

A Class Analysis of Recent Trends in Household Economic Well-Being

Ajit Zacharias*, Katherine Moos** and Fernando Rios-Avila*

*Levy Institute

**University of Massachusetts, Amherst

We acknowledge the generous support of the Groundwork Collaborative

Question and motivations

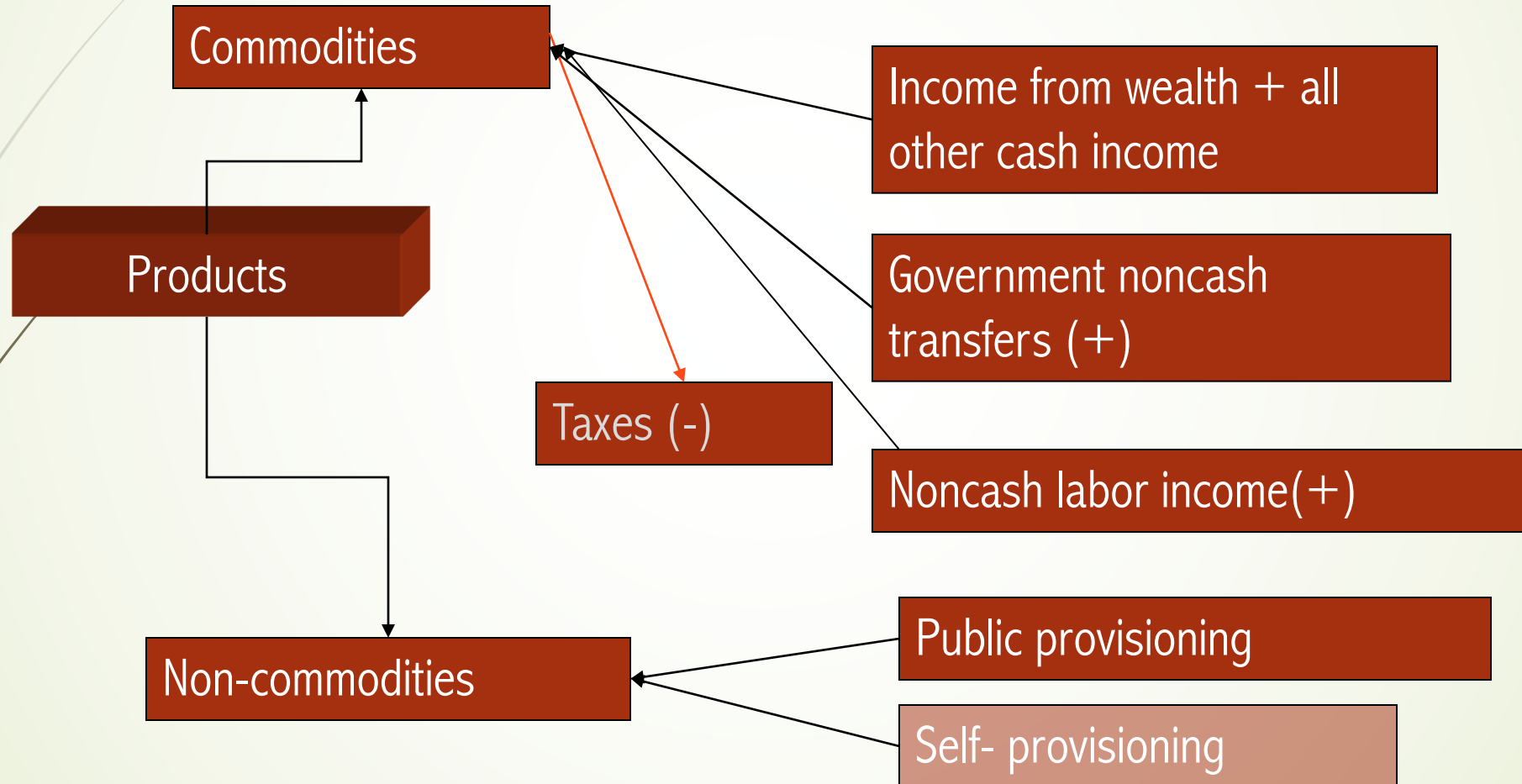
- ▶ Impact of the last two crises on household economic well-being in the US
 - ▶ Impact reflects the net effect of the crisis/shock on income or wealth *and* policy responses
 - ▶ Policy responses includes automatic stabilizers (e.g., unemployment compensation) and discretionary fiscal (e.g., Economic Impact Payments following the Covid-19 shock) and monetary (e.g. facilities to backstop financial markets) measures
- ▶ Most assessments of impacts on economic well-being focus on the fractiles of distribution (e.g. top 1% vs bottom 50%)
 - ▶ Class analysis puts the focus on the distribution of people over the fractiles, i.e., the underlying hierarchical structure of property relations and the social division of labor
- ▶ Most assessments use either pre-tax or at best post-tax, post-transfer measures of economic well-being
 - ▶ The Levy Institute Measure of Economic Well-Being (LIMEW) is a more comprehensive measure of economic well-being

Outline of the presentation

- ▶ LIMEW
- ▶ Class schema
- ▶ Comparison of the periods encompassing the Great Recession (2007–2010) and the initial impact of Covid-19 (2019 – 2020)

Major Components of LIMEW

4



Levy Institute Measure of Economic Well-Being (LIMEW)

Measurement Framework

5

Gross money income
– Govt. cash transfers
– Property income

Transfers + Public
consumption - Taxes

Base income + Imputed rent (homes) + Imputed annuity (nonhome assets) - annuitized value of debt +
Net government expenditure +
Household Production
= LIMEW

Sources and methods

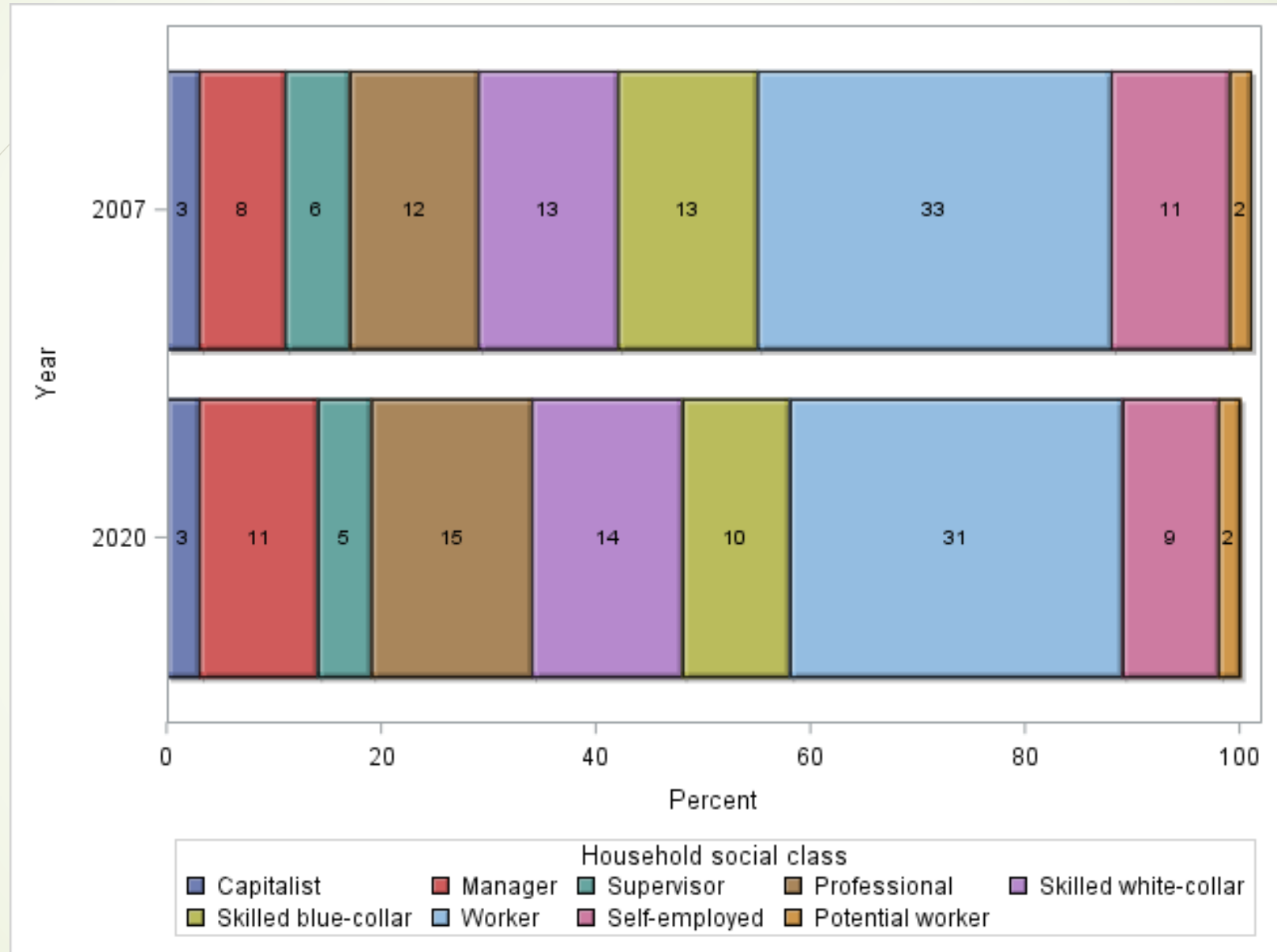
- ▶ The representative sample of households used in the analysis is the Annual Social and Economic Supplement of the CPS (ASEC)
- ▶ Imputations for the time spent on household production for each individual in the ASEC is done by statistically matching the ASEC and American Time Use Survey (ATUS)
- ▶ Imputations for the household wealth portfolios for each household in the ASEC is performed by statistically matching the ASEC and Survey of Consumer Finances (SCF)
- ▶ Other major sources of data used: NIPA, Flow of Funds, Annual Survey of Government Finances etc. etc.
- ▶ We focus here on the estimates for 2007, 2010, 2019 and 2020

Class schema

- ▶ Capitalist households: defined using wealth thresholds
 - ▶ \$3.4 million of equity in real estate and unincorporated business OR net worth of \$8.5 million (2022 dollars)
 - ▶ Frees the household members from the livelihood compulsion to seek employment
- ▶ Noncapitalist households: categorized using occupational class and employability
 - ▶ Householder is an earner: The household is assigned the householder's occupational class (as determined by the Census Bureau's occupational title)
 - ▶ Householder is NOT an earner, but the household has other earners: The household is assigned the highest earner's occupational class
 - ▶ Potential worker households: Household with no earners and householder of working age who gave the reason as "could not find work" or "taking care of home or family"

Household class structure, 2007 and 2020 (percent)

8



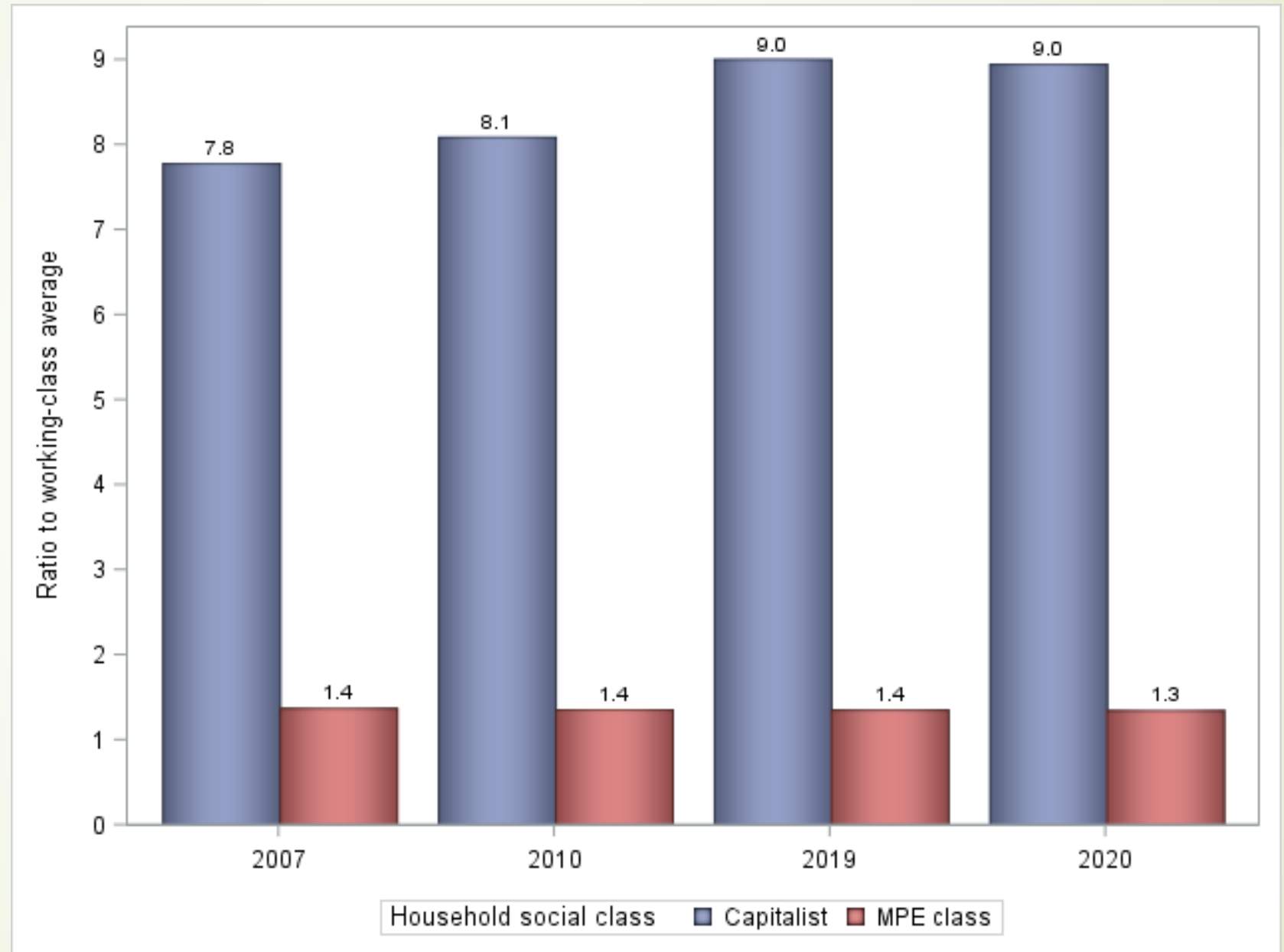
Changing class structure, 2007 to 2020

- ▶ Increase in the share of the managerial and professional classes
- ▶ A broad definition of the working class comprises potential workers, workers, and skilled workers (blue- and white-collar) households. Additionally, we include supervisors and self-employed that are not incorporated.
- ▶ According to this definition, the percentage of working-class households in the total number of households in the labor force declined from 61 percent to 58 percent between 2007 and 2020.
- ▶ Technological and organizational changes experienced by US capitalism have not yet reduced the working class to a numerical minority.
- ▶ However, the margin is rather small among: Whites (52 percent), Married householders (50 percent), and the racial group “Other” consisting mainly of Asians (46 percent).

Class disparities in average LIMEW, 2007 - 2020

10

“MPE” indicates “managerial, professional and entrepreneur (incorporated self-employed).



Comparing the Great Recession and the covid-19 shock

- ▶ Compare the changes in economic well-being during the 2007-2010 and 2019-2020 periods
- ▶ Utilized the standard technique of decomposing the proportionate change into contributions to the change made by the major components of LIMEW:
 - ▶ Base income (consisting primarily of labor income), income from wealth, net government expenditures, and value of household production.
 - ▶ components capture the effects on the household economic well-being of the changes in labor markets, financial markets, government policies regarding spending and taxation, and nonmarket production of household services.

Contribution of components of LIMEW to the annual percent change in average LIMEW, by class, 2007-2010 vs. 2019-2020 (percentage points)



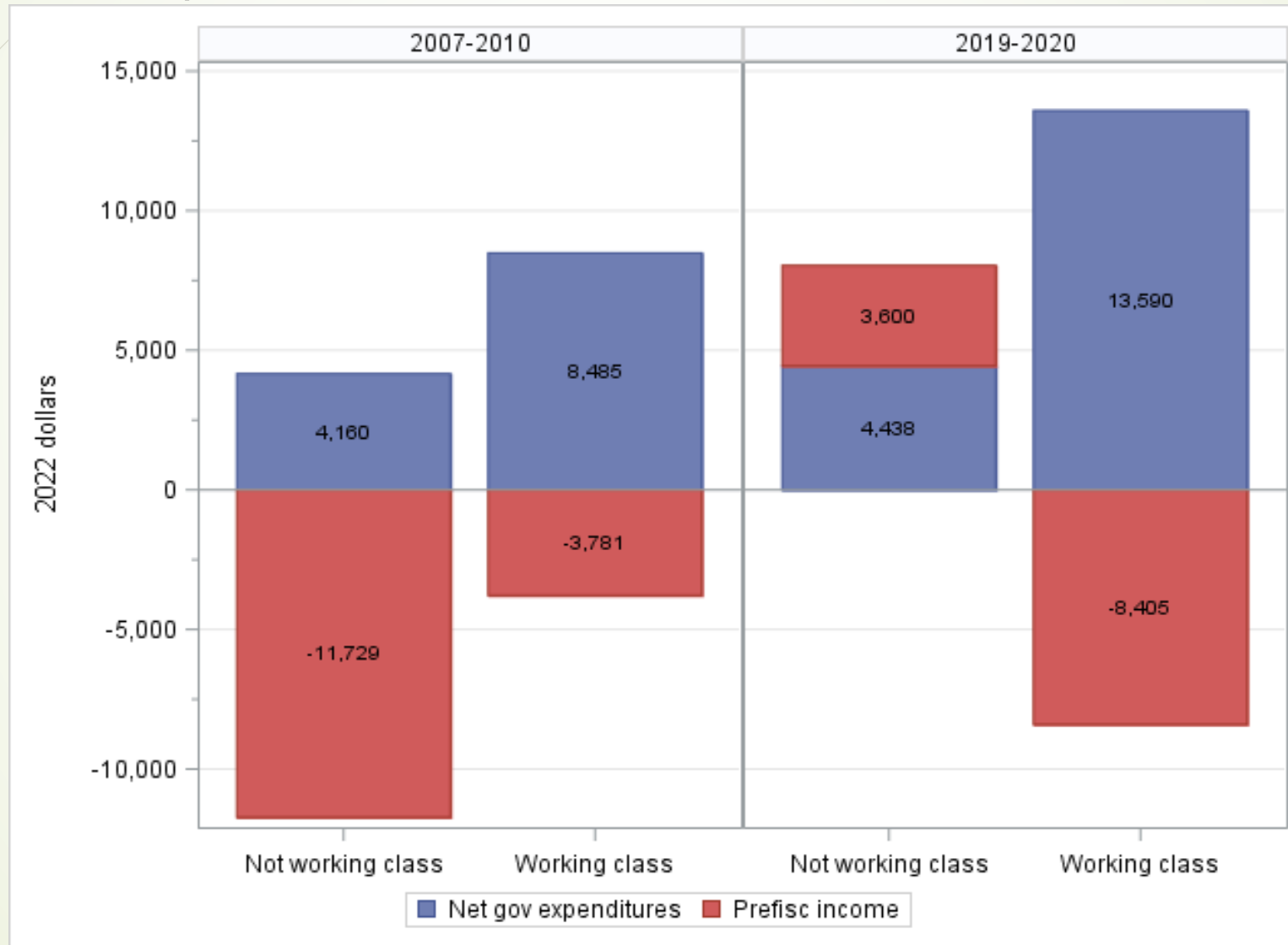
Boost to upper classes' income from wealth, 2019-2020

- ▶ Unlike the Great Recession, the covid-19 shock did not generate a decline in income from wealth of the upper classes.
- ▶ Policies stabilizing financial markets *directly* benefited this group of households more than the working-class households.
- ▶ But, income from wealth is distributed highly unequally (Gini in 2020 is 0.85.). So, the gains went disproportionately to a small elite.
- ▶ Our estimates show that out of the total number of 32.6 million upper-class households
 - ▶ the top 10% received 63% of the increase in income from wealth
 - ▶ capitalist class that make up 8% of the upper class households received 50% of the gains.

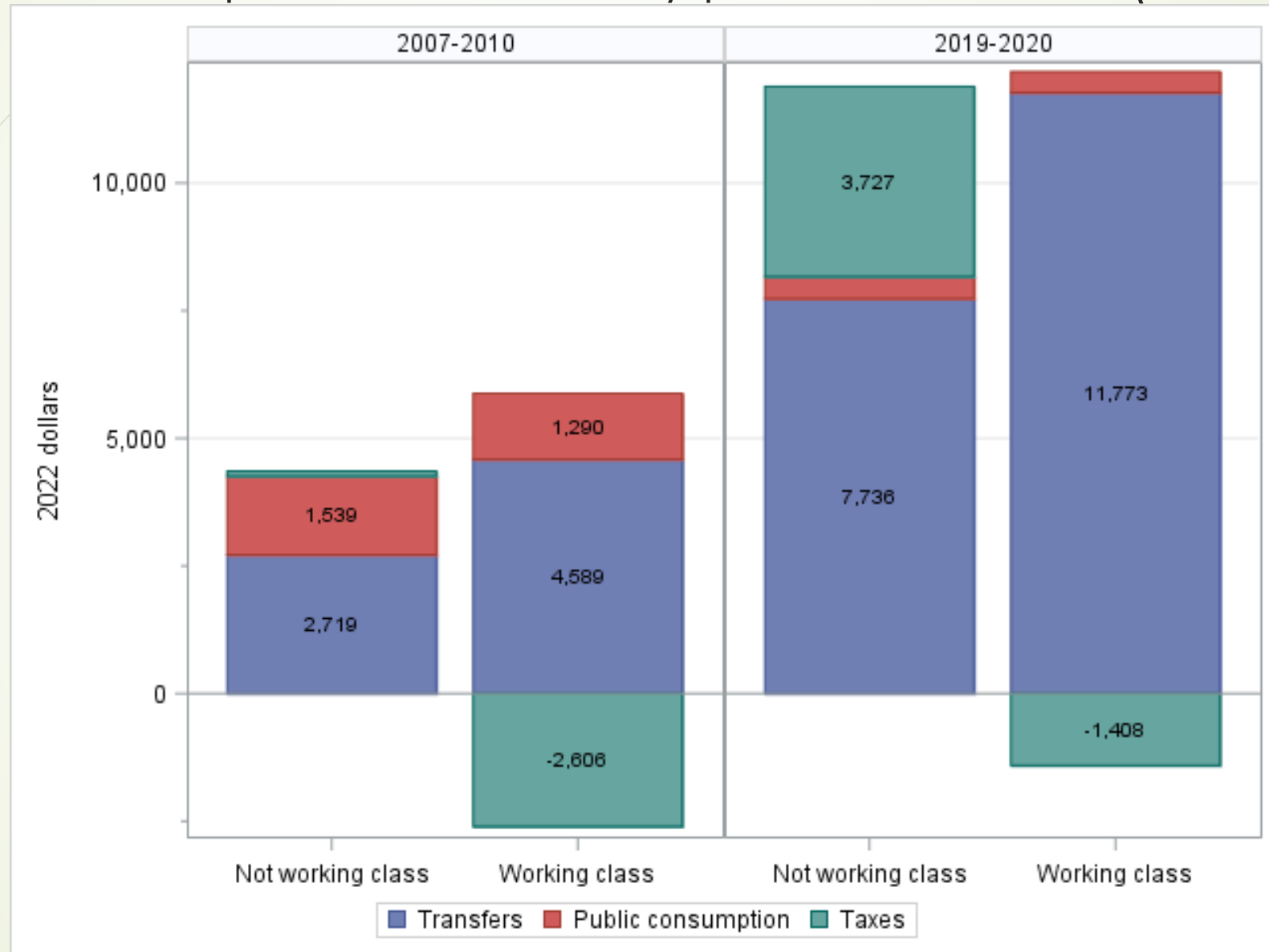
Prefisc income and net government expenditures

- ▶ $\text{LIMEW} = \text{Prefisc income} + \text{Net government expenditure}$
- ▶ $\text{Prefisc income} = \text{Base income} + \text{Income from wealth} + \text{Household production}$
- ▶ $\text{Net government expenditure} = \text{Transfers} + \text{Public consumption} - \text{Taxes}$
- ▶ HH with positive net government expenditures is a net beneficiary
- ▶ HH with negative net government expenditures is a net payer

Change in the average values of prefisc income and net government expenditures by period and class (2022 dollars)



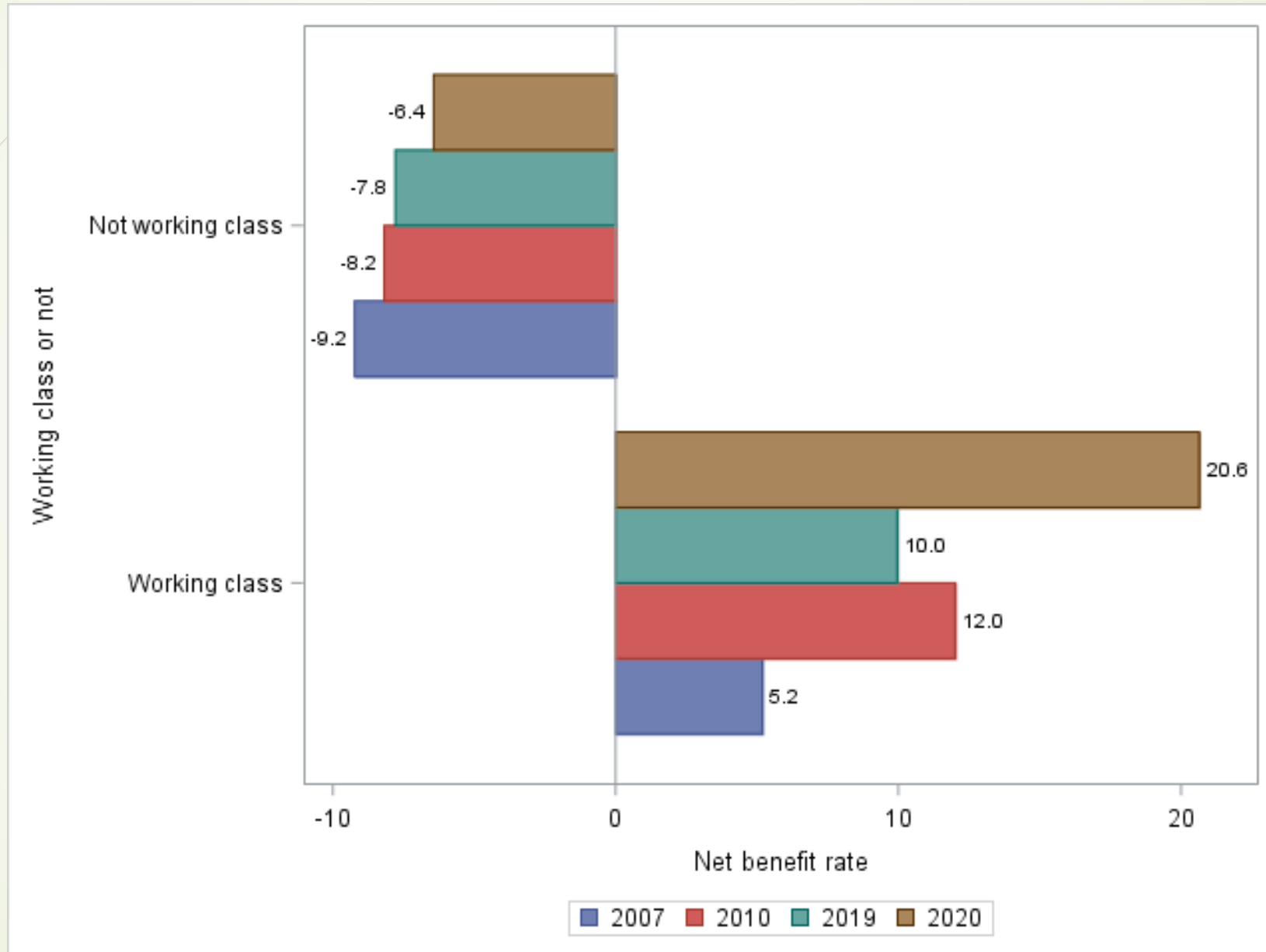
Change in the average values of transfers, public consumption and taxes by period and class (2022 dollars)



Net benefit rate by class (percent), 2007-2020

17

Net benefit rate is the ratio of average net government expenditures to average prefisc income, expressed as a percentage.



Conclusion

- ▶ Class disparities in economic well-being are large and persistent
- ▶ How we measure economic well-being matters for impact assessment
- ▶ Impact of covid-19 relief measures by the government on household economic well-being should not just focus on the outsized transfer payments
- ▶ Measures that caused buoyancy in financial markets led to a remarkable increase in the income from wealth of the upper classes, with the capitalist class—8% of upper class households—receiving 50% of the gains
- ▶ Net tax payments by the upper classes have fallen and net government expenditures for the working class have rose (both in relative terms) since early 2000s—the *visible* hand of the state in sustaining economic well-being