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Income growth a matter of perspective

In the debate on wage growth, Democrats say poor and middle-class incomes are down, and Republicans say they're up. Who's right? Economist and commentator Justin Wolfers breaks down the data and says they both are.

TEXT OF COMMENTARY

STEVE CHIOTAKIS: There are myriad of economic stimulus packages floating around Washington, and you'll likely hear about one issue in the debate: wage growth. But like everything else in D.C., there are two sides to the debate. The Democratic side -- wages are down for the poor and middle class. And the Republican side -- wages are up for the middle class. Who's right? Economist and commentator Justin Wolfers says it's all about the data.



Justin Wolfers (Wharton School, Univ. of Pennsylvania)

JUSTIN WOLFERS: The Republicans describe the income of the average person, and that average income has risen by 10 percent since the year 2000 -- which is an OK, if not stellar rate of progress.

The Democrats focus instead on the typical household. Think about lining up all the households from poorest to richest, and choose the income of the household in the middle.

Economists call this median household income. You might call it middle-class income. Unfortunately, the income of this middle household has fallen since 2000, and it is now about \$50,000. It's pretty unusual for the living standards of the middle class to decline like this.

Now, you might have a different definition of the middle class. But I have sliced and diced the data, and unless you want to start counting millionaires, you can't escape the conclusion that the middle-class incomes have declined.

How can the typical household be suffering economic decline, while the average rose? It's simple arithmetic: if someone earns 20 times as much as you, the average income statistics give them 20 times greater weight than you. Since 2000, the average income of the bottom 99 percent of taxpayers fell, while the incomes of the richest 1 percent grew. But the richest 1 percent are 20 times richer. So their rising incomes largely offset the falling incomes elsewhere.

So it turns out that Republicans and Democrats are each telling the truth -- just different truths. Which truth you care about may depend on where you stand in the pecking order.

CHIOTAKIS: Justin Wolfers teaches at the University of Pennsylvania's Wharton School of Business.

COMMENTS

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By James Coley
From Chapel Hill, NC, 11/26/2008

Don't feel sorry for me, David. Instead, engage in a real conversation. Please explain how Democrats are misusing statistics by choosing the median income as the typical income.

By David Rigby
From NC, 11/25/2008

James Coley said, "The real truth is that Republicans are lying with statistics and the Democrats are talking about the reality of economic life in this country." Poor James. He misunderstands that the goal of both political parties is to always misuse statistics. And most politicians have a very poor understanding of economics.

By James Coley
From Chapel Hill, NC, 11/25/2008

There is a big difference between the average income and the income of the "average person," which everyone understands to mean a typical person. The Republicans are using the old fallacy of conflating the two, while the Democrats are taking an honest approach.

This is obscured by Wolfers, who wants to be "balanced" as well as "fair," I suppose. He says both sides are telling the truth, but they are not. Journalism that is fair is already "balanced" in the relevant sense, but Wolfers has fallen into the trap of thinking that "balanced" means he has to leave everything at a relativistic standstill.

The real truth is that Republicans are lying with statistics and the Democrats are talking about the reality of economic life in this country.

By Bill Joos
From Westlake Village, CA, 11/25/2008

I would like some clarification:
How much did the Demos say wages have declined (%)? What was it based on/How was it based? Was it based on necessities, energy, more "items", etc.
I would like to see more detail.
Regards,

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