

# Recent Trends in the Material Well Being of the Working Class in America

James P. Ziliak

University of Kentucky

[jziliak@uky.edu](mailto:jziliak@uky.edu)

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# Objective

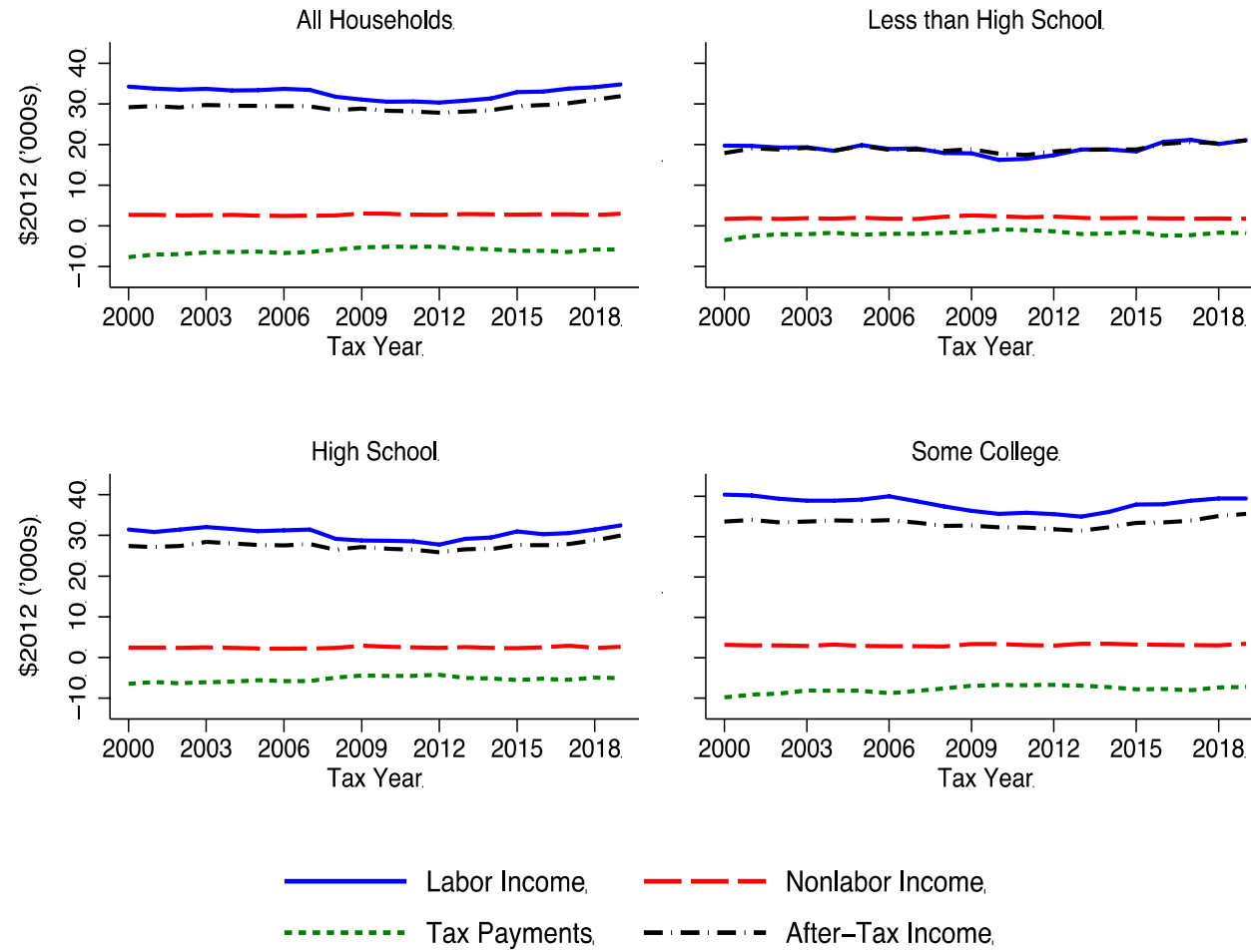
- I examine trends in the material well-being of working-class households over the two decades surrounding the Great Recession
  - Composition of after-tax and transfer income
  - Absolute and Relative Poverty Rates
  - Earnings and After-Tax Income Inequality and Growth
  - Homeownership
  - Health Insurance Coverage
  - Food Insecurity

# Data and Sample

- CPS Annual Social and Economic Supplement, 2000-2019 tax years
- CPS Food Security Supplement, 2001-2019 calendar years
- Working class households defined as those with non-zero earnings whose head is between ages 25-54 and with less than a college degree
- Household earnings and income are equivalized using modified OECD scale, and expressed in real 2012 dollars using the PCE
- Household income includes cash income, SNAP, and taxes and credits
- Drop earnings imputes and whole imputes and reweight using IPW

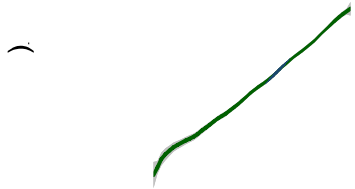
# Composition, Distribution, and Growth of Incomes

# Composition of Income



- Average incomes flat through 2014
- After 2014 income grew through a combination of earnings gains, and tax cuts post 2017
- Households headed by less skilled had most robust earnings gains post GR

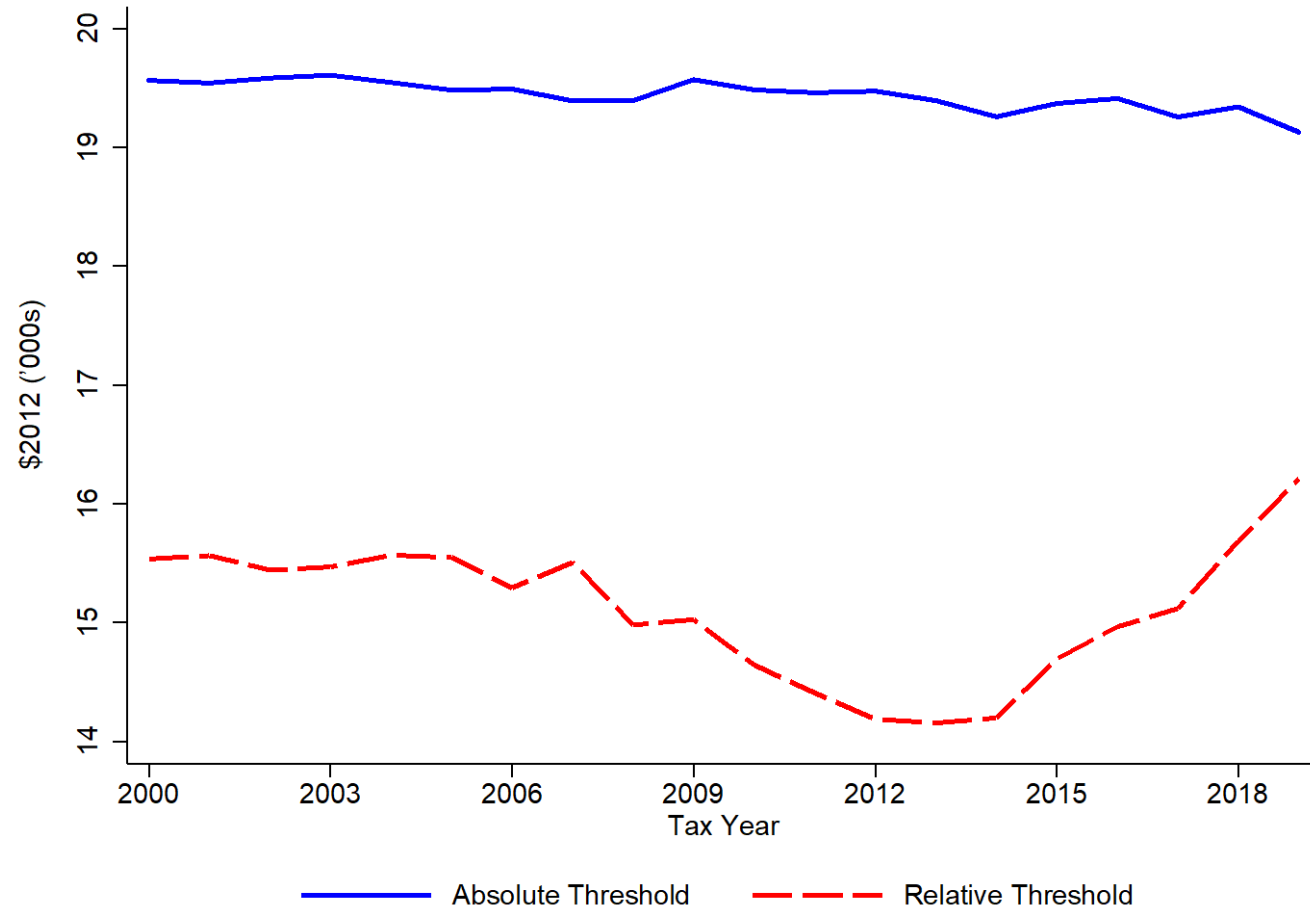
# A closer look at refundable tax credits



- Figure depicts how after-tax income changes with earnings
- Breakeven earnings level increased from \$20k in 2000 to \$23k in 2019
- Reflects both earnings growth and more generous EITC and CTC

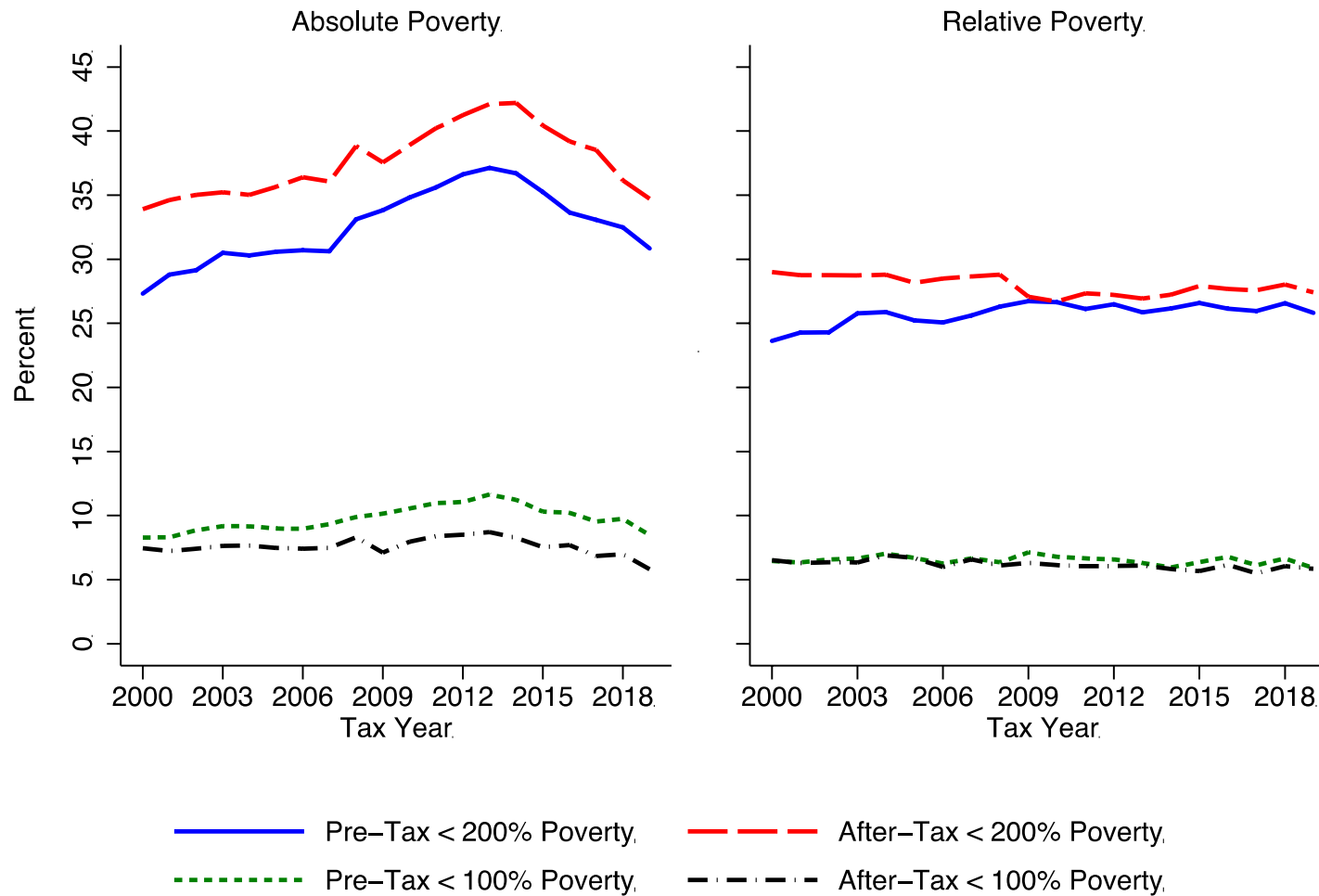
Equivalentized Earnings (\$2012 '000s)

# Absolute and Relative Poverty Thresholds



- Absolute measure is average Orshansky threshold
- Relative measure is 60% of median equivalized after-tax income
- Relative poverty line is procyclical

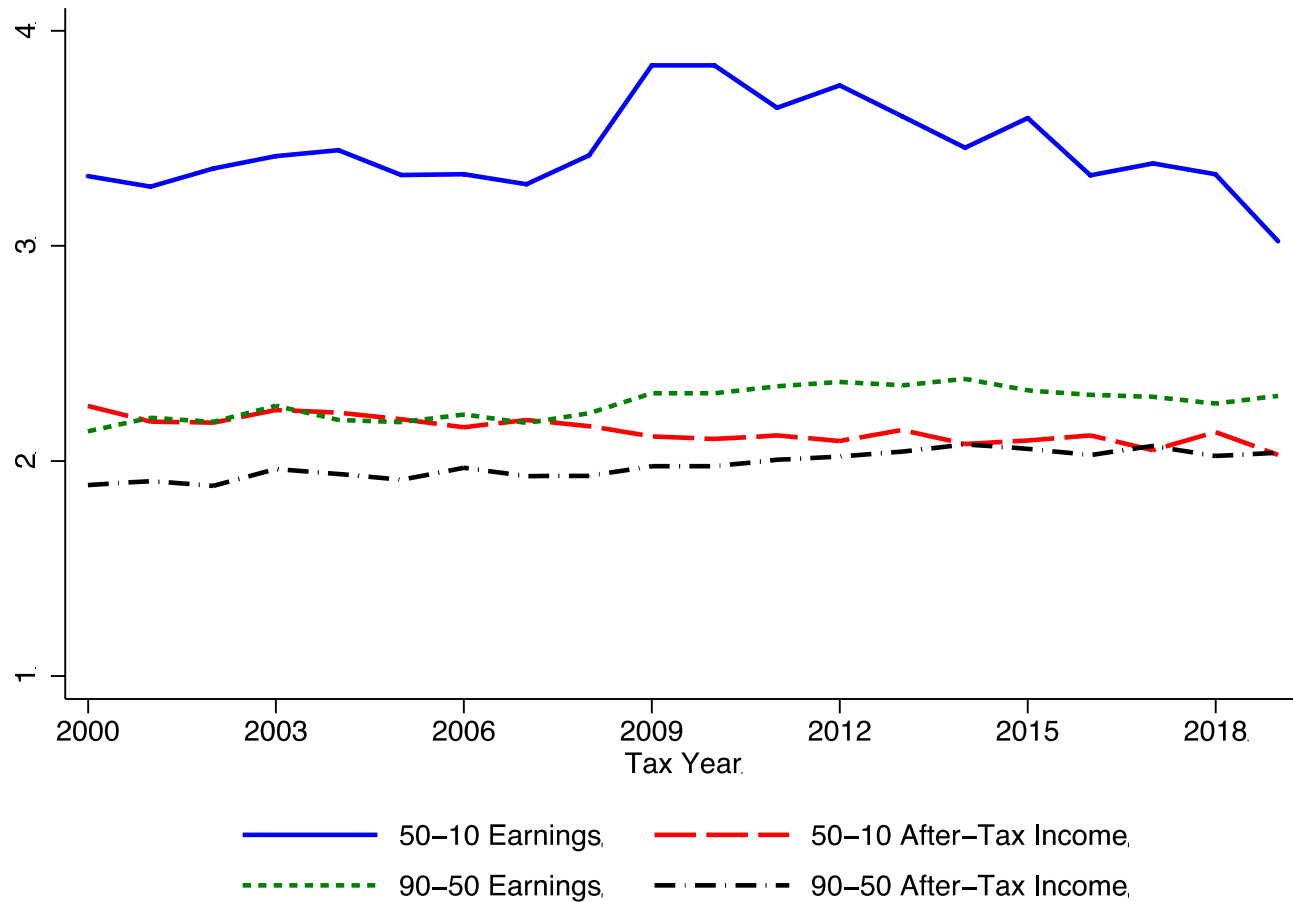
# Absolute and Relative Poverty Rates



- Absolute after-tax near poverty exceeds before tax near poverty
- Reverse occurs with absolute poverty, reflecting role of EITC
- Poverty rates “regressed to the mean” after the GR
- Relative poverty little affected by tax system or business cycle (the latter affecting thresholds)

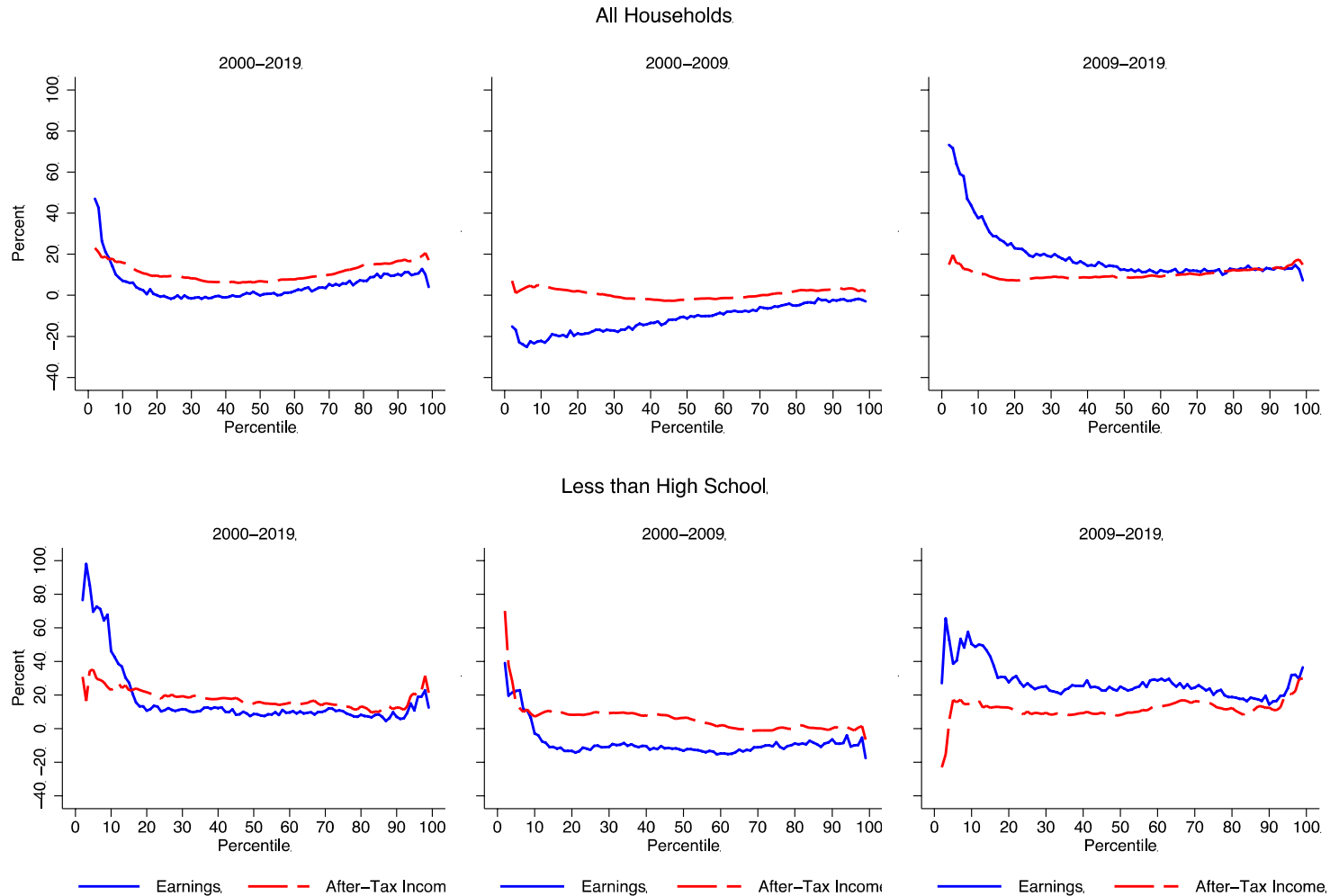


# Earnings and Income Inequality



- Post GR lower-tail inequality fell but upper-tail inequality was stable or gently increased

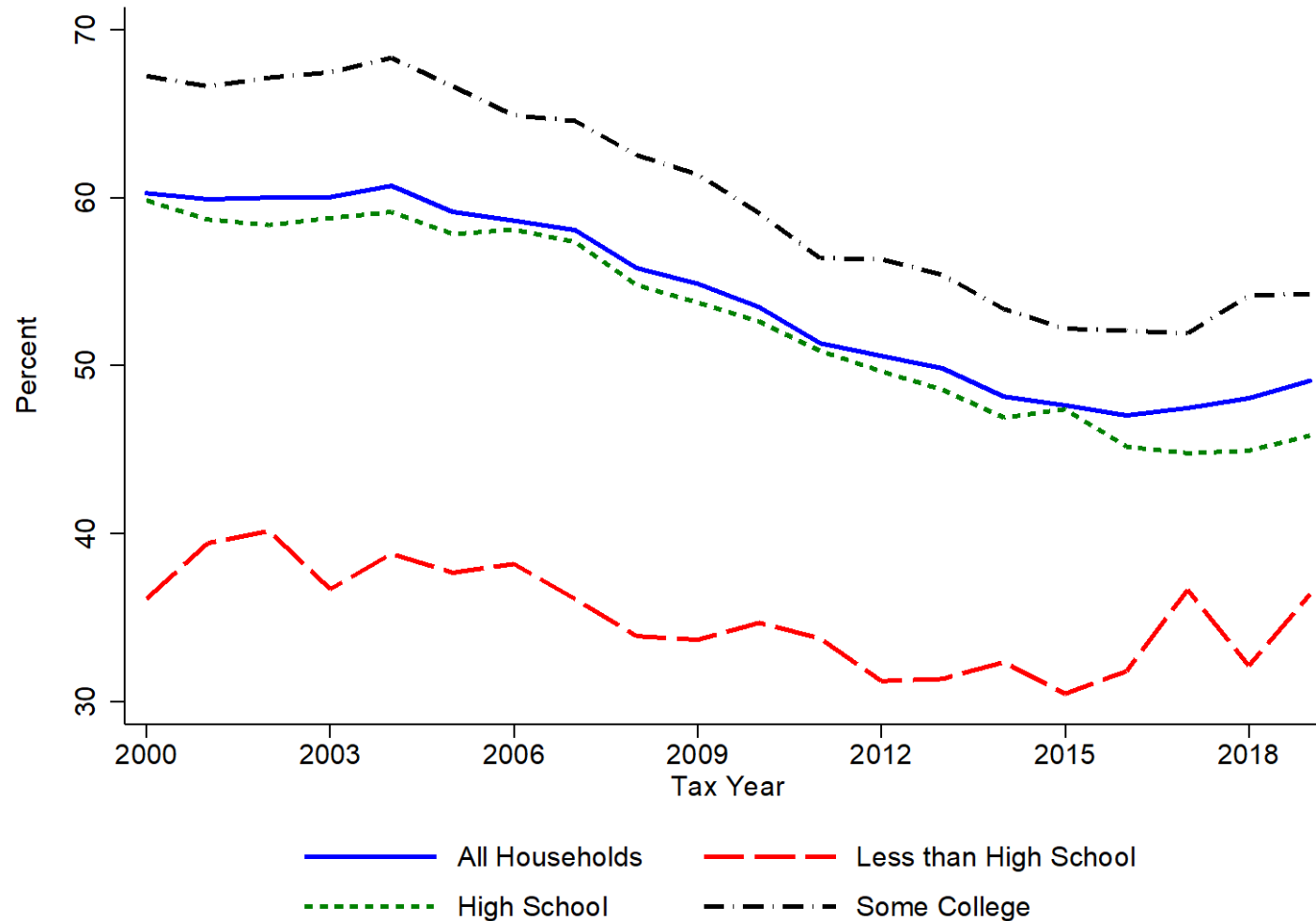
# Growth across the distribution



- Earnings and income growth was strongest over 2000-2019 for bottom 10 pp, driven all post GR
- Effectively 0 for the 10<sup>th</sup> – 80<sup>th</sup> percentiles
- Lowest income least skilled saw transfer claw-back with strong earnings growth post GR

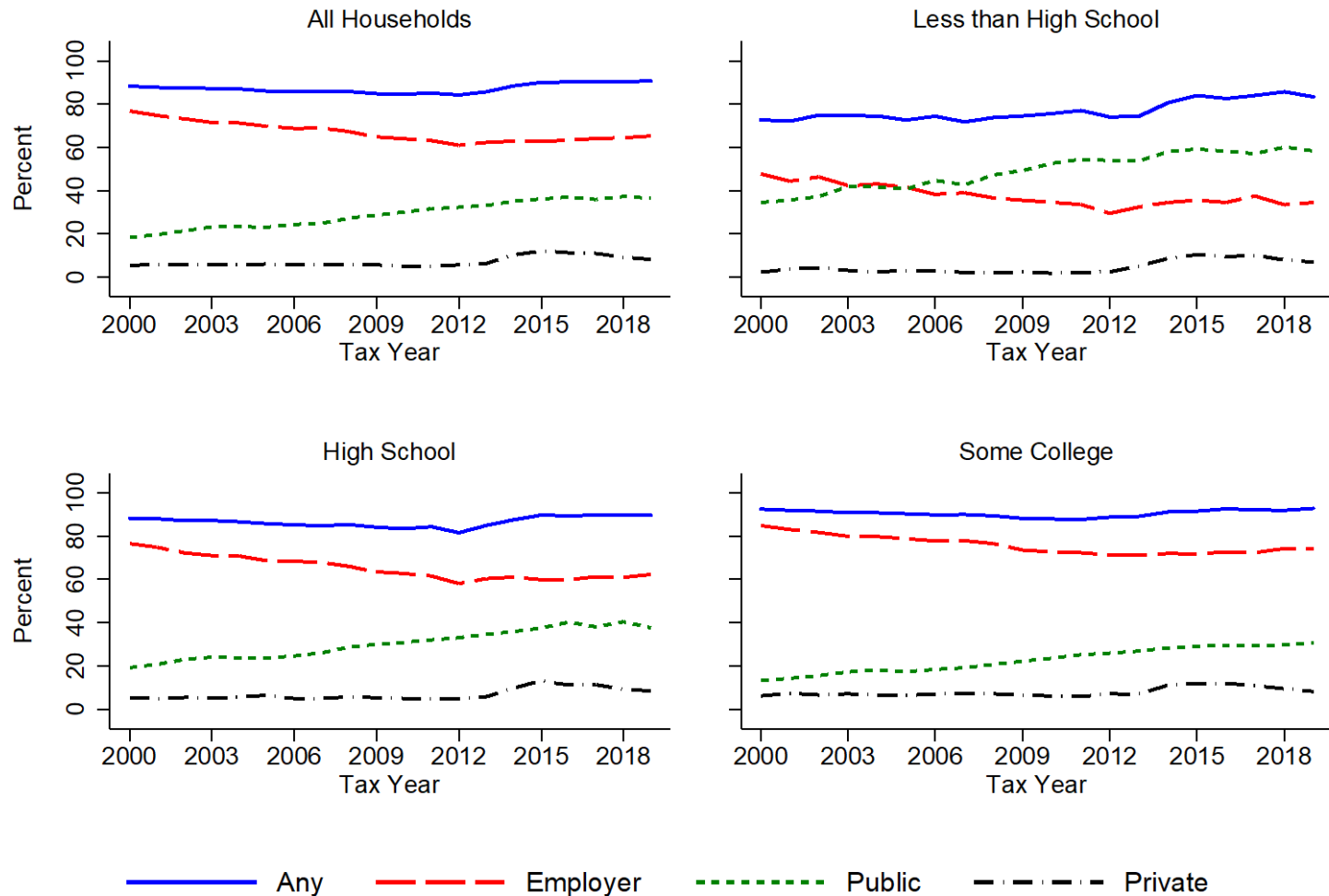
Material Well Being

# Homeownership



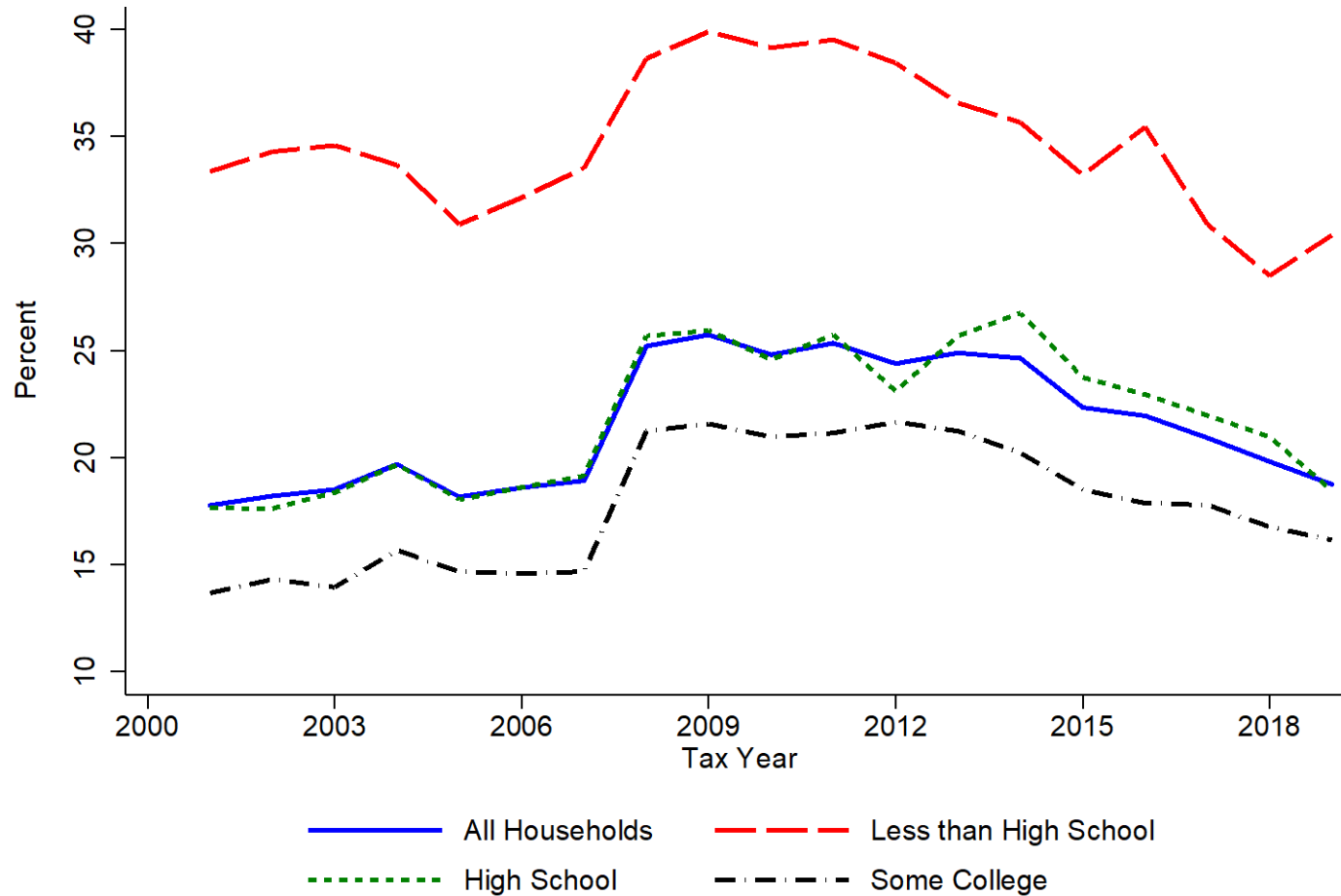
- In 2000, 60% of working class owned their home, compared to 67% overall
- By 2019, only 49% of working class owned their home, compared to 64% overall
- Large loss in household wealth, especially among semi-skilled

# Health Insurance



- Coverage was stable until ACA in 2014
- This masked large 15 pp decline in employer coverage that was offset by growth in public coverage
- Less skilled households largest beneficiary of ACA with 10 pp increase in coverage since 2000

# Food Insecurity



- At height of GR, 1 in 4 working class households were food insecure
- By 2019, just under 1 in 5 were food insecure
- Less skilled only group to fall to pre-GR levels by 2019

# Conclusion

- The two decades leading up to the global Covid-19 pandemic of 2020 were a mixed bag for the working class in America
- The first decade saw declines in most measures of well being, only for these to recover in the decade after the GR.
- Post GR the less skilled were the greatest beneficiaries in terms of earnings and income growth, falling absolute poverty, lower-tail inequality, and food insecurity, and rising health insurance coverage
- As wealth is used to buffer economic shocks like Covid-19, the decline in homeownership eliminated an important channel for these households to weather the storm.
- Undoubtedly CARES I and II were/are crucial for the economic well being of the working class