BACKGROUND

One explanation for the 2008 economic crash in the U.S. context is that stagnating and declining incomes among the bottom quintiles in the decades leading up to the crash meant a rise in income inequality. This led to problematic economic policies aimed at offsetting this stagnation and decline. For instance, mortgage credit liberalization policies encouraged financial institutions to provide loans to low income households. Consequently, higher risk loans were approved and the 2008 crash was a direct result of these loans being defaulted. This line of argument bases itself on the premise that incomes were declining or remaining stagnant, especially among the bottom quintiles. Is this premise true?

“Postwar affluence faltered beginning in the late 1960s and early 1970s.”
– Greta Krippner

“...the end of growth...”
– Greta Krippner

“...stagnant or declining incomes...”
– Raghuram Rajan

OBJECTIVES & METHODS

The aim of this research project was to uncover the discrepancies in household income trends when using different data sources. In other words, were Krippner, Rajan, and others correct in their argument that incomes stagnated or declined?

To answer this question, I looked at two different sources of income and earnings data from 1967 to 2007: the Current Population Survey (CPS) and the Panel Study of Income Dynamics (PSID). The CPS surveys different people monthly, while the PSID follows the same sample over time.

CHANGE IN MEAN HOUSEHOLD INCOME (CPS)

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<th>Q3</th>
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CONCLUSION

• Although the CPS looks at quintiles in different time periods composed of different people, the trends do not indicate stagnation or decline, with the exception of the 1973-1992 period. However, extending the period by a mere three years to 1995 shows growth among all quintiles. Furthermore, the 1973-2007 period also demonstrates growth patterns. The 1992 endpoint clearly influences the results.

• The drawback in using the CPS is that this survey does not look at how the same people evolved. Indeed, most people, as they age and gain job experience tend to earn more, which means that their HI would be higher.

• The PSID, on the other hand, looks at the HI of the same people. For the 1973-1992 period (i.e. the sole time period that the CPS shows some decline among the lower quintiles), the PSID actually demonstrates that the households at the bottom in 1973 experienced significant growth by 1992 (more, indeed, than the top three quintiles).

• Thus, there seems to not be any decline or stagnation on the average in the decades leading up to the 2008 crash, particularly when considering the same households over time.

SOURCES


