The Interfaith Vision for Work:

Background Discussion 1

TREADING WATER:

THE STAGNATION OF FAMILY INCOME SINCE 1973

Version 1.4 of

August 27, 1993

1106 Clayton Lane, Suite 120w
Austin, Texas

INTERFAITH VISION FOR WORK

BACKGROUND DISCUSSION 1

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I. RISE AND FALL OF THE AMERICAN DREAM

For three decades following World War II, American family incomes rose dramatically, vindicating the basic premise of the American Dream that security and income rewarded hard work. Wages rose steadily. The economy seemed to offer steadily improved opportunities. Average family income grew by about 35 percent per decade in both the 1950s and 1960s.[1] Median family income doubled from 1947 to 1973.[2]

Incomes for most groups in the economy rose together during this period, although some rose faster than others and inequalities remained. Inequality between the richest and poorest lessened somewhat.[3] The incomes of the less educated rose, although not as dramatically as the incomes of the college educated. The incomes of minority families rose, although most remained far below the incomes of non-minority families. The incomes of women rose dramatically and, although they remained below men's income, the gap narrowed. In other words, the rising tide of the post-World War II prosperity lifted all boats.

However, sometime about 1973, without any warning or great fanfare, this began to change.[4] The tide stopped rising, most boats sprang leaks, and some boats outright sank. Inflation exploded, but incomes for many people did not keep up. Average real family income grew only about 10 percent in the 1970s and less then five percent in the 1980s.[5] Men in the workforce found that their real incomes, rather than rising with increased age, stagnated or actually declined. Young men, who had expected to begin their work life earning more than their fathers had as young men, found that they earned the same or less in real terms. Many women who traditionally had not worked for wages found that they had little choice but to enter the paid workforce to maintain their families' income. Even with their additional earnings, two-parent families struggled as the earnings of women, while increasing, did not increase as fast as men's declined. The incomes of about half of single mothers remained too low to keep their families out of poverty.

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Inequalities among groups began to widen. Inequality between the rich and poor began to increase. The gap between the least and most educated men widened dramatically. High school dropouts and men with high school educations saw their incomes plunge. Even men with just college educations saw their incomes stagnate. Only men with graduate education beyond bachelor degrees saw their incomes rise. (College educated women did better, seeing their incomes continue to rise.)

This change did not happen all at once. It hit some industries and parts of the country harder than others. Income rose and fell as the economy heated up and cooled down. However, after about two decades, families could no longer count on the rising levels of income. In fact, by the early 1990s, the assumptions about families' incomes underlying the American Dream have been turned on their head:

- The incomes for men are now declining on average rather than increasing,
- The earnings of women are now essential to family incomes rather than supplemental, and
- The incomes of college and high school graduates are stagnating or declining rather than increasing.

The following discussion first examines the situation of men, traditionally families' principal breadwinners. It then examines the incomes of women both as members of two-earner families and as single parents. Finally it discusses the changes in the relation of education to earnings.

A. INCOMES FOR MEN HAVE DECLINED DRAMATICALLY SINCE THE EARLY 1970S

The most important component of a family's income has traditionally been the earnings of a husband and father. In the 1950s, 1960s, and early 1970s, an average man could earn an income sufficient to support himself, his spouse, dependent children, and a home. Equally importantly, he could look forward to his income increasing as he grew older and he could feel secure in being able to provide for a rising standard of living for his family, for his children's higher education, and for his and his wife's retirement in comfort. Young men, when they left their families, could expect to earn dramatically more than their fathers had as young men.

While the paradigm was true for the average man in the 1950s, 1960s, and early 1970s, it did not apply to all men or all workers. Women and minority men had much more difficulty either enjoying the same level of income as white men or on counting on their income increasing as they grew older. Nonetheless, this "paradigm," or model of work life, was important for working families in two ways.

First, the majority of families could expect to enjoy the steadily increasing incomes of average men. Such expectations were realistic for families headed by white men, who in 1947 accounted for two-thirds of the labor force.[6]

Second, even for minority men and for women the opportunities for higher income and stability associated with good jobs were important. The paradigm defined the type of jobs to which women and minority men struggled for access. "Affirmative action" policies were based on the assumption that if women and minorities enjoyed fair access to the good jobs occupied principally by white men, they could also earn this "family wage" underlying the American Dream.

Since the early 1970s, this paradigm of expectations of steady growth in men's income has reversed:

- Men can now expect much smaller increases in their earnings over their lifetimes than their fathers did, and

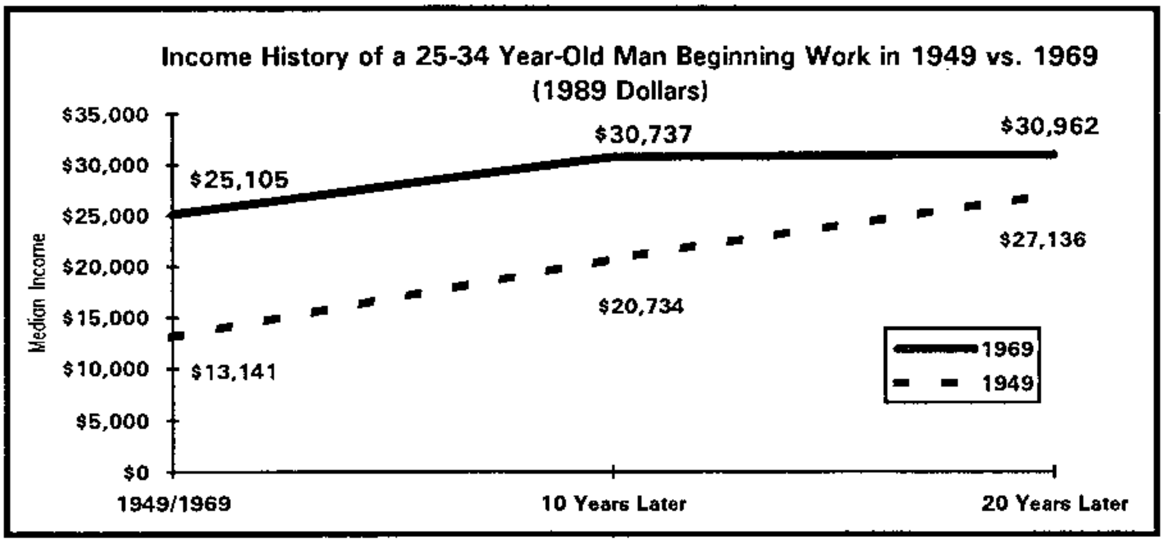
- Young men can now expect to start their work careers making <u>less</u> income than their fathers did when they began their careers.

These are important reversals in the assumptions with which families and workers -- whether male or female, white or minority -- approach the labor market. Let us look at each in detail.

1. Men now receive smaller increases than their fathers

The generation that began work in the 1950s established the model for the American Dream. They enjoyed steady increases in income throughout their careers. An average young man starting his work life in 1949 more than doubled his income in the following 20 years and saw his standard of living increase substantially beyond that of his father. By 1969, when he had reached middle age, he made twice as much in real terms as someone in his middle age in 1949.[7]

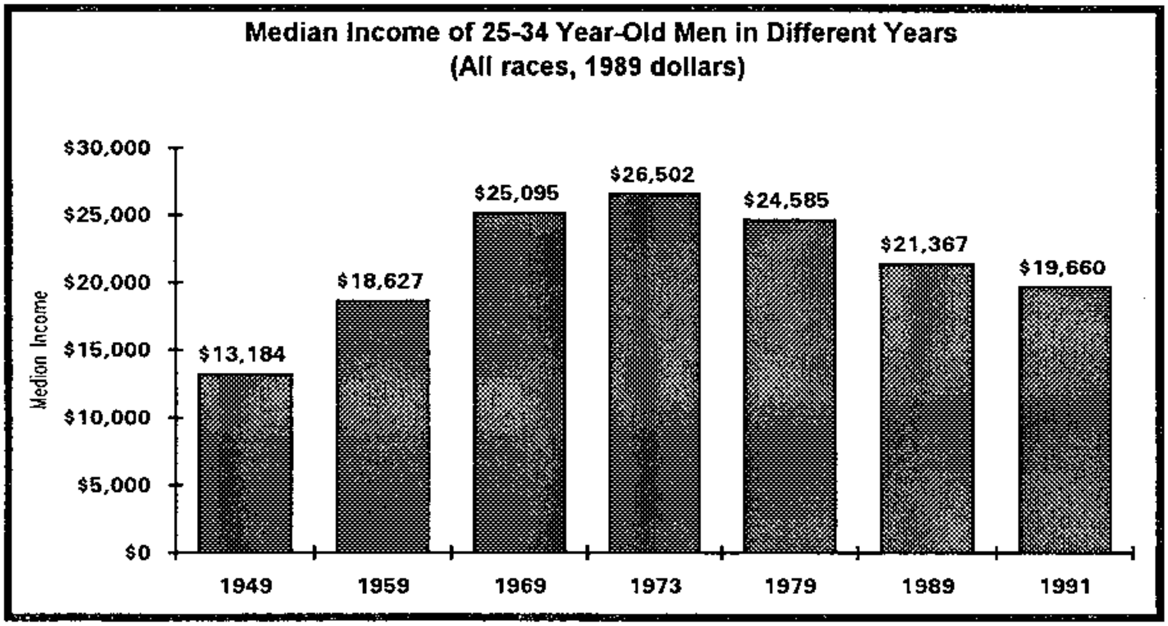
By the 1970s, however, an average man no longer enjoyed these steady increases in real income. A young man starting his work life in 1969 increased his income by only 23 percent over 20 years, with almost all of that increase occurring in his first ten years of work. His income stagnated from 1979 to 1989. He would see himself in 1989, when he had reached middle age, making only $3,826 more in real terms than a middle aged man two decades earlier, and only $5,857 more than he himself when he was a young man 20 years before:[8]



2. Young men's incomes are declining.

In the 1950s and 1960s, each generation of young men began their work careers at a higher income level than had the previous generation. A young man starting his work life in 1969 began at a level nearly twice that of a young man in 1949. The experience of these decades is the basis of expectations today that young men will be able to begin their careers better off than their fathers did.

In the 1970s, this pattern had reversed. The median income of young men peaked in 1973 and has steadily declined since. By 1979 a young man was earning slightly less than a young man in 1969. By 1989, a young man was earning much less -- nearly $3,800 less than a young man 20 years earlier. By 1991, a young man was making almost $7,000 less than a young man in the peak year of 1973. Young men now begin their work careers making less than their fathers did when they started their careers.[9]



B. WOMEN'S INCOMES HAVE RISEN BUT NOT ENOUGH TO COMPENSATE FOR MEN'S LOSS OF INCOME

The last three decades have seen a dramatic transformation of women's roles, as women worked more and more for wages. At the beginning of the 1950s, only about 31 percent of all women were in the labor force -- and almost none were married women with children; by 1991, 58 percent of all women and an increasingly larger percentage of mothers had entered the labor force.[10] The Children's Defense Fund estimates that by 1995 the mothers of two-thirds of preschool and four-fifths of school age children will be in the labor force.[11]

This transformation has been a product of both opportunity and necessity. Hard-fought battles for greater equality and affirmative action policies opened up opportunities, careers, occupations, and job ladders which formerly had been largely closed to women. At the same time, the decline in men's income and the increasing numbers of women raising children alone made it a necessity for more women to work for wages and to work longer hours.

Let us look at the situation of women in both two- and one-parent families with children.

1. Mothers' incomes now essential to two-parent families -- but still not enough

Two-parent families over the last 20 years have compensated for their men's declining incomes borrowing, delaying having children, and sending women (and children) into the workforce. More mothers are working and they are working longer hours. Without their increased work, incomes for 60 percent of two-parent families with children would have been lower in 1989 than in 1979.[12]

The participation of married mothers in the labor force is a singularly dramatic change in American family life. While many groups of women have always worked for wages, such as young single white women and most black women, most married women with children in the post-World War II years did not. In 1950, seven of eight married women with young children stayed at home and did not work for wages.[13] By 1979, however, 63.4 percent of married women with at least one child participated in the labor force. This continued to increase over the next ten years, with 74 percent in the work force in 1989.

In contrast to men, these women's real hourly pay increased in the 1980s. However, for 60 percent of two-parent families, the decline in hourly pay of husbands was greater than the increase in wives' hourly pay. Their main contribution in keeping their families' income from falling was not through higher wages, but longer hours at work.[14] On average, the number of hours that wives worked was 32 percent higher in 1989 than in 1979.[15]

In fact, when one factors in the costs to families of adults spending more time at paid work and the additional cash expenses associated with work, such as day care and more purchased household services, living standards for 80 percent of two-parent families with children stagnated from 1979 to 1989.[16]

2. Single mothers' incomes remain low and inadequate

Families with children and just one parent have the least resources for coping with falling earnings, and are getting both more vulnerable and more common.

The experience of living in a single-parent family is increasingly common for America's children. While most children at any one time live in two-parent families, just over half of all children now can expect to live at least part of their childhood with just one parent -- usually the mother. One-quarter of all children will spend at least six years in a single-parent family.[17] The number of single-parent families is growing rapidly, increasing from 4.6 percent of all families in 1973 to 6.0 percent in 1987.[18]

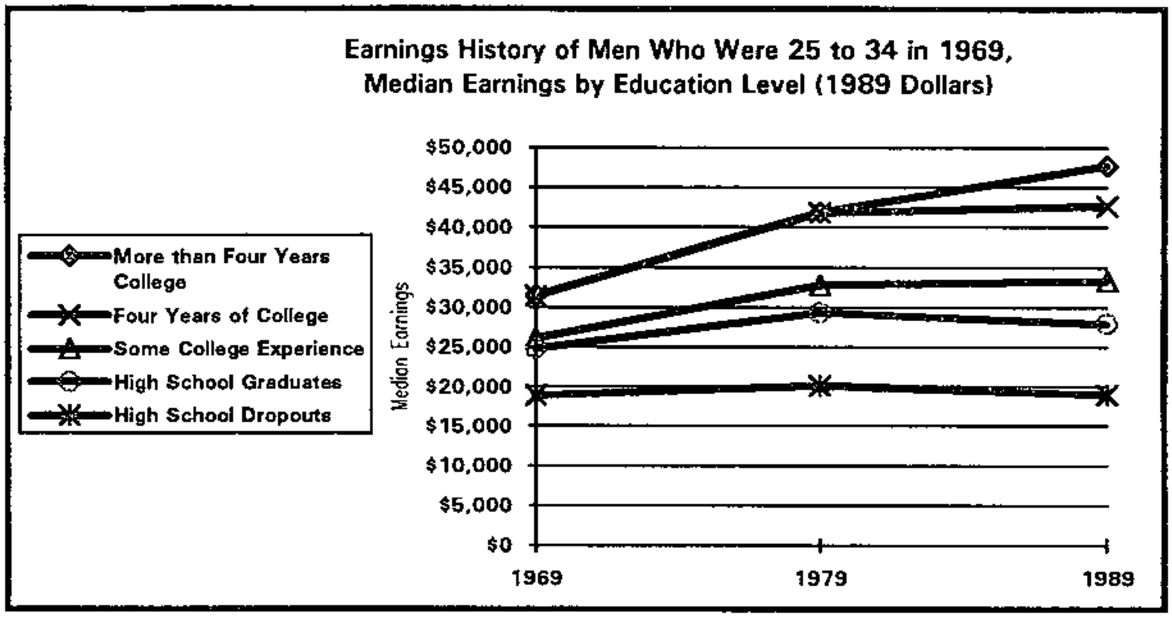
Most likely, the women and children in single-parent families will live at or just above the poverty line. The average income of single-mother families from all sources -- including work, welfare, and child support -- has consistently remained only 1.5 times the official poverty line for the last two decades and would have approximated only $14,800 for a family of three in 1989.[19] By comparison, single women without children had average incomes of between 2.5 and three times the poverty line for one person, or about $16,000. Married couples with two children had incomes nearly three times the poverty line for a family of four, or over $36,000.

Single mothers are working more -- and they work more hours on average than married mothers -- but their rise in earnings from 1973 to 1987 was offset by declining welfare assistance.[20] Incomes of single mothers relative to others has stayed consistently low over the last 25 years, averaging about 40 percent of median income (adjusted for changes in family size) from 1964 to 1989.[21]

C. THE EARNINGS OF ALL BUT THE MOST EDUCATED HAVE STAGNATED OR DECLINED

Higher education is assumed to be an important means to higher incomes. Families for the last four decades thought that if one received a GED, a degree from a high school, a certificate from a trade school, an associate degree from a community college, or a bachelor's degree from a college, one could earn higher incomes and increase one's access to better jobs. Families' hopes often centered on college educations, assuming a college degree to be a reliable ticket to a good job. Indeed, 90 percent of college graduates in the 1960s and early 1970s had little trouble finding work in jobs requiring college degrees, which offered earnings 40 to 60 percent higher than those of high school graduates.[22]

In the past decade, this previous link between formal education and increased incomes has become both stronger and weaker. It is now less true that college degrees lead to jobs: now only about 80 percent of college graduates work in college-appropriate jobs, and colleges report that their graduates are having harder times finding entry level jobs.[23] It is also less true that increasing one's formal education results in increased income: the earnings of all men but those with education beyond four years of college have stagnated or declined. (Earnings and average wages of most women -- particularly college-educated women -- continued to increase. However, as we have seen, they did not increase as rapidly as men's incomes declined.)[24]



In some ways, however, higher education is now even more critical to higher incomes. At the end of the 1980s, the gaps in earnings between the highest and lowest educated had become much more dramatic than twenty years earlier. While having higher education does not guarantee higher earnings, not having a higher education guarantees lower earnings. A male high school dropout today -- and even a high school graduate -- can expect to see his earnings decline as he grows older. Those who had dropped out in the 1960s saw their earnings drop by five percent in the 1980s and in 1989 as middle-aged men earned the same as they had 20 years earlier. High school graduates' earnings dropped by five percent as well. It is no longer plausible for an average male to drop out of high school and still have many opportunities to earn middle class levels of income.

While the earnings of men with college degrees have stagnated, those with graduate degrees do continue to enjoy increasing earnings, though at a slower rate than in the 1970s. As noted above in the figure, those with education beyond a four-year degree were the only group to increase their earnings in the 1980s. This was an important change from the 1970s, when those with graduate educations earned essentially the same as those with four-year degrees. While a graduate degree was essential to gain access to some careers, such as law, medicine, or teaching at the college level, it did not on average result in higher incomes.

It also seems that while a college degree is not as effective as 10 years ago in giving one access to "good," college-level entry jobs in the first five years of one's career, it becomes more effective once one has been employed for a few years. Economists Norman Bowers and Paul Swaim analyzed census data for years 1983 and 1991 and found that workers reported in 1991 that college degrees were less important to their careers in the first five years of work but more important after six to ten years of experience.[25]

II. SUMMARY

Prior to 1973, most families could expect or at least hope that their standards of living would rise as they grew older. Their most important breadwinners' income rose steadily on average. The younger generation began their careers earning significantly more than their parents had. Higher education credentials gave opportunities for higher incomes. Families could afford to have the mother stay at home to care for their children full-time.

Since 1973, these assumptions of the American Dream have turned upside down for almost all American families. Men's incomes have declined. The younger generation of men begin their careers at much, much lower earnings levels than their fathers. Higher education credentials do not necessarily lead to higher earnings (at least for men), but may be necessary to prevent a decline in earnings. Families must send mothers (and children) into the labor market to make ends meet.

FOOTNOTES

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1 U.S. Congress, Joint Economic Committee, "Families on a Treadmill: Work and Income in the 1980s," Washington, D.C., January 17, 1992, mimeo, Figure 1, p. 3.

2 Frank Levy, *Dollars and Dreams: The Changing American Income Distribution*, (New York: Russell Sage Foundation, 1987; New York: Norton, 1989), p17.

3 See Paul Krugman, *The Age of Diminished Expectations: U.S. Economic Policy in the 1990s.* (Cambridge, MA: M.I.T. Press, 1990 (paper 1992)), Chapter 2.

4 For a good discussion of the economic and demographic changes which combined around 1973 and resulted in the decline in men's incomes, see Levy, *Dollars and Dreams.*

5 JEC, "Families on a Treadmill," Figure 1, p. 3.

6 Levy, *Dollars and Dreams,* p. 30

7 U.S. Congress, Joint Economic Committee. "Men at Work: Signs of Trouble," Washington, D.C.: September 1992, Appendix Table A.

8 JEC. "Men at Work," Appendix Table A.

9 U.S. Department of Commerce, Bureau of the Census, *Money Income of Households, Families, and Persons in the United States: 1991,* Current Population Report, Series P-60, No. 180, August 1992, Table B-15.

10 Frank Levy, *Dollars and Dreams,* p. 33 and U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review,* vol. 116, no. 6, June 1993, Table 4, p. 80.

11 Children's Defense Fund, *S.O.S. America! A Children's Defense Budget.* Washington: Children's Defense Fund, 1990, p. 7.

12 JEC, "Families on a Treadmill," p. 1.

13 Population Reference Bureau, *American in the 21st Century: A Demographic Overview.* May 1989, p. 7.

14 JEC, "Families on a Treadmill," pp. 11-12.

15 JEC, "Families on a Treadmill," p. 9.

16 JEC, "Families on a Treadmill," p. 18.

17 Irwin Garfinkel and Sara S. McLanahan, *Single Mothers and Their Children: A New American Dilemma.* (Washington: Urban Institute Press, 1986), p. 8.

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[18] Randy Albelda and Chris Tilly, "All in the Family: Family Types, Access to Income, and Family Income Policies," *Policy Studies Journal,* vol. 20, no. 3, Summer, 1992, Table 2, p. 391.

[19] Albelda and Tilly, Figure 1, p. 393.

[20] Albelda and Tilly, p. 400, and Figure 1, p. 393.

[21] U.S. Department of Commerce, Bureau of the Census, *Trends in Relative Income 1964 to 1989.* Current Population Reports, Series P-60, No. 177, December, 1991, Table 2, p. 41.

[22] Daniel E. Hecker, "Reconciling conflicting data on jobs for college graduates," *Monthly Labor Review,* vol. 115, no. 7, July 1992, p. 4 and Chart 1, p. 5.

[23] Hecker, "Reconciling conflicting data on jobs for college graduates," p. 7.

[24] JEC. "Men at Work," ., Appendix Tables C, D, E, G, and H. Compiled below:

Table ____
Earnings History of Young Men who were 25 to 34 Years Old in 1969, Median Earnings by Education Level (1989 dollars)[24]

	1969	1979	1989
More than Four Years of College	$31,471	$41,849	$47,705
Four Years of College	$31,422	$41,748	$42,656
Some College Experience	$26,103	$32,799	$33,351
High School Graduates	$24,859	$29,352	$27,922
High School Dropouts	$18,877	$20,067	$18,982

[25] Norman Bowers and Paul Swaim, "Probing (Some of) the Issues of Employment-Related Training and Wages: Evidence from the CPS," June 8, 1992, manuscript presented at 67th Annual Conference of the Western Economic Association.