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THERE'S MORE TO SAGGING HOUSEHOLD INCOME THAN THE GREAT RECESSION

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Just as the switching-hitting baseball player whose .318 batting average is misleading when he averages .373 from the left side but only .261 from the right side, the figures on household income reported of late including some that have been ballyhooed by academics often are misleading. Though not necessarily intending to misdirect, such commentators and analysts are overly enamored of the single number that tells all. They reduce diversity and complexity to brevity and simplicity.

The United States has a very large and growing population that is hugely and increasingly diverse. That diversity alone warns us to be careful in comparing income distribution over time and across socio-economic classes. Thus the 10.8 percent increase in median annual income for all U.S. households since 1980, adjusted for changes in consumer prices, hides several important developments that too often pass unnoticed leading in some instances to wrong-headed public policy recommendations.

***One reason that household income growth has stalled is that there has been an increase over time in the number and percentage of all households in the United States with no earners.* In 2010 there were 118.7 million households in the United States, of which 27.4 million or 23.1 percent had no earners. In 1980 there were 82.4 million households of which 20.0 percent had no earners. The median annual income of no-earner households, adjusted for changing prices, has increased by 5.8 percent between 1987 (comparable data by number of earners are not available for earlier years) and 2010. Income in 2010 for no-earner households was 63 percent *below* the income for all U.S. households.**

No-earner households are comprised of persons living on private pension income, Social Security retirement benefits, public assistance, and other forms of non-earned income including dividends, alimony, and child support. This segment of the U.S. population is growing largely because many families are breaking apart forcing women to provide for their dependents on their own and more and more persons are living longer on fixed incomes.

***Another reason that income for black households is lower than income for white households is that there are proportionately more black households with no earners.* In 2010, 26.8 percent of black households had no earners, whereas 22.9 percent of white households had no earners.**

Another reason that household income growth has stalled is that there are more one-earner households than two-earner households. **In 2010 there were 120 one-earner households for every 100 two-earner households. Thirty years earlier that ratio was 108 for every 100. Between 1987 and 2010, the median annual income of one-earner households, adjusted for changes in prices, increased by only 5.3 percent. Over the same period, real median annual income for two-earner households climbed by 20.8 percent.**

Black two-earner households had much higher income in 2010 than comparable one-earner households. **In 2010, their annual median income was 109.1 percent higher than black one-earner households. Furthermore, it was 49.5 percent *higher* than for *white* one-earner households.**

***Compared to the official poverty income threshold, households with two earners fared much better in 2010 than in 1987*. For a two-earner household median income in 1987 was 214 percent higher than the 1987 poverty threshold for a family of four. In 2010, it was 262 percent higher than the poverty standard for a family of four that year.**

For sure, households with three earners or more have much higher incomes than households with fewer earners. **To illustrate, in 2010 households with four earners or more earned 2.8 times as much as households with one earner. However, comparing all households by number of earners indicates that the biggest bump in real median income is found between no-earner households and one-earner households as indicated in the following table.**

From no earner to one earner -- 126 percent bump
From one earner to two earners -- 94 percent bump
From two earners to three earners -- 19 percent bump
From three earners to four or more earners -- 22 percent bump

The drag on household income of late is not just a matter of the jobs lost in the Great Recession, though we do not dismiss out of hand the importance of unemployment to income. Three other major factors are eroding household income. One is economic, the other two are demographic. First, the long-run shift away from higher-paying manufacturing jobs to lower-paying service jobs. Second, a growing population of retired seniors living on fixed incomes. Third, a breakdown of the family splitting one household with two earners into two households with at best only one-earner each.

Calling for more entrepreneurship in the private sector and infrastructure jobs in the public sector *may* help address the economic factor. However, it *may not* fulfill that promise because infrastructure jobs are not permanent and have long lead times, and even though private innovation creates startup firms and opens up new employment opportunities, it also destroys established firms and closes down old jobs. Moreover, a public policy calling for more innovation and infrastructure projects will do little to fix the demographic factors.

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