An Economic Recovery?

Recent media stories have touted the strength of the U.S. economy over the past two years. Some highly visible numbers—gross domestic product (GDP) growth, job creation, unemployment rates, and productivity growth—appear to tell a story of robust economic health in 2004 and 2005. Real GDP increased by 3.5 percent in 2005, after a 4.2 percent increase in 2004 and a 2.7 percent increase in 2003. Over four million jobs were created in 2004 and 2005, and unemployment fell from 6 percent in 2003 to 5.5 percent in 2004, then to 5.1 percent in 2005. Productivity increased at a 2.5 percent rate even during the 2001 recession and has accelerated since then, averaging 3.8 percent from 2002 to 2004.

However, much of the favorable news about the economic recovery resulted from measuring change from the point when job losses ended in August 2003 rather than from the trough of the last recession in November 2001, which is the standard point from which recoveries are measured. Counting from August 2003 ignores the fact that job loss continued for 20 months after the end of the recession (i.e., until August 2003). In comparison with other post-WWII recoveries, the current one is the slowest on record, with job creation up 2.6 percent over the four years since the last recession bottomed out in November 2001. The slowest previous recovery followed the 1953–54 recession, when there was a 4 percent job gain over the subsequent four years (Norris, 2005).

However, it is not only job growth that compares unfavorably with past recoveries. Among seven economic indicators (GDP, personal consumption, nonresidential investment, net worth, wages and salaries, employment, and corporate profits), the current recovery is below historical averages in all but two: net worth and corporate profits (Shapiro, Kogan, and Aron-Dine, 2006). Wages and salaries have fared particularly poorly relative to both the post-war average and the 1990s (Shapiro, Kogan and Aron-Dine, 2006). Figure 1 shows that the percentage increase in corporate profits has far exceeded the change in wages in every year since 2001, and that corporate profits grew by 10 percent or more in 15 of 18 quarters since then, while wage growth has recovered slowly from its low point of zero in the first quarter of 2002.

Median Household Incomes Are Lower Than in 1998

As modest as the economic recovery has been, the key indicators reflect only aggregate, economy-wide changes. What they miss or omit is any hint at how the benefits of the growing economy have been distributed among workers, consumers, and retirees, where the news is much more dismal than the news about the economy overall. Median income levels have been stuck in neutral for the past several years, despite sizeable growth in aggregate incomes. For example, U.S. median household income was higher in 1998 ($46,508 in 2005 dollars), than in 2005 ($46,326), and it declined every year between 1999 and 2004, according to the U.S. Bureau

**Medián Income Grew More Slowly Than Aggregate Income**

One reason for skewed income growth is that median inflation-adjusted earnings for American male workers were lower in 2005 ($41,386) than in 1998 ($42,274 in 2005 dollars) (U.S. Bureau of the Census, 2006, Table A-2) after the first substantial increases in years in the late 1990s. Stagnant or declining wages were the pattern for both older and younger workers, and the economic circumstances of retirees have not been any better. For example, Figure 2 compares the annual percentage change in aggregate income from 1995 to 2004 for the population age 50 years and older with the annual percentage change in median income for that age group. Aggregate income growth exceeded 5 percent in the late 1990s, then declined to an average rate of about 2 percent after 1999, but growth remained positive throughout the period. By comparison, median income growth was consistently lower than aggregate income growth and averaged in negative territory after 1999.

Figure 3 compares aggregate income growth for the 50+ population with median income growth for this group (and for four subgroups) over the 1994–2004 period. Aggregate income grew by 42 percent (more than 4 percent per year) from 1994 to 2004, while median family income for 50+ families overall grew by only 8.4 percent, or less than 1 percent per year.
Figure 2. Rate of Aggregate and Median Income Growth for 50+ Population, 1994–2004 (in Inflation-Adjusted 2004 Dollars)


Figure 3. Aggregate Income Growth and Median Income Growth Rates for Selected Age Groups, 50+ Population, 1994–2004 (2004 Dollars)
Moreover, income growth from 1997 to 1999 for the 50-64 and 65+ age groups has been negated by income losses since 1999. This can be seen in Figure 4, which shows inflation-adjusted median family incomes for families in different age groups as a ratio of their respective income levels in 1994 (1994=100). Median incomes generally peaked in 1999 and then declined, with all 50+ age subgroups remaining below their 1999 income levels in 2004. For the 50–64-year-old subgroup, median incomes in 2004 were even below their 1998 level. For both 50+ and 65+ subgroups, median incomes during this period peaked in 1999.

**Greater Income Inequality**

Another likely consequence of these trends is that the income distribution for people age 50 years and older has become more unequal in the past decade, with a larger share of income going to the most affluent. That trend is demonstrated in Figures 5 and 6, which compare the distribution of income among 50–64-year-olds and those over 65 years old in 1994 and 2004. In both age groups, the bottom four income quintiles (fifths) of the 50+ population had smaller shares of total income in 2004 than in 1994, whereas the top decile (one-tenth) had larger income shares in both years. The only difference in the patterns of the two age groups is that the changes in income shares were slightly smaller among the 65 and older group, and the 80th to 90th percentile of the 65+ age group also realized a slight increase in income share compared with the bottom 80 percent.

Another comparison of inequality is seen in Figure 7, which shows the change in the coefficient of inequality (Gini coefficient) from 1994 to 2004. Higher coefficients mean that inequality has
Figure 5. Difference in Shares of Family Income Received by Income Quintiles, 1994 and 2004, for Heads of Households Aged 50 to 64

Figure 6. Difference in Shares of Family Income Received by Income Quintiles, 1994 and 2004, for Households Aged 65+

Source: Same as Figure 2.
increased. For every age group except those 75 years and older, inequality increased between 1994 and 2004 by three to four points. Moreover, when median income levels peaked in 1999, the degree of inequality had declined from 1997 levels, but it has since increased again as median incomes have stopped growing.

**Conclusions**

The economic “recovery” since late 2001 has been the weakest in post-WWII history in terms of job creation. The recovery since the trough of the recession in November 2001 has not benefited median wage earners, whose wages have fallen below 1999 levels. Moreover, the recovery has not benefited typical midlife and older Americans, whose real incomes have fallen below their 1999 levels.

Income inequality has increased noticeably among people age 50 years and older in the past decade, with only the top 10 percent of the 50–64-year-olds and those over 65 years old increasing their income shares, while the bottom four-fifths have seen their income shares decline.

Boomers, who reached maturity when a long period of wage stagnation began in the 1970s, continue to see slow growth reflected in their wages. The median weekly earnings of full-time male workers age 45–54 years today (the heart of the baby boom cohort) are lower ($857) than the wages of 45–54-year-olds in 1983 ($875). Along with wage stagnation, we have seen a widening wage gap between more and less educated workers.

These income disparities, which stem in part from historical trends in wage inequality, have been exacerbated by recent tax policies, including the extension of the preference for dividends and capital gains, that have sharply

**Figure 7. Gini Index of Income Inequality Among 50+ Population and Age Subgroups, 1994–2004**

![Figure 7. Gini Index of Income Inequality Among 50+ Population and Age Subgroups, 1994–2004](image_url)
increased the after-tax incomes of those at the very top of the income distribution (Gist, 2006). Meanwhile, those at the very bottom have done worse in recent years. The overall poverty rate, which declined steadily during the last economic expansion, from 15.1 percent in 1993 to 11.3 percent in 2000, has increased during the current expansion to 12.6 percent overall in 2005.

Some of these economic problems, such as the stagnation of wages in the context of a double-digit boom in corporate profits over the past few years, as well as other signs of economic distress, such as the erosion of employer-provided pensions and retiree health insurance, have resulted largely from the decisions of corporate leaders. Public policies, such as minimum wage increases, wage subsidies, regulations strengthening pensions and pension insurance, and limits on the use of stock options for executive compensation, could mitigate these trends.

REFERENCES


