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American Incomes Face Tough Slog Over Next Few Decades

ByNeil Shah

American paychecks have taken a beating over the last decade.

After peaking at $56,648 in February 2002, the typical income of an American household—the median level of wages, stock-market returns and other earnings, or the point at which half earn more, and half earn less—slumped before nearly matching its peak in January 2008, one month into the Great Recession, when adjusted for inflation, according to an analysis of government data by **Sentier Research**. When the economy nosedived, incomes tumbled. Now, for the past two years, incomes have barely budged after bottoming out between $51,000 and $52,000—8% below their peak.

As the WSJ pointed out today, workers' wages—just their paychecks, not other income—have been flat since the end of the recession in June 2009 thanks to a lethargic economy, businesses restraining pay and globalization. That is muffling consumer spending and holding back the recovery.

But new research by two economists, **Richard Burkhauser** of **Cornell University** and **Jeff Larrimore** of Congress's **Joint Committee on Taxation**, suggests things may get even worse in coming years—thanks to two basic population trends. After supporting the economy during their peak earning years, America's Baby Boomers are starting to retire, which will mean higher numbers of lower-income older individuals. Second, the researchers argue, relatively high-earning whites are over time being replaced by minority workers, especially Hispanics, who tend to make less money.

Burkhauser and Larrimore project these two factors will reduce growth in median incomes by about 0.5% per year through 2030.

Demographic trends used to support income growth. The median household income rose about 9% between 1979 and 1989 and 13% between 1989 and 2000, the researchers note. A key driver was the increased employment and earnings of women.

But in the mid-2000s incomes slumped. Many Americans apparently took this in stride since home values were climbing significantly, boosting wealth, and credit was easy to get. To offset stagnant incomes, Americans took on more and more debt, which made the Great Recession that much worse, according to a separate paper by **New York University** economist **Edward Wolff**. As the crisis took hold, net worth plummeted. At the same time, median household income dropped about 7% from 2007 to 2010, more than the 3.5% fall seen between 2000 and 2004 and a 4% decline between 1989 and 1992.

Over the past few years individual Americans have made progress fixing their financial problems, finding jobs, regaining equity in their homes, and replacing aging clunkers. But the overall slowing of income growth in the mid-2000s may persist as Americans age and more minorities enter the workforce.

By 2030, nearly 20% of the U.S. population will be over 65, up from 13% in 2010, according to **Census** data cited by Burkhauser and Larrimore. At the same time, the Hispanic population is expected to increase from 16% to nearly 22% of the population by 2030 and almost 28% by 2050. Because average incomes among minorities are approximately 60% of the average incomes of whites, this upward shift in the minority workforce will reduce median income growth, they argue.

It is possible that minority incomes will be much higher in the future as minorities replace whites in jobs. But Mr. Burkhauser expects current income gaps between black, Hispanic and whites to persist, all else being equal. That is because recent technological changes have lowered pay for lower-skilled workers and increased demand for higher-skilled ones. And many minorities may lack the required skills.

“Unless Hispanics improve their education and technical skills, they will not be in a position to fill those [higher-skilled] jobs,” Mr. Burkhauser said. While lower-skilled jobs may open up, “the wages of low-skilled workers have risen far less than high-skilled workers over the last decade.”

The result? Americans’ overall income growth over the next few decades could be noticeably weaker than it was in the 1980s and 1990s. That, in turn, could mean a less robust economy going forward.