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The Middle Class: Is It Really Vanishing?

Frank Levy

INEQUALITY, a word used in conjunction with the poor during most of the postwar period, has taken on a broader meaning. Several analysts now argue that not only the poor but the middle class itself is in trouble.[1] There is no shortage of casual observation for this conclusion. Since 1980 perhaps 7 percent of all workers have been displaced, their plants closed or their jobs abolished. The majority are blue-collar workers, most of whom had to take substantial pay cuts. At the same time few days go by without another story about a young investment banker who is making $100,000 or more well before his or her 30th birthday.

When one moves from the individual example to economy-wide statistics, the evidence for a declining middle class is weaker. The U.S. Census Bureau has published annual estimates of the distribution of family income since 1947. They show a highly unequal distribution, but over almost 40 years this inequality has remained fairly stable (see table 1). In 1984, for example, the richest one-fifth of families received $9.15 of income for every $1.00 received by the poorest one-fifth. But as Gary Burtless notes in the previous article, this ratio never fell below $7.20 to $1.00, even in the boom of the late 1960s.[2] And the middle of the distribution has been more stable than the extremes: The middle three-fifths of families have received between 52 and 54 percent of all family income in every postwar year. How is this stability to be reconciled with fears of a vanishing middle class?

An answer begins with a point of perspective. It is easy to imagine the richest one-fifth of families — the group that received 42.9 percent of all family income in 1984 — as a group of real estate moguls and arbitrageurs, all with at least six-figure incomes. The image is misleading. In 1984 the richest one-fifth included all families with incomes of $45,300 or more, a standard that counts income from husbands, wives, and all other family members (see table 2).

If this number seems low, it says something about reference groups. The United States today contains 64 million families headed by a wide variety of people: lawyers, computer repairmen, single 19-year-old women, 68-year-old retirees in Oregon, and so on. When we judge our own incomes, we often think in terms of our immediate peers — for example, young-to-middle-aged professionals; the top quintile of this group today begins at something closer to $65,000.

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Behind the Statistics: Stagnant Incomes . . .

The surprisingly low starting point for the richest quintile also provides the first clue in discovering whether the middle class is really shrinking: In recent years the incomes of U.S. workers and families have stagnated badly. Viewed in terms of income growth, the post-World War II years can be divided into two periods.

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Table 1.
Distribution of Family Income

Year	Share of All Family Income Going to: Poorest ⅕ of Families	Middle ⅗ of Families	Richest ⅕ of Families
1947	5.0%	52.0%	43.0%
1959	4.9	54.0	41.1
1969	5.6	53.8	40.6
1973	5.5	53.4	41.1
1979	5.2	53.1	41.7
1984	4.7	52.4	42.9

Source: Bureau of the Census, *Current Population Reports,* series P-60, no. 151, table 12.

Table 2.
Income Levels Defining the 1984 Family Income Distribution

First quintile ends at:	$12,489
Second quintile ends at:	$21,709
Third quintile ends at:	$31,500
Fourth quintile ends at:	$45,300
Richest 5 percent begins at:	$73,230*

*Fifth quintile begins where fourth quintile ends. Top 5 percent is contained in fifth quintile.

Source: Bureau of the Census, *Current Population Reports,* series P-60, no. 151, table 12.

Table 3.
Composition of the Lowest Quintile by Family Type

Year	Head 65 or over (both sexes)	Headed by Woman Under 65	Headed by Couple Under 65
1949	25%	15%	60%
1970	35	29	36
1984	24	35	41

Source: Author's tabulations of data in the Current Population Survey and 1950 census.

From 1945 through 1973 real wages and salaries grew 2.5–3.0 percent a year. In 1953 the average 40-year-old man made $15,500 (all income figures are in 1984 dollars). In 1973 the average 40-year-old man made $28,120. Then the steady wage growth stopped.

At the end of 1973 the Organization of Petroleum Exporting Countries substantially raised its oil prices. The effect was to transfer a large piece of U.S. purchasing power abroad, and by 1975 real U.S. wages had fallen by about 5 percent. More important, the oil price increase marked the beginning of a dramatic slowdown in the growth of U.S. productivity — output per worker. Rising productivity is the ultimate source of rising wages. For most of the postwar period, worker productivity grew 2.5–3.5 percent a year. But in the decade after 1973 productivity grew at only 0.9 percent a year, a development that even now is not completely understood.

The income loss from the 1973–74 oil shock followed by slow-growing productivity meant that real wages did not regain their 1973 levels until 1979. Then the Iranian revolution and the second OPEC price increase began the cycle again. The result was more than a decade of declining wages. Had incomes continued to grow moderately after 1973, the average 40-year-old man in 1984 would have earned about $35,000. In fact, he earned $24,600 — $3,620 less in real terms than the average 40-year-old man in 1973. Other age groups experienced similar income losses.[3]

Family incomes did not suffer as much as the incomes of individual workers. Between 1973 and 1984 the median income of 40-year-old men fell by 13 percent, but median family income — the income at the "center point" of the family income distribution — fell by only 6 percent, from $28,200 to $26,400. This more moderate decline reflected two demographic trends. One was the big increase in the number of working wives and in families that depended on two incomes rather than one. The second trend was the rapid rise in age at first marriage, which kept many young people from forming what would have been moderate-income families.[4]

A third trend (of which young singles were a part) was the continuing decline in the birthrate, which began in the mid-1960s. Fewer children did not affect family incomes directly, but they increased income per capita within families by lowering the number of capitas that had to be fed. (The issue of birthrates is discussed below).

Nonetheless, the decline in median family income over a sustained period was something new — and unexpected — in post-World War II America. In 1947 median family income stood at $14,100 (in 1984 dollars). It grew fairly smoothly for the next 26 years, doubling to $28,200 in 1973, before it began its slow drop.

This decline helps explain why the middle class appears to be shrinking. Being "middle class" has always had several meanings. One meaning involves being in the middle of the income distribution. A second meaning involves being able to afford a middle-class standard of living as the term is defined and redefined. Between 1945 and 1973 the two meanings were almost interchangeable. The middle of the income distribution got a slightly larger share of the pie but, more important, the pie itself grew rapidly. The whole distribution moved to higher incomes, and families in every quintile experienced substantial economic progress (see table 1 and figure 1).

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Since 1973 the middle share has deteriorated to the level of the late 1940s, *and* average incomes have declined. As a result the bottom five-sixths of the income distribution have lost ground absolutely as well as relatively (see box, p. 20). Being in the middle of the income distribution no longer guarantees a middle-class lifestyle as it has come to be defined. The middle of the income distribution is not getting much smaller, but it is growing a little poorer — despite more two-earner families.

. . . And Changing Demographics

Declining incomes are one explanation for fears of a vanishing middle class. A second explanation involves shifting demographics in the income distribution's lower half. Over the past 15 years the average position of elderly families has improved, moving significant numbers of them from the bottom of the income distribution to the lower middle. Younger families took their vacated places.

The improved position of the elderly reflects, in large degree, the effect of Social Security. In 1972 Congress tied Social Security benefits to the Consumer Price Index to guarantee protection against inflation. At that time workers' wages had increased faster than inflation for almost three decades. Giving the elderly an indexed benefit seemed an equitable and inexpensive proposition. Congress could not know that one year later, inflation-adjusted wages would begin more than a decade of decline. In the context of this decline, indexed Social Security benefits (and greater private pension coverage among more recent retirees) meant that successive waves of the elderly had modestly increasing incomes.

At the same time the position of many younger families worsened. Part of the deterioration reflected changes in

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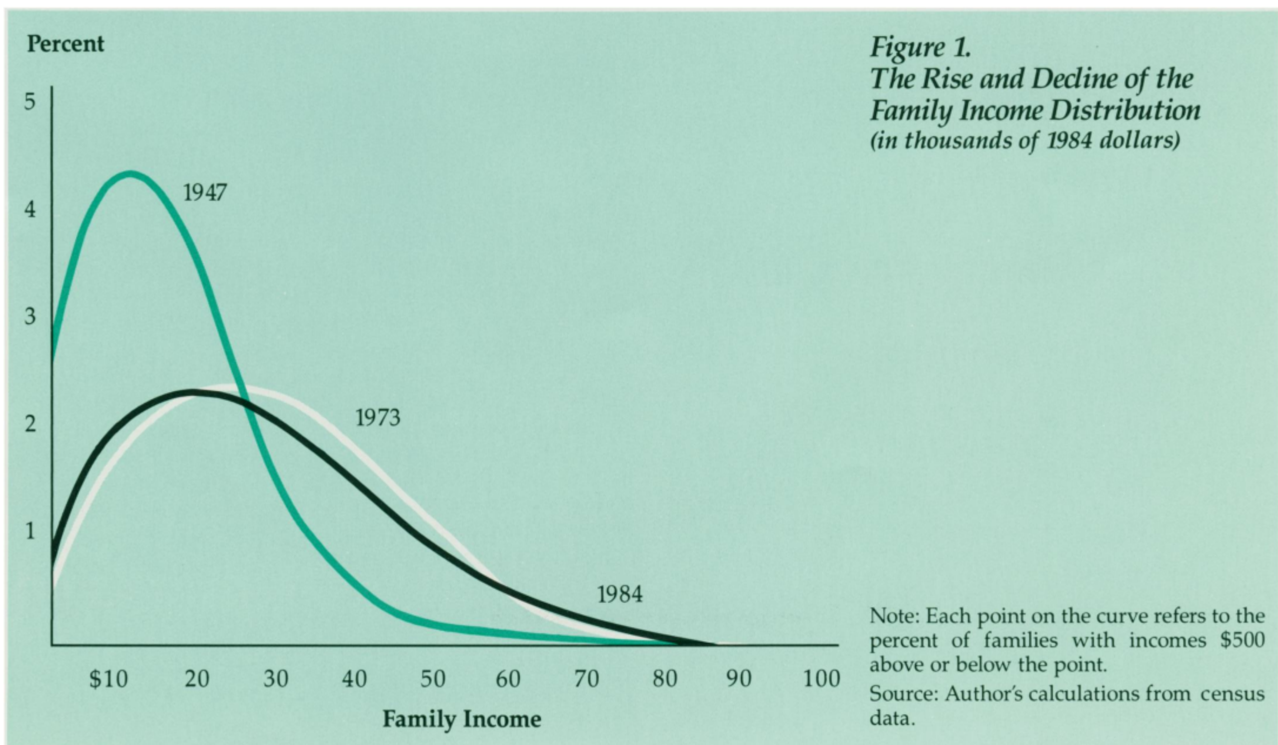

Figure 1.
The Rise and Decline of the Family Income Distribution
(in thousands of 1984 dollars)

Note: Each point on the curve refers to the percent of families with incomes $500 above or below the point.

Source: Author's calculations from census data.

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"But since the 1973–74 oil price increase, income growth has stagnated while mobility within the income distribution has diminished. To this point, we have been able to maintain 'the middle-class dream' through demographic adjustments—more two-earner couples, postponed marriages, and low birthrates. These adjustments can take us only so far."

family structure. The proportion of families under age 65 headed by a woman rose from 12 percent to 16 percent. Among families with children under age 18, the proportion headed by a woman rose from 15 percent to 21 percent. As husband-wife families increasingly relied on two earners, these single-parent families were at a big economic disadvantage. Today fully one-half of them are in the distribution's bottom quintile. Since 1980 significant numbers of two-parent families who were hurt by the 1980–82 recession and its aftermath have also fallen to the bottom of the income distribution (see table 3).

These movements compounded by two other trends, later marriages and lower birthrates, had a profound effect on children. Throughout the 1950s and 1960s the poorest one-fifth of families included 15–17 percent of the nation's children. In 1984 those families contained 24 percent of the children. Children's downward slide in the distribution reflected both the numbers of moderate-income young people who did not have children and the economic troubles of the families who did.[5]

In one sense, these rearrangements of groups within the income distribution affected our perceptions of inequality more than the level of inequality itself. Poor children are more visible in day-to-day life (and in the media) than recent retirees who are doing all right. We see more of what is going wrong than of what is going right, and we draw too pessimistic a conclusion.

In a different sense, these rearrangements do work to increase inequality, not in any one year but on a "life-cycle" basis. Imagine, for example, a young husband and wife who begin married life with income in the lower middle of the distribution. As they reach their peak earning years, their family income increases relative to other families, and they move toward the higher end of the distribution. When they retire, they move toward the bottom of the distribution. If all families followed this pattern, income inequality

Changes in Income Distribution

Since 1973 the family income distribution has changed in two, overlapping ways. First, inequality has increased: the *percentage share* of income going to the middle and bottom of the distribution has declined slightly. Second, average incomes have declined slightly and so the whole distribution has stopped moving to higher income levels as it did during the previous 26 years (figure 1).

The combined effect of these two changes is captured in calculations by Katherine Bradbury, who shows that between 1973 and 1984:

—The proportion of families with incomes over $50,000 increased from 14.9 percent to 15.6 percent

—The proportion of families with incomes below $20,000 increased from 32.1 percent to 36.4 percent

—The proportion of families with incomes between $20,000 and $50,000 fell from 53.0 percent to 47.9 percent (where all incomes are in 1984 dollars).

Source: Katherine L. Bradbury, "The Shrinking Middle Class," *New England Economic Review,* September/October 1986, pp. 41–45.

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in any one year would have less meaning.

Mobility within the income distribution was never this perfect, but the rearrangements at the bottom of the income distribution have diminished it further. When a middle-class family retires, private pensions and indexed Social Security now keep it from falling as far down in the distribution as it once might have. Conversely, in today's economy, families at the bottom of the distribution — particularly families headed by single women — have weak prospects for income growth that would move them up in the distribution. For both groups, future income is more closely tied to current income. Long-run inequality has increased correspondingly.

In sum, census estimates of a relatively stable income distribution obscure the way in which the middle-class is changing. Family income equality has never been a strong point of the American economy.[6] Nonetheless, rapidly rising incomes and, to a lesser extent, mobility within the income distribution enabled large numbers of families to enjoy a middle-class living standard for at least part of their lives and served as a substitute for greater economic equality. But since the 1973–74 oil price increase, income growth has stagnated while mobility within the income distribution has diminished. To this point, we have been able to maintain "the middle-class dream" through demographic adjustments — more two-earner couples, postponed marriages, and low birthrates. These adjustments can take us only so far. If we do not return to a healthy economy with rising real wages, the middle class, and with it, the nation's social fabric, will come under increasing strain.

1. See, for example, Bob Kuttner, "The Declining Middle," *Atlantic,* July 1983, pp. 60–72, and Katherine L. Bradbury, "The Shrinking Middle Class," *New England Economic Review,* September/October 1986, pp. 41–45.

2. Income equality reached its post-World War II high point in 1968–69 when the unemployment rate for adult men stood at a little over 2 percent. Since 1973 the unemployment rate for adult men has averaged slightly over 6 percent.

3. This 13 percent drop (from $28,120 to $24,600) may be slightly overstated in two ways. The calculation is based on inflation adjustments using the Consumer Price Index, a widely used measure that until recently put too much weight on the cost of new housing and so overstated inflation in the post-1973 period. In addition, over the 1970s workers received an increasing portion of their compensation in fringe benefits (including increasingly expensive health insurance), and so the money-only figures in the text understate total economic gains. These factors together might reduce the 13 percent drop to perhaps a 5–6 percent drop over 11 years. Before 1973, a 25–30 percent rise would have been expected over a similar period.

4. The incomes of single persons (unrelated individuals in census parlance) are tabulated in a separate income distribution. The rapid rise in the age of first marriage helped give a false impression of young people's affluence. Many young people had high discretionary income (despite low incomes) because they had no mortgage to pay or children to feed.

5. This relative decline in children's positions within the income distribution coupled with absolute decline in median family incomes explains the rapidly increasing child poverty rates mentioned by Gary Burtless.

6. Such estimates as exist for the pre-1947 period suggest that the top quintile of families received over 50 percent of all income in the 1920s and that current patterns reflect a leveling that took place during the Great Depression and World War II.

Illustration by Robert Wiser

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