Three Questions
About Consumer Spending
and the Middle Class

June 22, 2010

This information is for research purposes only and does not reflect the policy or views of the Obama administration.

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Three Questions:

1. How do we define the middle class, and how do we measure their progress? This calls for differentiating their actual consumption (and saving) against a more prescriptive assessment.

2. If we give up on prescription, we still should be interested in relative consumption differences across income classes. What is the trend in consumption inequality (and how does it relate to income inequality)?

3. Underlying both absolute and relative consumption challenges facing the middle class is the growing gap between productivity and compensation. A significant share of the growth in the gap (about a third) since 1979 is due to the difference in growth rates between product and consumer deflators. How can we better understand the implications of this divergence?
Changes in Median Real Family Income vs. Price Changes in Key Middle Class Items: 1990 - 2008

Source: Department of Commerce, “Middle Class in America.” Underlying data from various sources.
Growth in Real Income and Consumption by Income Quintile, 2000-2007

- **Bottom Fifth**: Income growth, -5.6%
- **Middle Fifth**: Income growth, -1.7%
- **Top Fifth**: Income growth, -1.9%
- **Bottom Fifth**: Consumption growth, -5.2%
- **Middle Fifth**: Consumption growth, 1.5%
- **Top Fifth**: Consumption growth, 7.0%

Source: Current Expenditure Survey, CPS ASEC.
Decomposition of Wage-Productivity Disparity, 1979-2009

Consumer Prices Outpace Product Deflators

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Implicit Price Deflator</th>
<th>CPI-U-RS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-2009</td>
<td>3.6%</td>
<td>4.1%</td>
</tr>
<tr>
<td>1979-89</td>
<td>4.5%</td>
<td>5.1%</td>
</tr>
<tr>
<td>1989-2000</td>
<td>2.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>2000-07</td>
<td>2.2%</td>
<td>2.7%</td>
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