



Living Standards in the United States in a Historical and Comparative Perspective: Some Results from the LIMEW Project

Ajit Zacharias, Edward Wolff, Thomas Masterson and Selçuk Eren

Levy Economics Institute of Bard College

Prepared for the Hyman P. Minsky Conference on the State of the US and World Economies, New York City, April 17, 2013



Economic Well-Being

- Our concept:

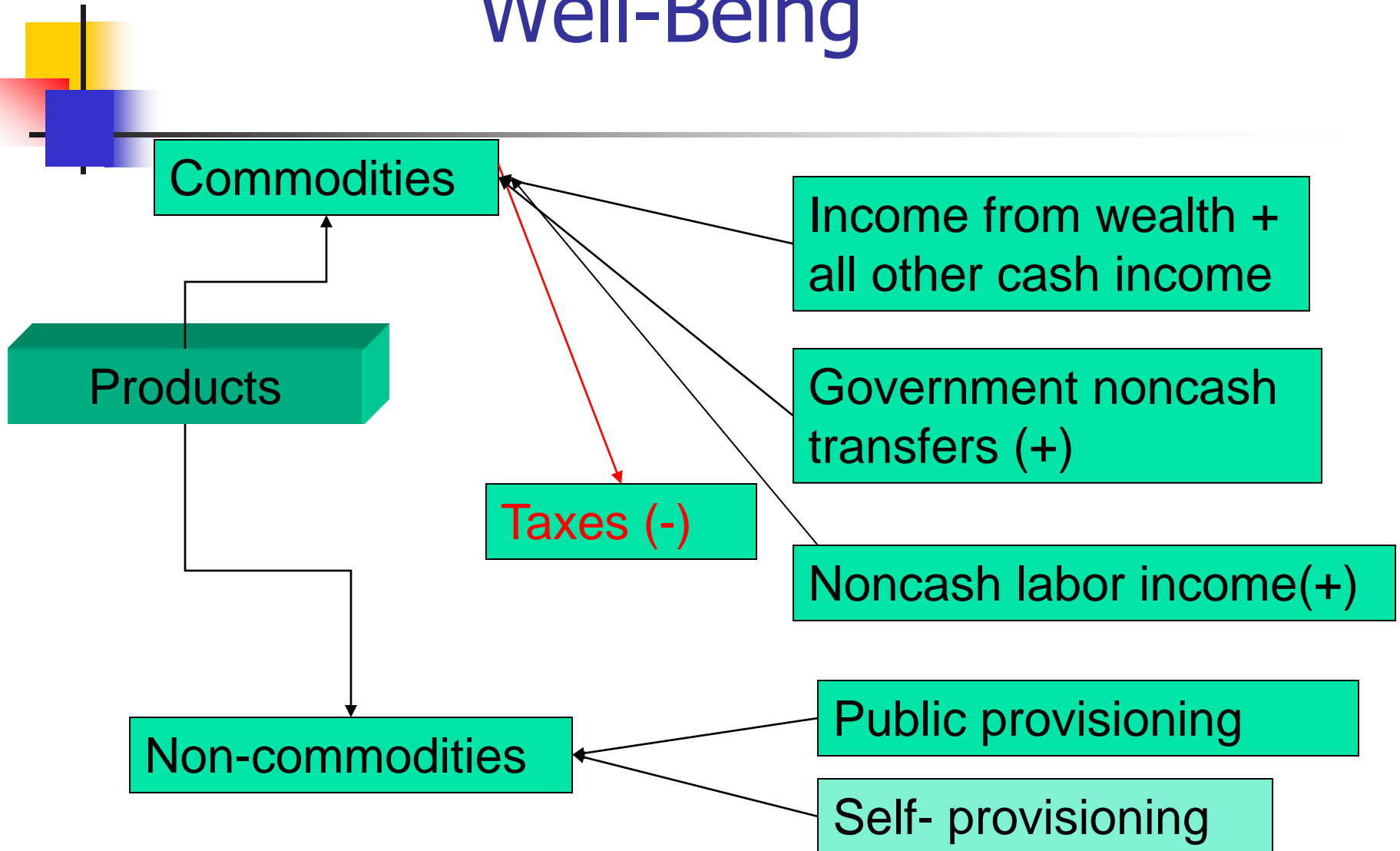
The command households have over the products produced in an economy over a given period of time.

- The Canberra report:

A household's economic well-being can be expressed in terms of its access to goods and services.

“Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences and amusements of life.” (Adam Smith)

Major Components of Economic Well-Being





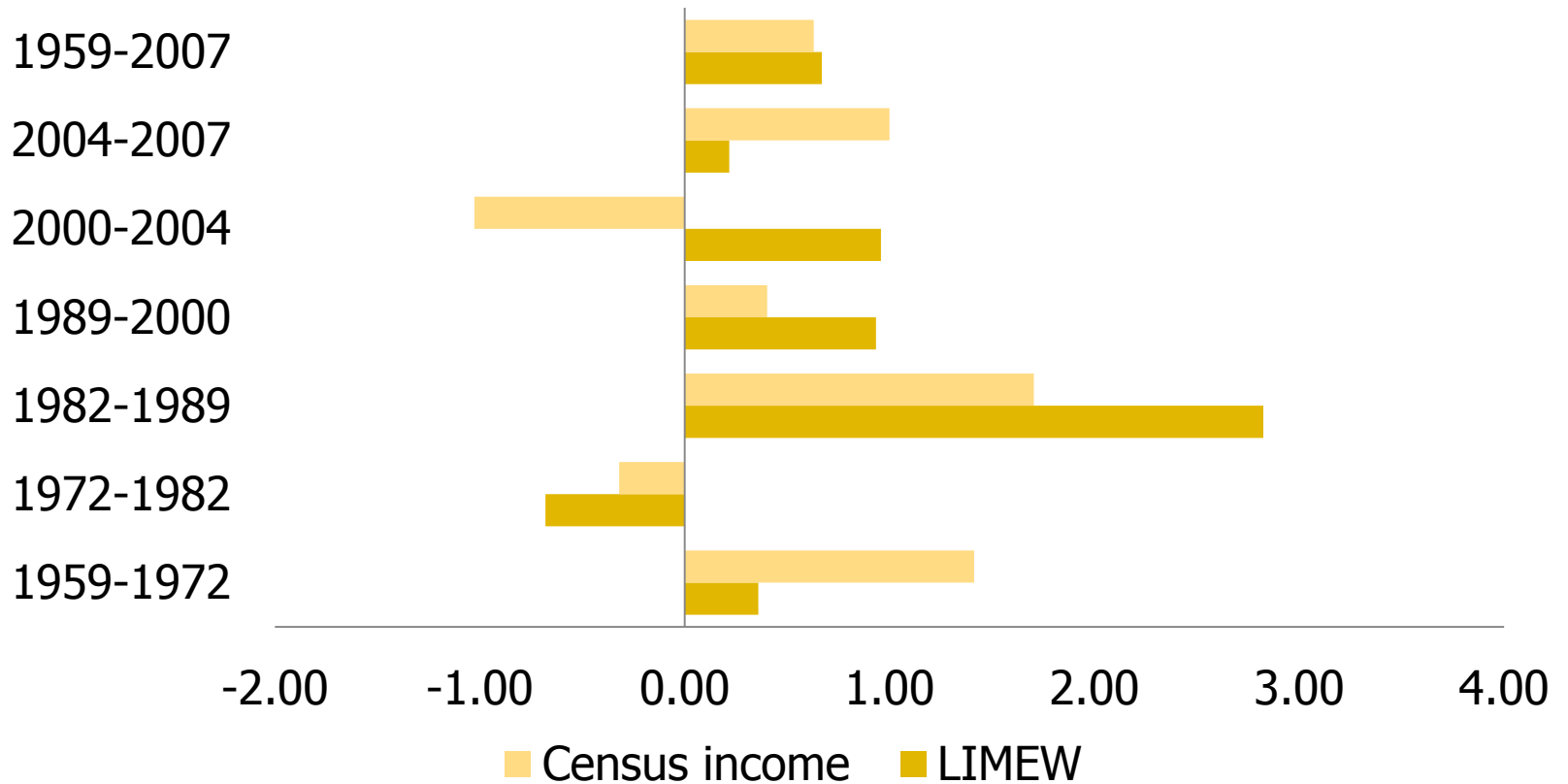
Measurement Framework

Gross money income –
Govt. cash transfers –
Property income

Transfers + Public
consumption - Taxes

Base income + Imputed rent (homes) + Imputed annuity (nonhome assets) - annuitized value of debt +	
Net government expenditure +	
Household Production	=
LIMEW	

Trends in economic well-being in the U.S. (annual percentage change in inflation-adjusted median values for households)



Contribution by Component to the Change in LIMEW and MI of the Middle Quintile in the US, 1959-1989 (percent)

	1959-1972		1972-1982		1982-1989	
	LIMEW	MI	LIMEW	MI	LIMEW	MI
Base Income	7.1	10.5	-6.7	-7.0	10.7	12.4
Income from wealth	2.3	2.2	-0.9	2.2	1.9	0.6
Home wealth	1.6		-0.5		0.5	
Nonhome wealth	0.7		-0.3		1.4	
Net government expenditures	4.2	8.0	4.1	3.9	0.5	-0.3
Transfers	5.3	8.0	4.1	3.9	0.7	-0.3
Public consumption	4.5		-0.6		2.0	
Taxes	-5.6		0.6		-2.2	
Household production	-8.5		-3.2		8.5	
Total	5.2	20.7	-6.7	-0.9	21.5	12.7

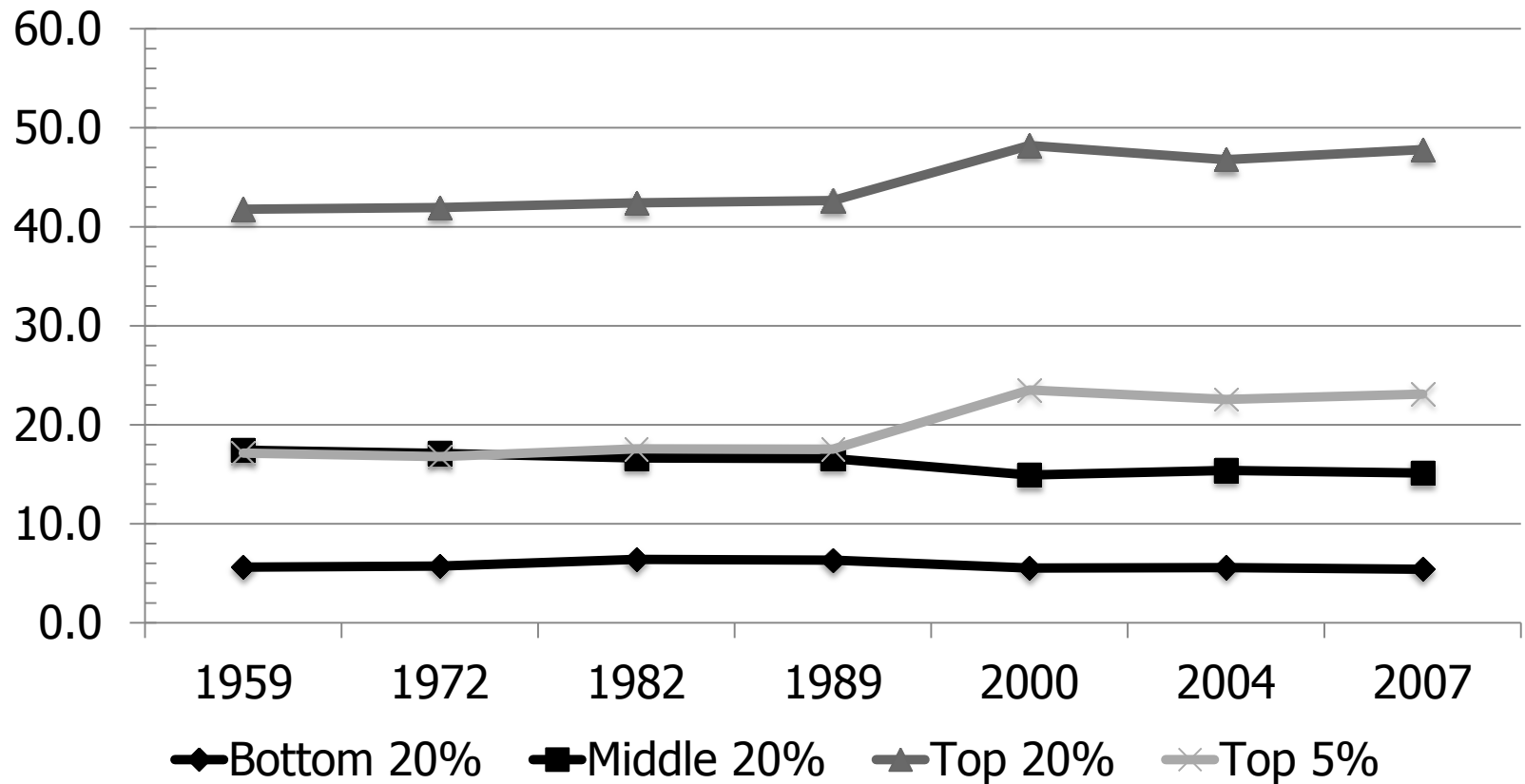
Contribution by Component to the Change in LIMEW and MI of the Middle Quintile in the US, 1989-2007 and 1959-2007 (percent)

	1989-2000		2000-2004		2004-2007		1959-2007	
	LIMEW	MI	LIMEW	MI	LIMEW	MI	LIMEW	MI
Base Income	6.9	6.0	-3.0	-3.6	1.3	2.5	16.6	23.4
Income from wealth	1.5	-1.9	-1.1	-1.3	0.4	0.4	4.1	1.7
Home wealth	-0.6		-0.6		-0.1		-0.3	
Nonhome wealth	2.1		-0.4		0.5		4.4	
Net government expenditures	0.6	3.1	6.0	3.3	-0.3	-2.2	17.1	18.0
Transfers	2.0	3.1	2.7	3.3	1.3	-2.2	17.9	18.0
Public consumption	1.6		0.6		0.8		9.5	
Taxes	-3.0		2.7		-2.3		-10.3	
Household production	1.8		2.0		-0.9		0.1	
Total	10.8	7.2	3.9	-1.6	0.5	0.6	38.0	43.2

Share of Each Quintile and the Top 5 percent in Aggregate LIMEW (in percent), 1959 – 2007

	Quintiles					
	1	2	3	4	5	Top 5%
1959	5.6	12.0	17.4	23.2	41.8	17.1
1972	5.7	11.7	17.1	23.5	41.9	16.8
1982	6.4	11.6	16.6	22.9	42.4	17.6
1989	6.3	11.6	16.6	22.9	42.6	17.5
2000	5.5	10.3	14.9	21.1	48.2	23.5
2004	5.6	10.5	15.4	21.7	46.8	22.6
2007	5.4	10.4	15.1	21.3	47.8	23.1

Shares in aggregate LIMEW (in percent), 1959-2007





Economic Inequality by Measure, 1959 to 2007 (Gini coefficient x 100)

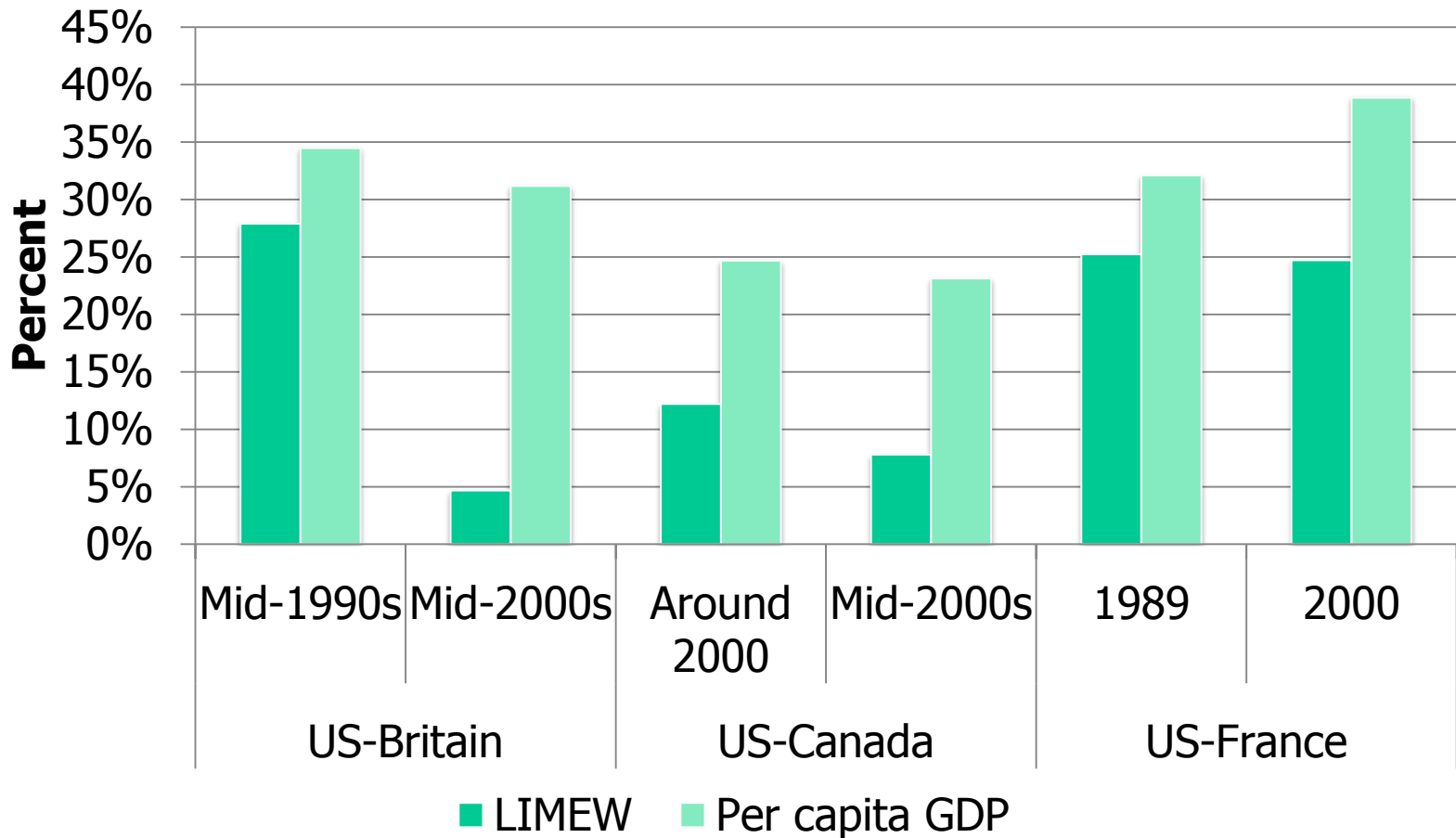
	1959	1972	1982	1989	2000	2004	2007
LIMEW	36.1	36.3	36.0	36.3	42.3	41.0	42.0
MI	40.3	40.7	40.9	41.8	46.0	46.5	46.2

Decomposition of Inequality by Income

Source: LIMEW (Gini points x 100)

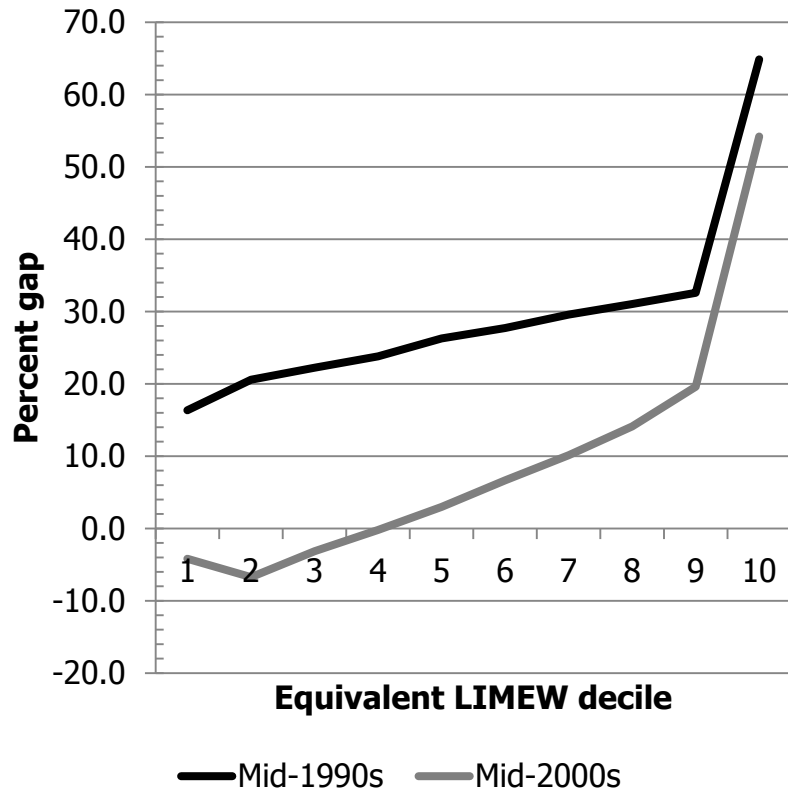
	1959	2000	2007	Change, 1959 to 2007
LIMEW				
Base money income	19.7	20.9	19.4	-0.4
Income from wealth	6.4	17.1	16.5	10.1
Imputed rent	1.2	1.8	1.5	0.4
Annuities	5.2	15.3	14.9	9.7
Net government expenditures	-1.4	-3.9	-1.8	-0.4
Transfers	0.8	1.0	1.4	0.6
Public consumption	1.8	2.4	2.7	1.0
Taxes	-3.9	-7.3	-5.9	-2.0
Household production	11.4	8.2	8.0	-3.4
Total	36.1	42.3	42.0	5.9

U.S. lead in per capita GDP and median equivalent LIMEW for households

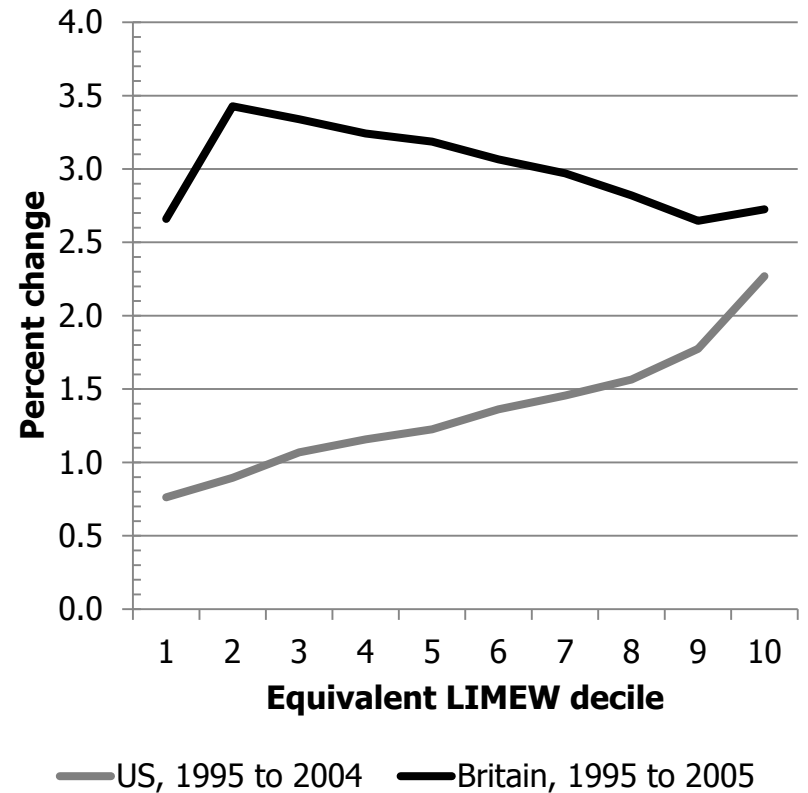


Gaps across the distribution: US-Britain

Gaps (US–Britain, percent)

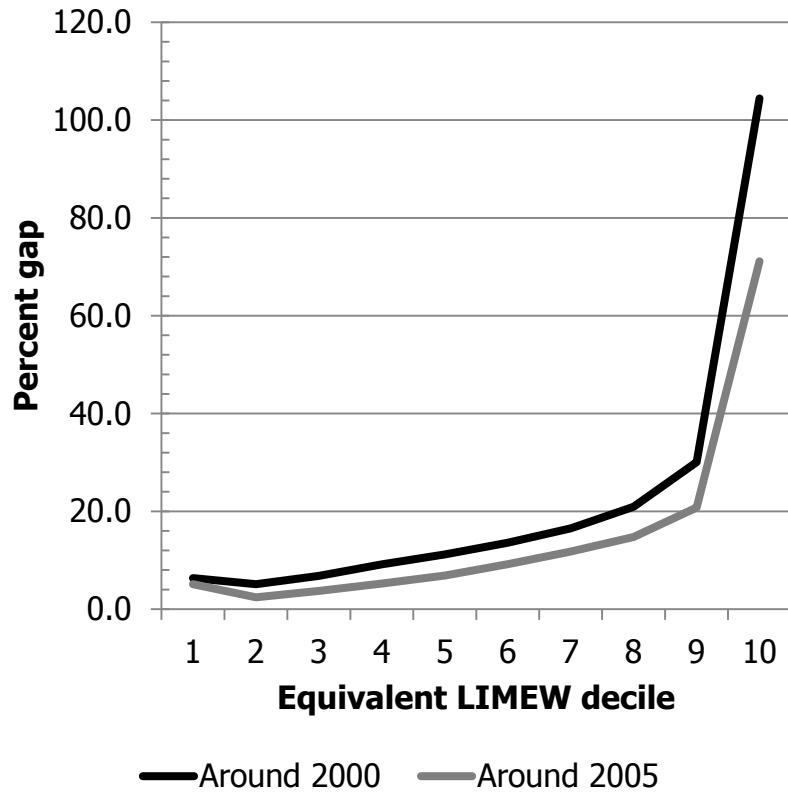


Annual percent change

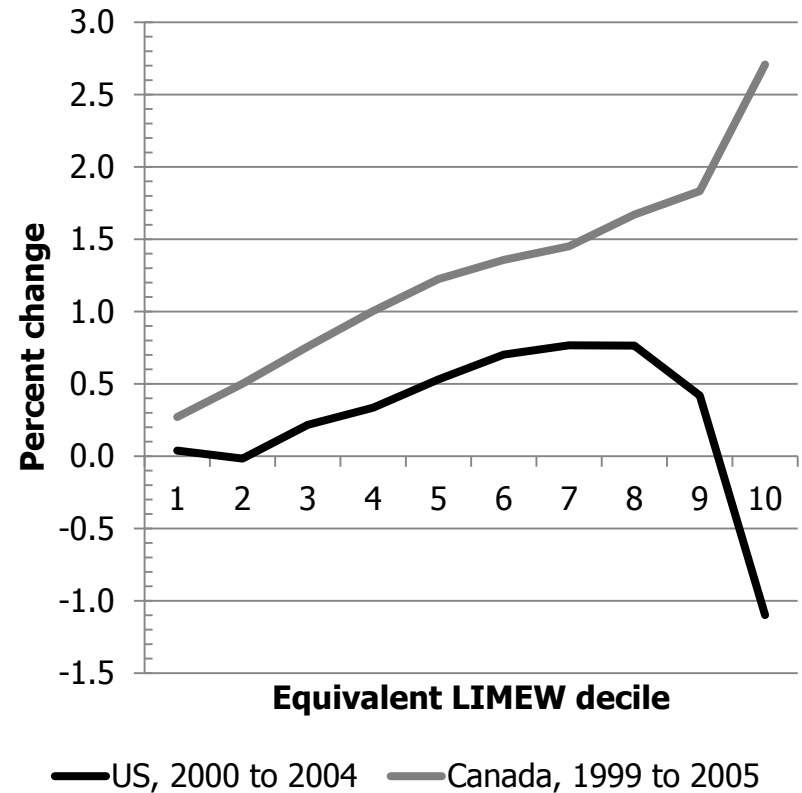


Gaps across the distribution: US-Canada

Gaps (US-Canada, percent)

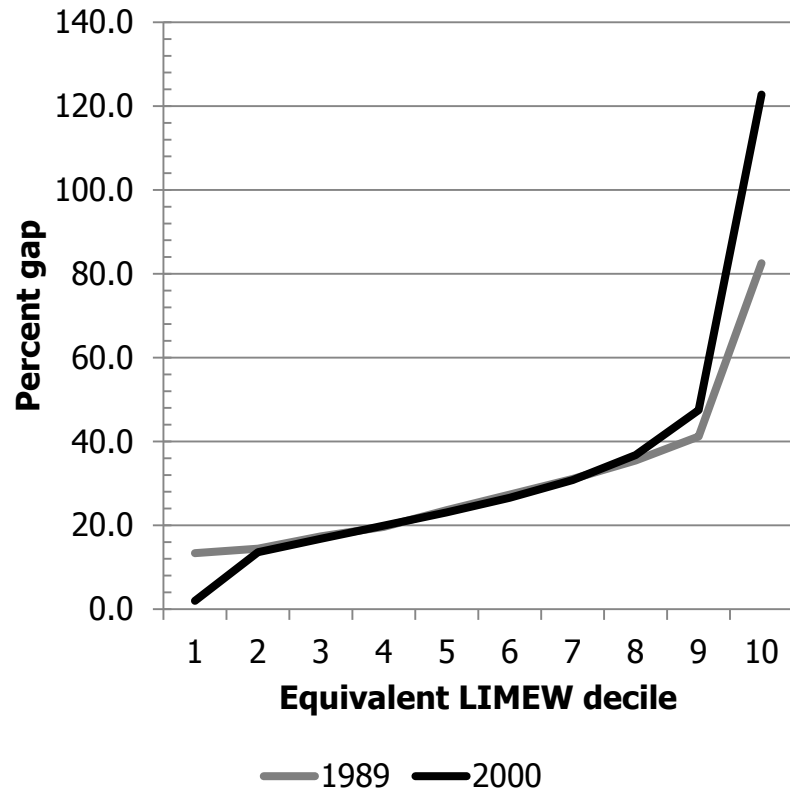


Annual percent change

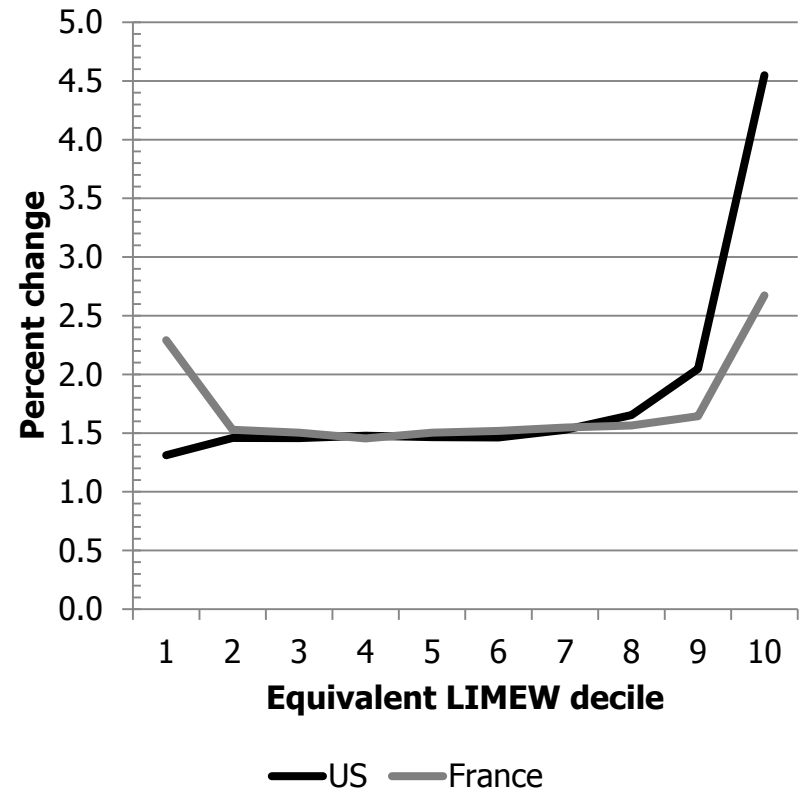


Gaps across the distribution: US-France

Gaps (US–France, percent)



Annual percent change



US-Britain comparison: Middle quintile

	Mid-1990s		Mid-2000s		US-to-Britain ratio	
	US	Britain	US	Britain	Mid-1990s	Mid-2000s
Base income	47,491	33,505	53,703	41,181	1.42	1.30
Income from wealth	5,623	3,148	4,106	3,987	1.79	1.03
Net government expenditures	9,600	6,611	10,539	14,595	1.45	0.72
Transfers	12,521	16,545	14,508	23,959	0.76	0.61
Public consumption	9,258	5,031	11,204	8,095	1.84	1.38
Taxes	-12,179	-14,964	-15,174	-17,459	0.81	0.87
Household production	17,886	20,186	22,176	26,534	0.89	0.84
LIMEW	80,601	63,450	90,524	86,296	1.27	1.05
<i>Hours of household production</i>	<i>2,420</i>	<i>2,339</i>	<i>2,538</i>	<i>2,569</i>	<i>1.03</i>	<i>0.99</i>

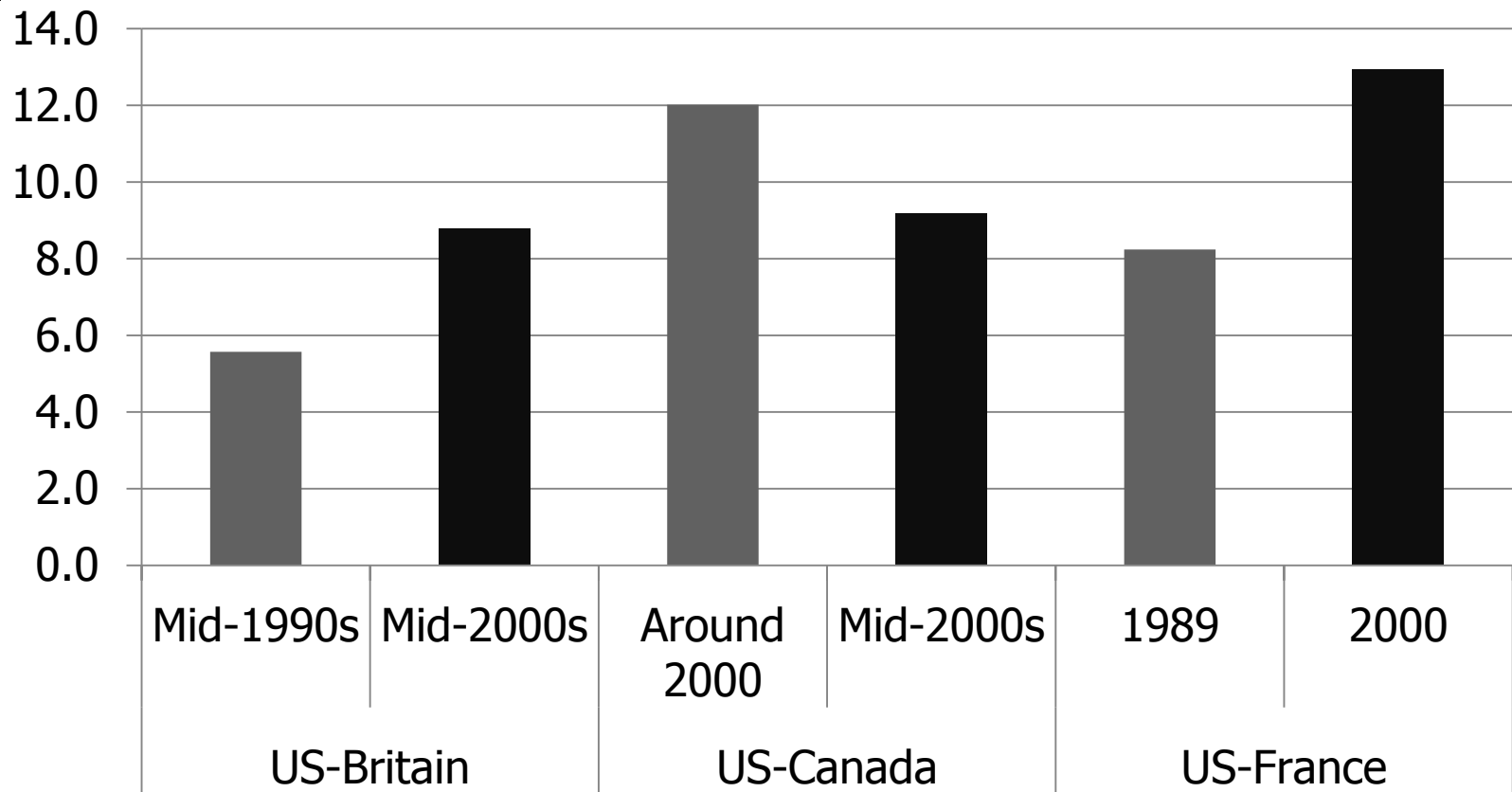
US-Canada comparison: Middle quintile

	Around 2000		Around 2005		US-to-Canada ratio	
	US	CA	US	CA	Around 2000	Mid-2000s
Base income	54,165	40,377	51,150	44,549	1.34	1.15
Income from wealth	9,494	9,936	8,303	9,784	0.96	0.85
Net government expenditures	6,479	6,363	11,248	9,135	1.02	1.23
Transfers	12,110	15,249	15,071	17,017	0.79	0.89
Public consumption	10,407	10,785	11,220	12,164	0.96	0.92
Taxes	-16,037	-19,671	-15,043	-20,046	0.82	0.75
Household production	22,041	25,300	23,793	23,955	0.87	0.99
LIMEW	92,179	81,978	94,495	87,424	1.12	1.08
<i>Hours of household production</i>	<i>2,603</i>	<i>2,491</i>	<i>2,704</i>	<i>2,443</i>	<i>1.05</i>	<i>1.11</i>

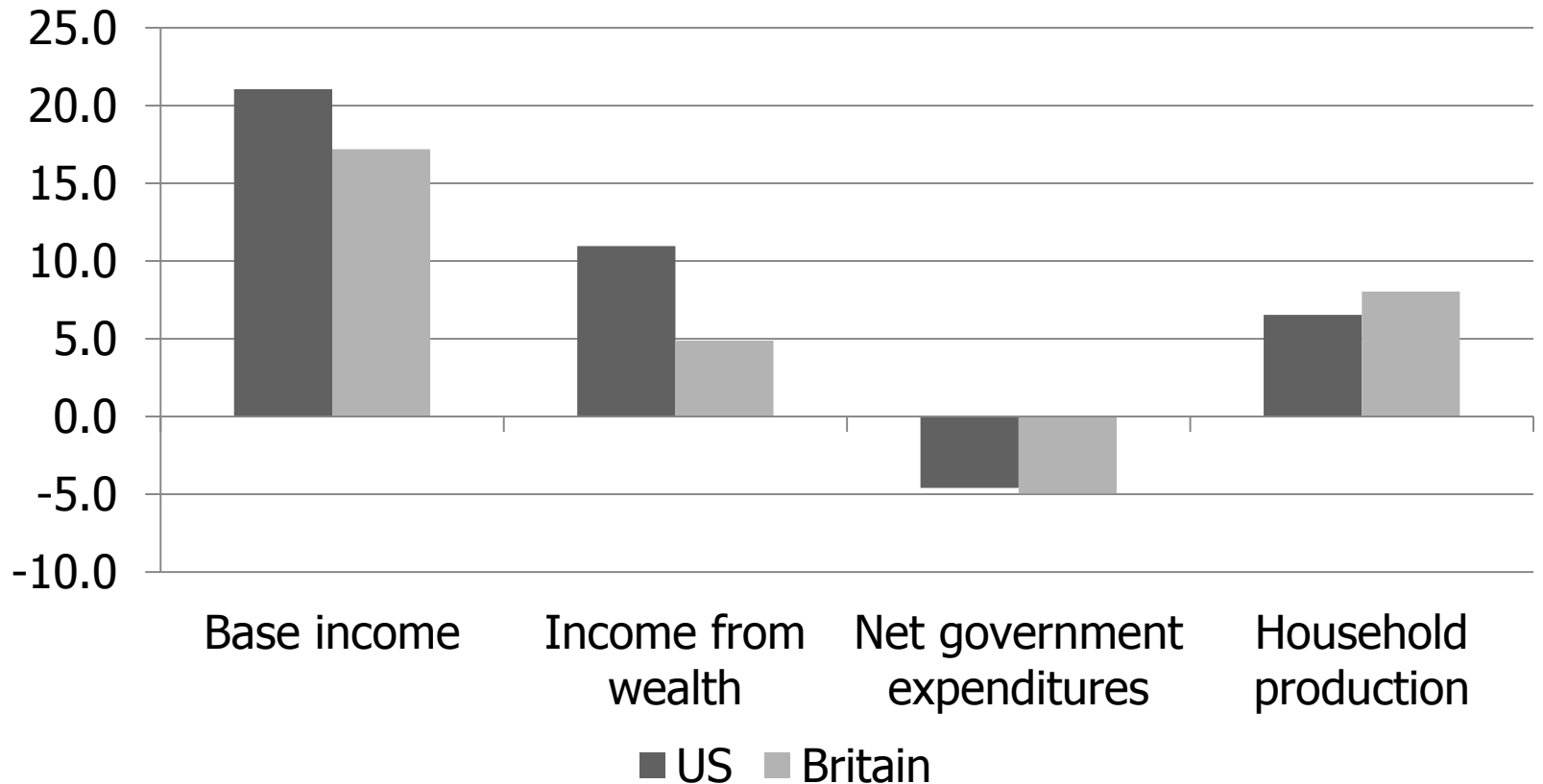
US-France comparison: Middle quintile

	1989		2000		US-to-France ratio	
	US	FR	US	FR	1989	2000
Base income	46,668	23,003	55,952	30,663	2.03	1.82
Income from wealth	6,043	6,358	7,114	8,349	0.95	0.85
Net government expenditures	6,546	11,689	6,524	11,784	0.56	0.55
Transfers	10,120	18,576	12,172	21,546	0.54	0.56
Public consumption	8,554	6,833	10,384	8,155	1.25	1.27
Taxes	12,127	13,720	16,032	17,917	0.88	0.89
Household production	18,616	20,978	21,782	22,357	0.89	0.97
LIMEW	77,873	62,028	91,372	73,154	1.26	1.25
<i>Hours of household production</i>	<i>2,483</i>	<i>2,315</i>	<i>2,581</i>	<i>2,073</i>	<i>1.07</i>	<i>1.24</i>

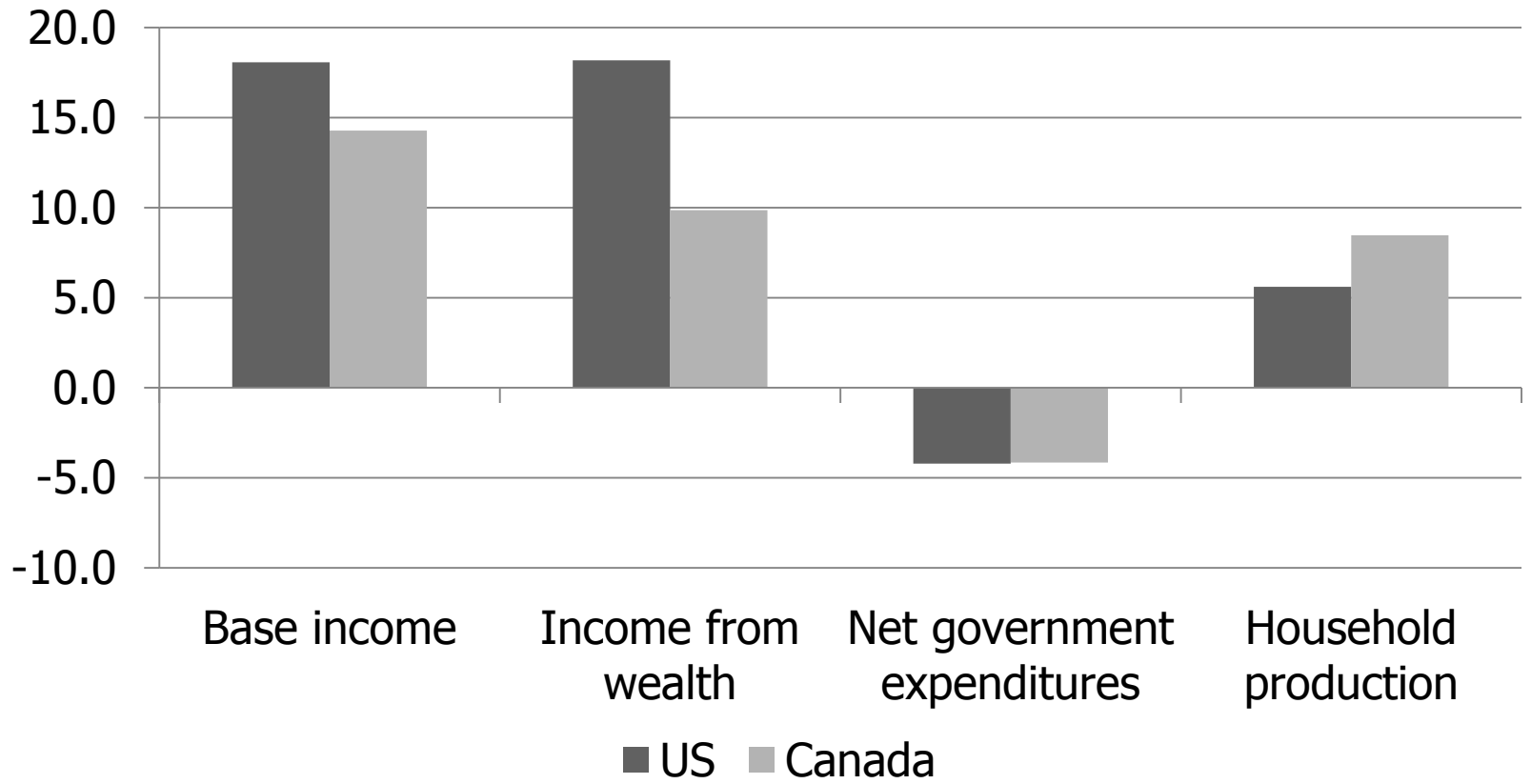
U.S. lead in inequality (Gini points)



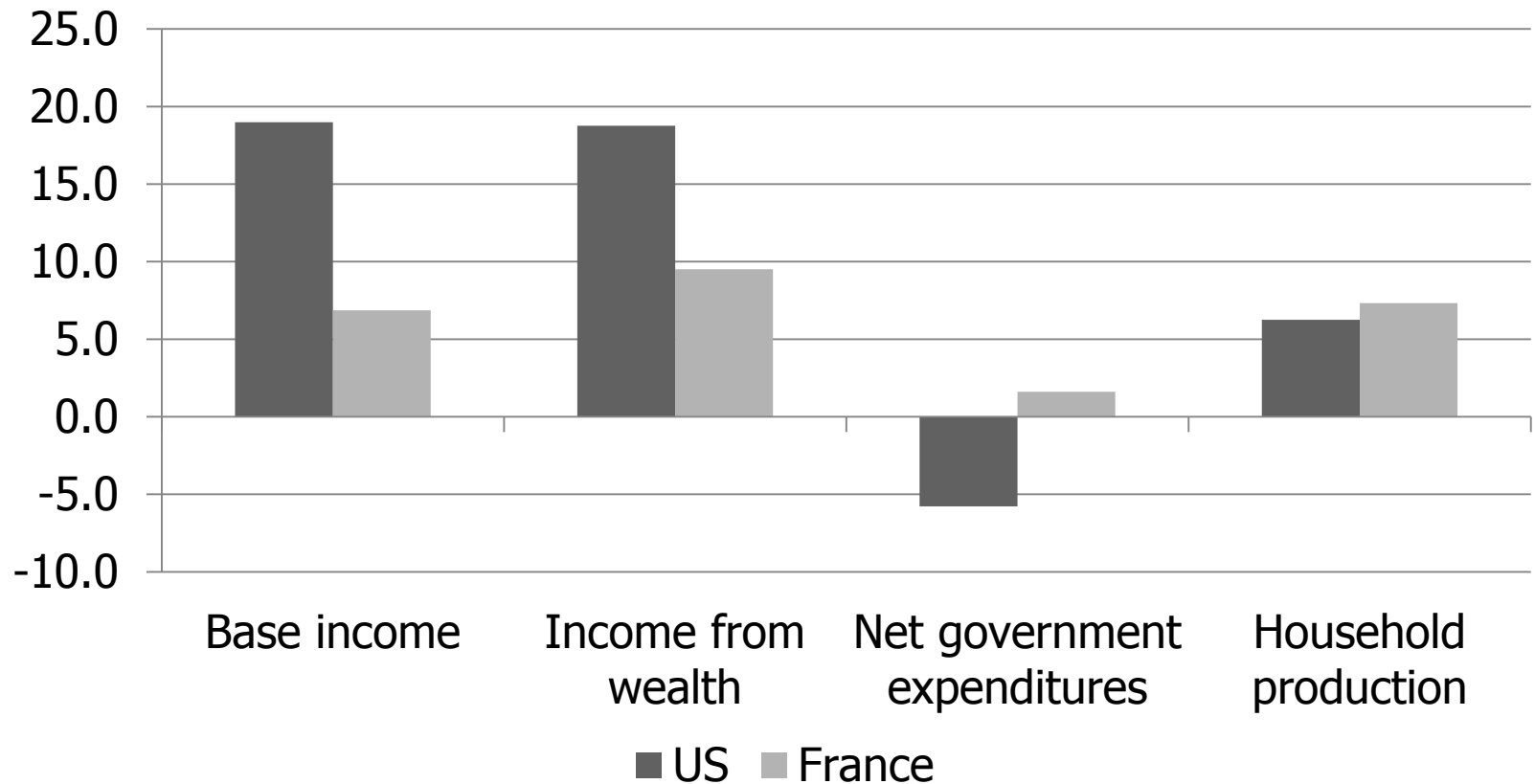
Gini decomposition United States and Britain, around 2005 (contribution of each component to the Gini of equivalent LIMEW, in Gini points)



Gini decomposition United States and Canada, around 2005 (contribution of each component to the Gini of equivalent LIMEW, in Gini points)



Gini decomposition United States and France, 2000 (contribution of each component to the Gini of equivalent LIMEW, in Gini points)





Summing up

- In the US:
 - Median economic well-being grew very slowly between 1959 and 2007
 - In the 2000s, only an increase in transfers maintained well-being, making up for the drop in base income and income from wealth
 - Inequality increased, driven by non-home wealth



Summing up

- The US in comparison with other countries:
 - Median economic well-being converged
 - Most in Britain due to transfers
 - In Canada due to base income
 - In France hardly at all
 - Inequality considerably higher in the US
 - Gap increased for Britain and France and decreased for Canada



Summing up

- Policy:
 - Transfers are very important, not just to the poor, but to the 'middle class', especially during the 2000s
 - Public consumption, especially on education, is also a vital component of households' economic well-being