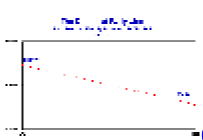
Joint Economic Committee Republicans
March 1996

Income Growth During the 1980s

One of the most commonly used methods of evaluating changes in economic policy is to examine the changes in family or household income that follow. For example, Labor Secretary Reich and Treasury Secretary Rubin have sought to frame the current debate over economic policy in terms of family income trends. According to Secretary Reich, the choice between Congressional and Clinton policies should be made by answering the question: "Which do you believe will make working families better off? This is the choice before us." [1]

In making this case, Secretary Reich has also defined household and family income trends over the last 12 years as a measure of economic policies of the time. According to his argument, "Behind the rhetoric of change is a rerun, on a larger screen, of twelve years of Republican government -- twelve years of stagnation or decline for most working Americans. We've seen this movie before, and we know the plot."[2] More recently, Treasury Secretary Rubin has adopted the Reich line, arguing that "If you go back over 15 years, real family incomes have fallen..." Presumably, the alleged weakness in family income growth over the last 12 or 15 years is proof that tax cut policies did not help improve the American standard of living. Consequently, according to this argument, the American people should reject current Congressional policies and choose Clinton/Reich policies instead.

In this paper we will accept Reich's view that a given economic policy can be evaluated by trends in family or household income. Furthermore, we will accept his test for current policy as the prospect for income growth under tax reduction policies on the one hand, or Clinton proposals on the other. However, after fully accepting Reich's premises for this analysis, an examination of the factual record finds that policies of tax and budget restraint, as advocated by Congressional policy, offer the only real prospect for renewed income growth. Moreover, a review of the facts raises further questions about the intellectual integrity of Administration arguments. This is the latest in a series of papers on income and wealth issues released by House JEC members over the last 7 years. [3]

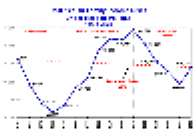

Click here to see Figure 1.

Real Median Family Income, 1979-1994

Last year Secretary Reich said, "The typical American family is living on less than it did fifteen years ago." This statement is supported by the official median family income data published annually by the Census Bureau of the Department of Commerce. From this source, it is clear that real median family income declined from $39,227 in 1979 to $38,782 in 1994. Thus a line graphed between these two endpoints would indeed be downward sloping, as shown in Figure 1 (the graph on the first page).

The central question is whether this line accurately depicts the trend in the intervening years, or does this trend line misrepresent the levels of median family income in the intervening years? If there were a period of at least four or five years which significantly departed from this trend line, it would be clear that this trend line misrepresents the central portion of the period.

Reich's characterization of the "Republican" years as ones of stagnation or decline in middle class income is offered as proof that tax cut policies have failed. Indeed, if middle class family income did consistently trend downward during the "Republican" years, his would be a justified conclusion, given his premises. However, if Reich's argument relies on the omission of data which contradict his thesis, his statements would be false, if not deceptive. If family income were trending upward during the "Republican" years, particularly after tax cuts went into effect, then clearly Reich is presenting his numbers in a misleading way. What do the facts show?

Click here to see Figure 2.

The graph above fills in the income data for the "Republican" years Reich fails to report. Even a cursory review of the data show why Reich's speeches would not include these data, for they completely refute his whole argument. Not only does median family income trend upward in the period after the 1981 tax cuts, these Reagan years were the only period of sustained income growth in the entire 1979-1994 period. The years when other policies were in effect were years of income declines or stagnation.

Middle Class Family Income Up After 1981 Tax Cuts

The existence of an upward trend in real middle class family income in the years following Reagan tax cuts obliterates Reich's argument that tax cut policies are associated with income declines. They are in fact the only policies in the 1979 to 1994 period that can be associated with middle class income growth. Consequently, according to Reich's own policy test, the choice of Congress should be to speedily enact tax reduction measures.

Turning to the post-Reagan period, the policy mix during the Bush Administration was obviously different from the tax cutting agenda of the Reagan era, or the present. Unfortunately, OMB director Richard Darman and the Democratic leadership in Congress in 1990 reached an agreement to increase taxes and spending, which was enacted over the strong opposition of tax cut advocates among Republicans in Congress. This period marked a very clear break from the policies of the Reagan period, and was recognized as such by observers across the political spectrum. However one might choose to describe the era, it was hardly one of Republican tax cutting. Obviously, the Clinton period, characterized by one of the largest tax increases in U.S. history, was not one of tax cuts either.

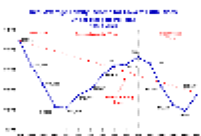
Selective Choice of Data Points Hides Reagan Income Gains

The graph above discloses real median family income data for the entire 1979-1994 period. This avoids the problem caused by withholding of relevant information to make an argument contradicted by the facts. Various endpoints in the data can be chosen and justified as measures of the 1980s or of Reagan policies, and reasonable people can disagree about the best years to use for this purpose. An extended discussion of this issue is not needed, but several observations can be made about alternative ways of presenting the data.

Between the first installation of the tax cut in 1982 and the last full year of this expansion, 1989, real median family income increased 13 percent. Moreover, according to this measure, middle class family income also increases if 1980 or 1981 is used as base year, albeit at a slower pace. On the other hand, the common liberal choice of 1979 as a base year is clearly biased, since real median family income dropped $1,370 between 1979 and 1980, its steepest drop in recent years. Essentially, this is the way Reich and others have attributed the income meltdown in the last year of the Carter Administration to Reagan tax cutting policies, another technique of distortion. The decline in this measure in 1980 alone amounts to 308 percent of the decline over the entire 1979-94 time period.

Income Growth of the Lowest Fifth

The 13 percent increase in middle class family income during the Reagan expansion years is irrefutable, but some have asserted that the average income of the bottom fifth fell during the 1980s. Is this factually correct? An answer to this question is provided in the graph on the next page. This graph of the average real income of the bottom fifth of families mirrors the historical pattern of the median family income, with significant income growth during the Reagan expansion period.


Click here to see Figure 3.

These data on the average income of the bottom fifth are provided to illustrate a point. Of the commonly cited decline in this measure between 1979 and 1989, 153 percent is accounted for in the single year of 1980, the last year of the Carter Administration. Clearly it is extremely misleading to attribute the dramatically negative effects of this single year of 1980 to the Reagan period. Moreover, extensive JEC research on income mobility demonstrates that the validity of this average income measure is dubious because most of the members of the bottom fifth in 1979 had exited the bottom fifth and moved to higher levels of income by the end of the 1980s.

Who's the Unfairest of Them All?

It is interesting to note that according to the standard liberal criteria of income equality used in the 1992 campaign, the shares of total income generated by the top fifth and top 5 percent of families appear to be higher under Clinton than in any of the Reagan years, higher indeed than in any prior year in the postwar period. Also, by this measure, the income share of the lowest fifth is lower under Clinton than in any of the Reagan years, or any other postwar year.

For those who view everything through the lens of redistributionism, the Clinton years would have to be viewed as much more unfair than any of the Reagan expansion years. Indeed, as pointed out in a 1994 JEC report, from this perspective the Clinton Administration appears to be the most unfair in the post-World War II period.

It is important to recall that families do move between the various income fifths over the years, so that changes in the average income levels of the fifths over time do not necessarily reflect the changing economic well-being of those only temporarily in these quintiles, and that other caveats about data limitations also apply. Nonetheless, the Clinton record is a very shaky platform from which to attack others on the basis of redistributionist ideology. Despite all the demagoguery from the 1992 campaign and Administration about the supposed evils of the Reagan years, the factual record shows solid income growth across the board during the 1980s.

Conclusion

The only way Reich and other liberals can make their argument associating tax cuts with income declines is to define a time period that includes enough income declines from other years to offset the income gains following the 1980s tax cuts. If one really wants to examine the trend in real median family income after the Reagan tax cuts, a review of the upward trend displayed in graph 2 will suffice. To argue that tax reduction is historically associated with falling family income, and then to ignore the increase in family income that did in fact take place after the tax cuts went into effect, is simply intellectually dishonest. Yet this is the official Clinton Administration argument against current Congressional economic policy.

Christopher Frenze
Chief Economist to the Vice-Chairman

Endnotes

1. Speech by Labor Secretary Robert Reich, National Press Club; January 5, 1995.

2. *Ibid.*

3. Other JEC reports that deal with this issue:

    1. Clinton's Middle Class Crunch: Less Income, Higher Taxes (JEC Report -- February 1996)
    2. New Data Confirm Clinton Crunch in Income and Earnings (Economic Update -- February 1996)
    3. Clinton Income and Poverty Funk Continues (Staff Report -- October 1995)
    4. Middle Class Income Declines in Clinton's First Year (Economic Policy Update -- Oct. 18, 1994)
    5. Family Income Growth and Economic Equality: Progress or Punishment? (July 1992)
    6. Income Mobility and Economic Opportunity (June 1992)
    7. Income Mobility and the U.S. Economy: Open Society or Caste System? (January 1992)