

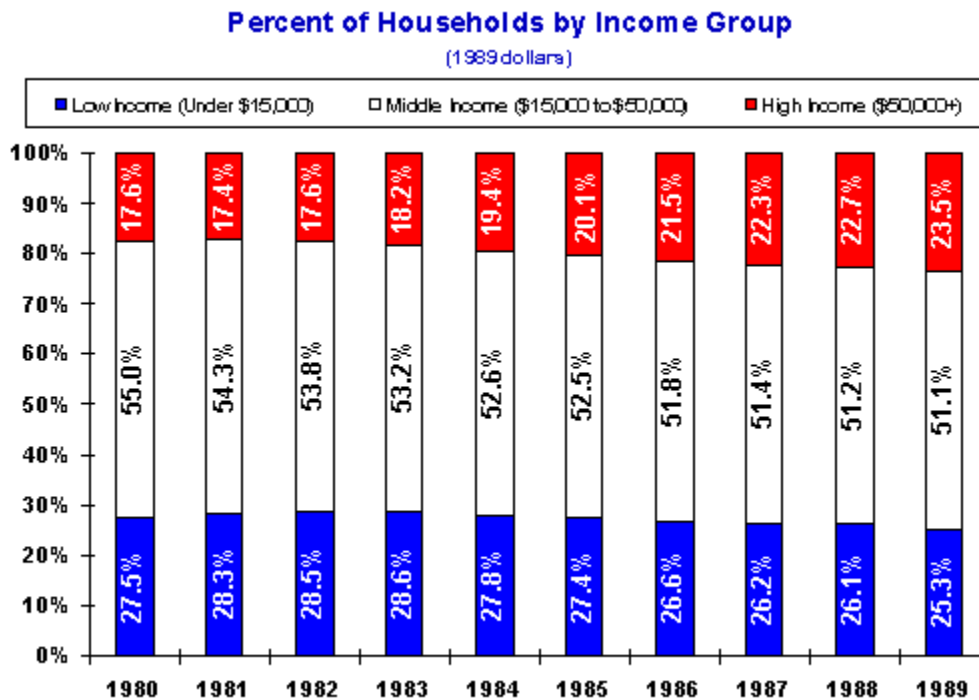
The Reagan Prosperity

The Reagan expansion years marked a period of economic progress for middle class Americans. Middle class income increased 11 percent after adjustment for inflation, while nearly 20 million new jobs were created. Nonetheless, there are those, such as Secretary Reich, who have attempted to portray the 1980s as a period of economic hardship and decline for most Americans.

This paper will rely on data from the Census Bureau to analyze the income growth of the 1980s. The evidence shows that the percentage of households in the low income category declined during the 1980s, while the proportion of high income households increased. Furthermore, while the middle class shrank as a share of all households, the reason for this is upward, not downward, mobility.

Middle Class "Shrinking" Upward

The graph below shows the percentage of all households in low, middle, and high income categories. During economic decline, household income tends to fall, while during economic progress, household incomes tend to increase. The 1982-89 expansion conforms to the expected pattern of income growth during an economic upturn.



Source: Census Bureau

The percentage of households in the low income category dropped during the 1980s. This group comprised 27.5 percent of all households in 1980, 28.5 percent in 1982, and only 25.3 percent by 1989. As a share of all households, the proportion of those with low incomes became less prominent by the end of the 1980s.

Meanwhile, the percentage of households with incomes over \$50,000 jumped from 17.6 percent in 1980 and 1982, to 23.5 percent in 1989. This remarkable increase in the proportion of high income households is another sign of solid income growth.

Notice how the strong upward mobility has affected the middle category. This group comprised 55 percent of all households in 1980, 53.8 percent in 1982, and 51.1 percent by 1989. In this one sense, the middle class did indeed shrink during the 1980s. Is this good or bad?

If the middle class shrinkage had resulted from massive income losses resulting in expansion of the low income group, it would clearly signal that something was seriously wrong. However, a review of the data shows that the reverse was happening. Income gains were pushing a greater proportion of middle class households into the high income category. Of the 4 percentage point reduction in the middle class percentage between 1980 and 1989, all of it is accounted for by net upward movement into the high income category.

Conclusion

Liberal critics of the 1980s who argue that the middle class withered are half right for the wrong reasons. The proportion of middle class Americans did indeed decline, but this reflected an upward movement of households into the high income category. Meanwhile, the proportion of low income households declined, as more became middle class. The income growth of the Reagan years boosted the fortunes of Americans at all income levels.

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