessions and attainments that have come to define middle class living are simply more difficult to afford. The cost of a college education, for example, has spiraled well beyond the rate of inflation and rising wages (combined, in fact), and many worry about what that means for their children's future. And when common middle class goals—like paying for college out of your own pocket—seem out of reach, it's enough to make people question social progress; never mind the fact that a significantly higher percentage of people go to college today than 30 years ago.

People's opinions of middle class progress also depend on whether they're looking at a mirror or through a window. They tend to be pessimistic about broad social trends, but are nonetheless optimistic about their own situation, as well as their kids' future, according to the most recent iteration of the General Social Survey, one of the longest-running surveys in the country, which began asking about comparative standards of living in the mid-1990s (see Charts 15 and 16).

CHART 14

**SELF-ASSESSMENT OF HEALTH**

"Good, Very Good or Excellent"
by Age Group




Source: Centers for Disease Control

Whether or not accelerating consumerism and material wealth make Americans better off is itself controversial. More households have more debt today than ever before, particularly mortgages and other home-secured debt. Household debt service and financial obligations as percentages of disposable personal income have been steadily rising (see Chart 17). While net household assets and wealth have increased similarly, the current housing foreclosure crisis offers plenty of anecdotes regarding the dangers of mounting household debt.

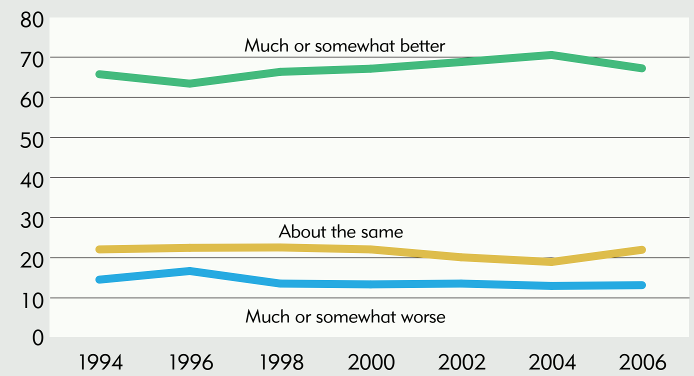
But neither is higher debt a universal problem. People have always borrowed against future income, and the more people earn, the more likely they are to use—and can afford—such financial leverage to enhance their standard of living.

Historically, society has gauged progress by the growth in "things obtained"—whether it be housing, health care, education, entertainment or sundry consumer goods and services—because people tend to purchase things that make life more convenient, pleasurable and productive. And virtually across the board, the middle class is consuming more of everything, which makes the notion of a stagnant middle class an argument that doesn't fit well in the garage. **f**

CHART 15

**COMPARED WITH THEIR PARENTS**

Percent Who Expect Their Living Standard to Be ...

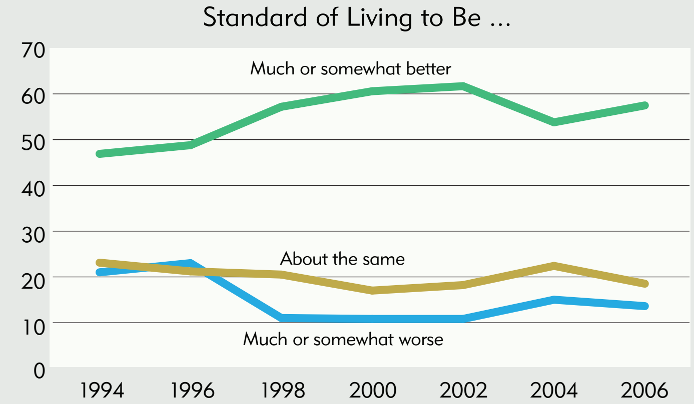



Source: General Social Survey

CHART 16

**COMPARED WITH THEMSELVES**

Percent Who Expect Their Children's
Standard of Living to Be ...

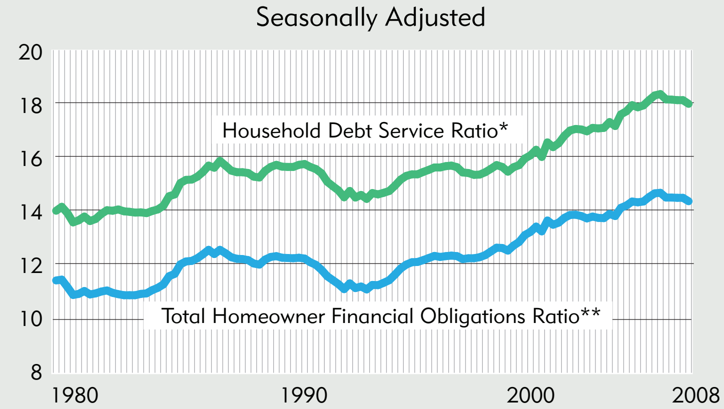



Source: General Social Survey

CHART 17

**HOUSEHOLD DEBT SERVICE AND OTHER FINANCIAL OBLIGATIONS**

As a Percent of Disposable Personal Income
Seasonally Adjusted




*The household debt service ratio is an estimate of the ratio of debt payments to disposable personal income. Debt payments consist of the estimated required payments on outstanding mortgage and consumer debt.

**The total homeowner financial obligations ratio adds automobile lease payments, rental payments on tenant-occupied property, homeowners' insurance and property tax payments to the household debt service ratio.

Source: Board of Governors of the Federal Reserve System