Trends in the Levels and Distribution of the Annual Incomes Among Young Families, 1973 to 2010: Deteriorating Real Incomes Amidst Steeply Rising Inequality

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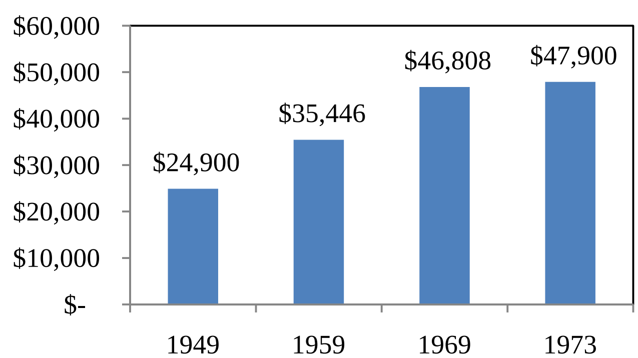
Among the most important indicators of the economic well-being of families is their annual real (inflation adjusted) income. The annual incomes reported in this research brief include all cash income received by all family members 16 and older in the form of wages and salaries, self-employment income, interest, rents, dividends, cash public income transfers (unemployment insurance, TANF benefits, disability payments, Social Security payments, general relief), alimony, child support, and private pensions.[1] The annual income of a family is the primary determinant of its ability to buy goods and services and to avoid food, housing, and medical care insecurities. Achieving an adequate income capable of making it into the middle class is also a primary element of the American Dream, which often includes home ownership, the ability to adequately provide for one's children including their college costs, and personal savings to finance one's retirement.

Many young families in recent decades have found it difficult to improve their living standards relative to earlier cohorts on a sustained basis. Average (median) real incomes have been on the decline for more than three decades, with spurts of income growth (1993-2000 followed by periods of steeper decline (1979-83, 1990-93, 2007-2010). At the same time, there has been substantial growth in income inequality among young families with the most affluent 10 percent achieving very large gains in their levels of income and increasing their share of all incomes. In contrast, those in the middle and bottom of the distribution have experienced both declines in their real annual incomes and in their shares of total income received by all young families. The gaps between the top and the middle and bottom of the income distribution have never been larger with severe consequences for the children residing in those families in the bottom half of the distribution.

Trends in the Median Real Incomes of Young Families, 1949-2010

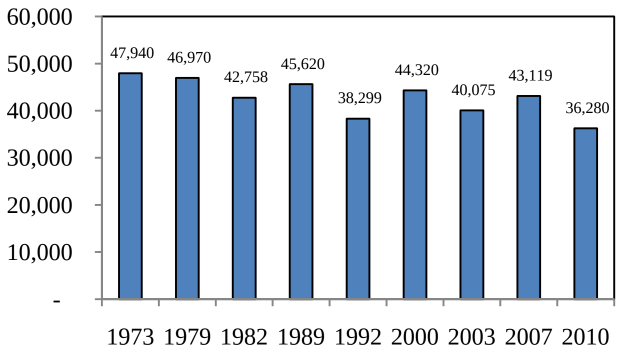
The period from the late 1940s through 1973 is often called the Golden Era of the U.S. economy.[2] It was a time when the living standards of nearly all American families (young, middle-aged and old) improved steadily and substantially. The national median real family income doubled, the individual poverty rate fell by two-thirds, and the distribution of family income became more equal. The median real income (in 2010 dollars) of young families (head under 30 years old) also nearly doubled during the Golden Era rising from $24,900 in 1949 to $47,900 in 1973 (Chart 1). The incomes of married couple families as well as single parent families sharply increased. Every educational group of young families—those headed by a high school dropout, a high school graduate or a college graduate—saw their incomes rise substantially during the Golden Era. Fueling these increases in the standard of living across all types of young families were the large gains in the annual earnings of husbands, including many who were employed in well paying blue-collar jobs that did not require any college education, relatively few young single parent families, and the increased work efforts of wives in young married couple families.

Chart 1:
Trends in the Median Real Incomes of Young Families (Head Under 30) in the U.S. 1949-1973
(in 2010 Dollars)



After the end of the Golden Era, the median real incomes of young families have failed to increase on any sustained basis (Chart 2). Between 1973 and 2010, the median real income of young families declined by 23 percent. While the incomes of young families did rise briefly during periods of economic expansion between 1982 and 1989 and from 1993 to 2000, these gains were more than erased during intervening recessions in the early 1980s, the early 1990s, 2001, 2008, and 2009. Losses following the severe recession of 2007-09 drove down median real income to $36,280 or $8,000 below its median level in 2000. The 2010 median real income of young families was back to its value in 1959.

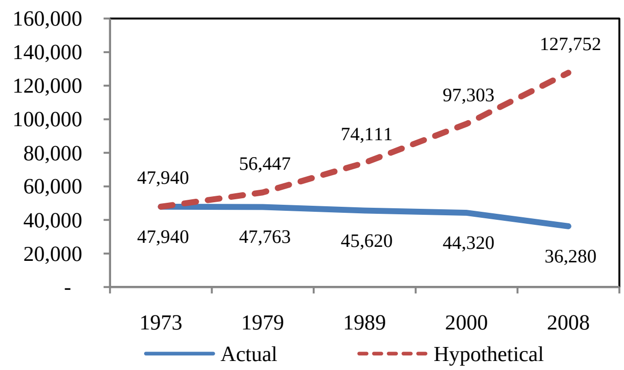
Chart 2:
Trends in the Median Real Incomes of Young Families (Head Under 30) in the U.S. 1973-2010
(In 2010 Dollars)



Source: March CPS surveys, public use files, tabulations by authors.

Between 1949 and 1973, the median real incomes of young families increased at an annual average rate of 2.76 percent per year. In sharp contrast, between 1973 and 2010, the median real incomes of young families declined at an annual rate of .75 percent per year. Had the median real incomes of young families maintained their Golden Era growth rate over the 1973 to 2010 period, the 2010 median income of young families would have been $127,752 or nearly three and one-half times as high as their actual median income $36,280 (Chart 3). This extraordinary level of affluence would have eliminated nearly every income inadequacy problem faced by young families. How far we have fallen in improving young family living standards since the end of the Golden Era.

Chart 3:
Actual Versus Hypothetical[a] Median Real Income Trends of Young Families (Head Under 30) in the U.S. 1973 to 2010
(Under 2010 Dollars)



[a]Note: Hypothetical real median income figures were calculated by assuming an annual growth rate of median real incomes of 2.76 percent over the 1973 to 2010 period. This growth rate of 2.76 percent was the actual annual growth rate of the median incomes of young families over the 1949 to 1973 period, the Golden Era of the U.S. economy.

The economic misfortunes of many young families between 1979 and 2010 were not experienced by nearly as many middle-aged families or older families (Table 1). While the median income of young families plunged by 24 percent between 1979 and 2010, families headed by a person 30-44 years old saw their real incomes decline by only 3 percent, those of families headed by an individual 45-64 rose by 6 percent, and the income of older families (65+) increased by 38 percent. The age twist in median family incomes between younger and older families is quite astounding. In 1979, the median real income of young families exceeded that of older families by 42 percent. Three decades later, in 2010, the median real income of the nation's older families outpaced that of younger families by $9,500 or 26 percent.

Table 1:
Comparisons of the Growth in the Median Real Incomes of U.S. Families by Age of Family Householder Between 1979 and 2010 (in 2010 Dollars)

Age of Family Head	(A) 1979	(B) 2010	(C) Absolute Change	(D) Percent Change
<30	46,970	36,280	-10,690	-23%
30 – 44	64,750	62,700	-2,050	-3%
45 – 64	69,462	73,831	+4,369	+6%
65+	33,132	45,715	+12,583	+38%

Source: March 1980 and March 2011 CPS surveys, public use files, tabulations by authors.

Young families in each of the three major race-ethnic groups experienced double-digit declines in their median real incomes over the past three decades. These declines were not continuous over this time period. Young families, especially Blacks and Hispanics, improved their lot during the boom years of 1993-2000 and experienced modest gains in real incomes between 2003-2007. However, young Black families fared the worst. Their median income in 2009 was slightly under $20,000, representing a near 24 percent decline over the past three decades. In comparison, the median real income of young Hispanic families fell by 15 percent and that of White, non-Hispanic families declined by 11 percent. By 2009, the median income of young Black families had declined to only 45 percent of the level of White families.

Table 2:
Trends in the Median Real Incomes of Young Families in the U.S. from 1979 to 2009, by Race-Ethnic Group
(in 2009 Dollars)

Family Group	(A) 1979	(B) 1989	(C) 2000	(D) 2009	(E) Percent Change, 1979-2009
Black, not Hispanic	26,117	21,969	24,463	19,913	-23.7
Hispanic	34,523	27,677	33,475	29,276	-15.2
White, not Hispanic	49,306	46,793	48,024	43,814	-11.1

Earlier research by the Center for Labor Market Studies of Northeastern University and the Children's Defense Fund had shown that young families with children had been experiencing considerably greater income difficulties than young childless families.[3] A variety of developments have been influencing this result, including high shares of childless couples with college degrees and two full-time earners and the increasing share of single parent families among young families with children. Over the entire 1979-2009 period, the median real income of young families with no children in the home declined by only four percent while young families with children experienced a far steeper 28 percent decline in their median income (Table 3). Very similar findings prevailed for young Black, Hispanic, and White families. Those Black families with children present in the home saw their median real income decline by nearly 24 percent versus only a 3% drop among families without children. In 2009, the median income of young Black families without children was $40,800 or 2.3 times as high as the median income of Black families with a child. These dramatic differences in median family incomes have profound consequences for the poverty rates of these two groups of young families.

Table 3:
Trends in Median Real Incomes of Young Families and Black Families With and Without Children, 1979 – 2009
(in 2009 Dollars)

Family Group	(A) 1979	(B) 2009	(C) Absolute Change	(D) Percent Change
All Young Families	46,216	38,440	-7,776	-16.8%
• Without children	57,190	55,020	-2,130	-3.7%
• With children	40,581	29,110	-11,471	-28.3%
Black				
• Without children	42,241	40,826	-1,415	-3.3%
• With children	23,204	17,725	-5,479	-23.6%

The income fate of America's young families has become increasingly influenced by the educational attainment of the family householder and his/her spouse if present. College educated family heads tend to be employed more often, work more hours per year, and earn considerably more per hour than their less educated peers, and they are more likely to be married. This finding holds true across each major race-ethnic group.

Our estimates of family income changes for young Black, Hispanic, and White families in five different educational groups over the 1979-2009 period are displayed in Table 4. For each race-ethnic group, the median incomes of young families headed by an individual who lacked a bachelor's degree declined considerably over the past three decades while those families headed by a four year college graduate either increased their incomes (Hispanics, Whites) or came close to keeping their incomes unchanged (Black families). Among the nation's young Black and White families headed by a high school dropout, median real incomes declined by 40 percent between 1979 and 2009, for those with a high school diploma incomes fell by 33 to 40 percent and they rose by 8 to 23 percent for those with a Master's or higher degree. Black, Hispanic and White families headed by an individual with an advanced college degree were anywhere from 3.4 (Hispanics) to 7.3 times (Blacks) as high as those of families headed by a high school dropout.

Table 4:
Trends in the Median Real Incomes of Young Families by Educational Attainment of the Family Householder for Black, Hispanic, and White Families from 1979 to 2009
(in 2009 Dollars)

Race/Ethnic Group/ Educational Attainment of Householder	(A) 1979	(B) 2009	(C) Change in Median Income	(D) Percent Change in Median Income
Black				
< 12, no diploma or GED	14,885	8,962	-5,923	-40%
H.S. Graduate	28,160	16,928	-11,232	-40%
13 – 15 Years	33,500	22,000	-11,500	-34%
Bachelor's degree	51,700	48,890	-2,810	-5%
Master's or higher degree	60,000	64,725	+4,725	+8%
Hispanic				
< 12, no diploma or GED	26,400	21,900	-4,500	-17%
H.S. Graduate	37,700	27,900	-9,800	-26%
13 – 15 Years	43,870	35,850	-8,020	-18%
Bachelor's degree	52,550	59,750	+7,200	+14%
Master's or higher degree	59,770	73,400	+13,630	+23%
White, not Hispanic				
< 12, no diploma or GED	33,190	19,910	-13,280	-40%
H.S. Graduate	47,350	31,870	-15,480	-33%
13 – 15 Years	52,400	41,400	-11,000	-21%
Bachelor's degree	61,600	69,700	+8,100	+13%
Master's or higher degree	68,200	83,650	+15,450	+23%

The Extraordinary Rise in Income Inequality among Young Families in the U.S., 1979-2010

The highly divergent trends in the growth/decline of the real incomes of the nation's young families along the distribution would clearly suggest that family income inequality has been on the rise since at least the end of the 1970s. To track changes in young family income inequality over time, we analyzed the distribution of the family income data for selected years from 1959 to 2010. For each of those years, we estimated the percentage shares of family income obtained by young families in each decile of the distribution. Estimated shares for families in the bottom two deciles of the distribution and the top two deciles are presented in Table 5.

Table 5:
Trends in the Shares of Family Income Received by Young Families in the Bottom Two Deciles and the top Two Deciles of the Income Distribution, 1959 to 2010 (in percent)

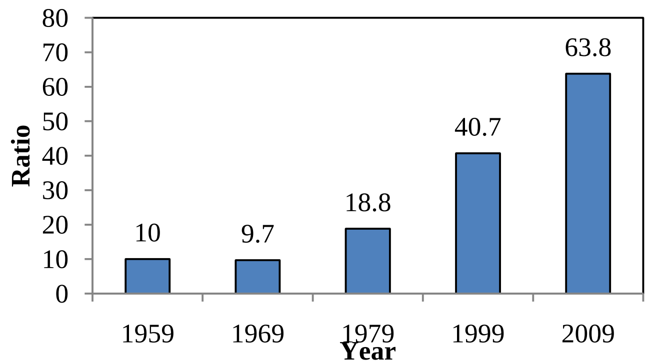
Decile	(A) 1959	(B) 1969	(C) 1979	(D) 1999	(E) 2010
Lowest	2.1	2.2	1.2	.7	.5
Second lowest	4.7	4.6	3.6	2.7	2.1
Bottom two deciles combined	6.8	6.8	4.8	3.4	2.6
Second highest	14.9	15.0	15.9	16.8	17.8
Highest	21.2	21.3	22.6	28.5	31.9
Top two deciles combined	36.1	36.3	38.5	45.3	49.7
Top / Bottom quintile	5.3*	5.3*	8.0*	13.3*	19.1*
Top Decile / Bottom Decile	10.0*	9.7*	18.8*	40.7*	63.8*

Beginning in 1959, the top quintile (20%) of young families obtained slightly above 36 percent of the income pie while the bottom quintile of families received only 6.8 percent, a relative difference of 5.3 times. During the decade of the 1960s, the real incomes of young families improved markedly all across the income distribution, and there was no major shift in income inequality. Following 1969, through the 1970's and beyond, however, family income inequality widened across most segments of the distribution. The top quintile of young families increased their share of total income steadily over the following four decades, rising from 36 percent in 1969 to just under 50 percent in 2010.

The top twenty percent of young families received nearly as much pre-tax, money income as the entire bottom 80 percent in that year. Over the same time period, the share of total income received by young families in the bottom quintile of the distribution declined steadily after 1969, falling from 6.8 percent in 1969 to only 2.6 percent in 2010. These falling shares were accompanied by declining average real incomes for these families after 1979. In 1969, the share of income received by the most affluent quintile of young families was 5.3 times as high as that of young families in the bottom quintile of the distribution. By 2010, that ratio of family income shares had widened to 19 times.

The greatest increase in family income inequality over the 1969-2010 time period took place between young families in the top and bottom deciles of the distribution. The relative degree of inequality between these two groups actually moderated between 1959 and 1969. Over the next four decades, inequality would explode. The share of income received by the top decile relative to the bottom decile rose from slightly under 10 in 1969 to 19 in 1979 and nearly 64 in 2010, a more than six fold increase. <u>The mean annual, pre-tax money income of young families in the top decile of the income distribution in 2010 was nearly 64 times as high as that of young families in the bottom decile</u>. These two groups of young families occupy radically different social universes in the U.S. The future educational, economic, and social well-being of children in these bottom few deciles are in severe jeopardy, with potentially dire consequences for society as a whole.

Chart 4:
Trends in the Ratio of the Share of Family Income Received by Young Families in the Top Decile of the Income Distribution to the Bottom Decile, 1959-2009



The income distribution for young families with children is characterized by an even higher degree of inequality than that for all young families and the degree of inequality also has increased steadily over the past three decades (Table 6). In 1979, the top quintile of young families with children captured 42 percent of total money income. By 1989, their share had risen to nearly 44 percent; it would increase further to 46 percent by 1999 and would rise above 50 percent in 2010.[4] The top quintile captured more income than the bottom 80 percent. In contrast, the share of income obtained by young families with children in the bottom quintile of the distribution fell over this time period from 3.8 percent in 1979 to only 2.3 percent in 2010. The ratio of the share of total income received by the top quintile of young families with children to the bottom quintile rose from 9 to 1 in 1979 to 22 to 1 in 2010, a more than doubling in relative income inequality

Table 6:
The Shares of Annual Money Income Received by Young Families with Children in Each Quintile of the Income Distribution, 1979 – 2010

Quintile	(A) 1979	(B) 1989	(C) 1999	(D) 2010	(E) Percentage Point Change, 1979-2010
Lowest	4.2	3.5	3.4	2.3	-1.9
Second	11.9	9.9	9.4	8.1	-3.8
Middle	18.5	16.9	16.0	14.7	-3.8
Fourth	25.7	25.9	25.1	24.5	-1.2
Top	39.6	43.8	46.0	50.5	+10.9
Top / Lowest	9.4	12.5	13.5	22.0	

<u>Sources:</u> (i) 1980 Census of Population and Housing; (ii) March CPS, work experience and income supplements, 1990, 2000, and 2010.

The rise in young family income inequality over the past three decades was not confined to any one race/ethnic group. Income inequality rose sharply among Asians, Blacks, Hispanics, and Whites over the 1979-2009 time period. The top quintile (20%) of young families in each race-ethnic group increased their share of the income pie (Table 7). By 2009, the top quintile received anywhere from 46.5 percent of the income (Asians, Hispanics) to 53 percent among Black, non-Hispanics. The degree of income concentration at the top, however, was most severe among young Black families. Almost all of the gain in the income share of the top quintile was captured by the top decile of families. In 2009, the top decile received between 29 percent and 34 percent of the total incomes accruing to young families. These vast income disparities among the nation's youngest families are deeply troubling when you consider the impact of the disparities on the future ahead for the parents, their children and for our society. They demand the attention of the nation's policymakers and the public at large.

Table 7:
The Shares of Young Family Incomes Received by Families in the Top 20 and Top 10 Percent of the Distribution 1979 and 2009, by Race-Ethnic Group of Householder
(in%)

	(A)	(B)	(C)
Group	1979	2009	Percentage Point Change
Asian			
• Top 20	42.1	46.5	+4.4
• Top 10	24.7	28.9	+4.2
Black			
• Top 20	46.4	52.7	+6.3
• Top 10	27.9	33.6	+5.7
Hispanic			
• Top 20	41.7	46.5	+4.8
• Top 10	24.7	28.9	+4.2
White, not Hispanic			
• Top 20	36.9	43.3	+6.4
• Top 10	26.6	31.6	+5.0

[1] The annual money income measures in this paper exclude capital gains and in-kind transfers, such as food stamps, rental assistance subsidies, and Medicaid health insurance benefits.
[2] See: (i) Frank Levy, The New Dollars and Dreams: American Incomes and Economic Change, The Russell Sage Foundation, New York, 1991; (ii) Ray Marshall (Editor), Back to Shared Prosperity, M.E. Sharpe, Armonk, New York, 2000.
[3] See: Andrew Sum and Cliff Johnson, Vanishing Dreams: The Growing Economic Plight of America's Young Families, Children's Defense Fund, Washington, D.C., 1993.
[4]Strong labor market conditions from 1993 to 1999 kept young family income inequality from rising. The bottom quintile's share actually rose from 3.1 to 3.4 percent.