

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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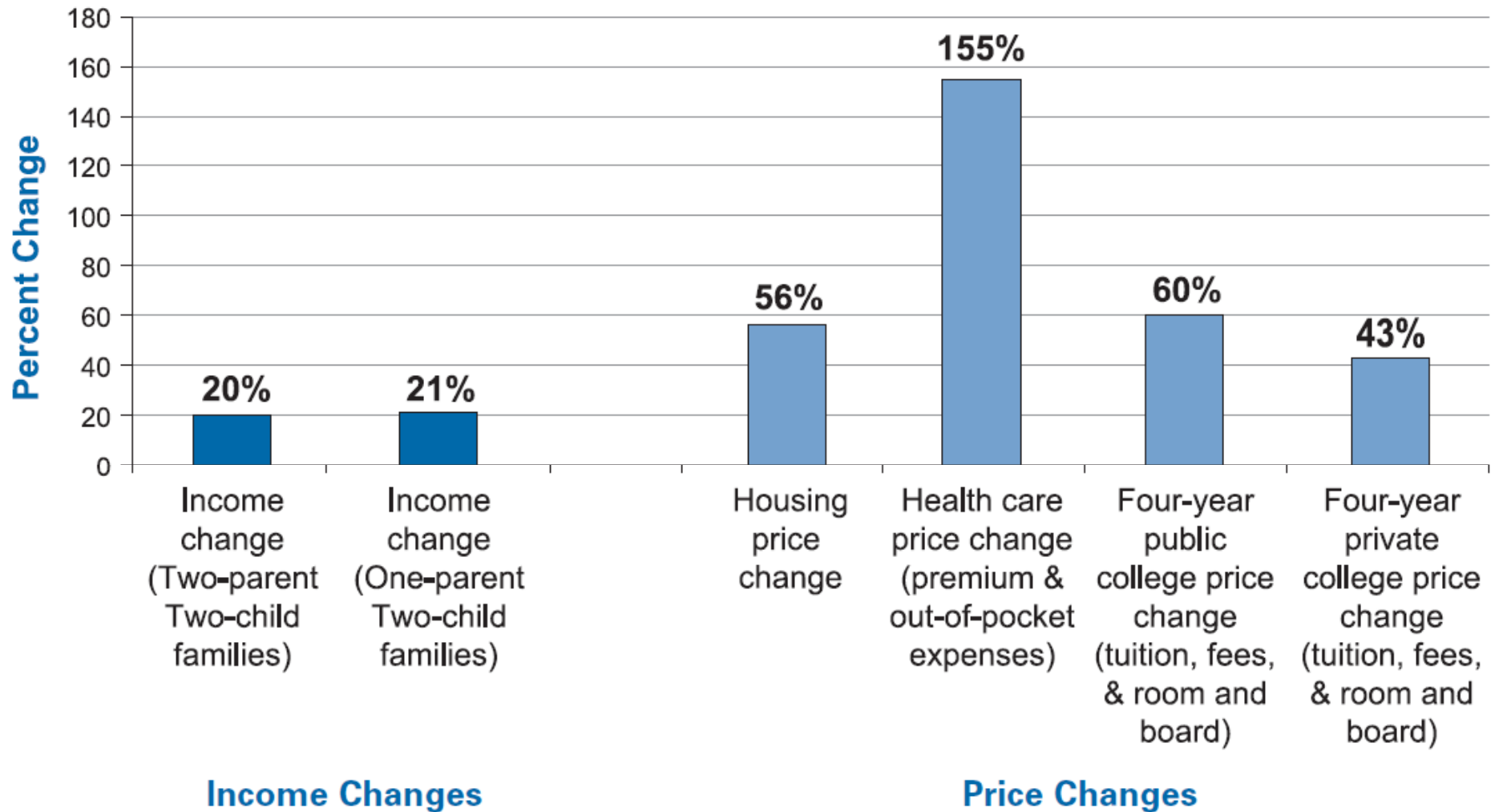
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Three Questions:

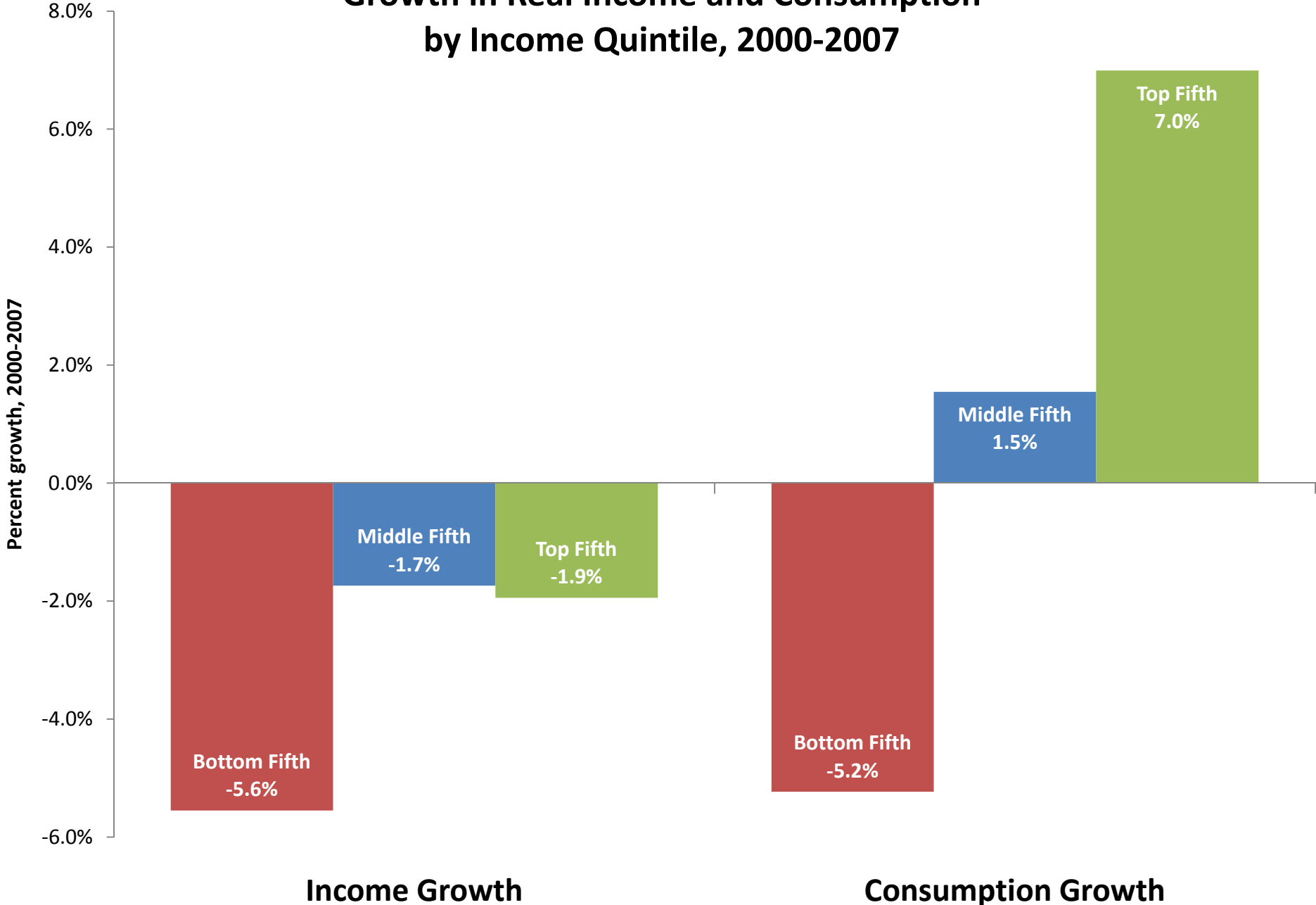
1. How do we define the middle class, and how do we measure their progress? This calls for differentiating their actual consumption (and saving) against a more prescriptive assessment.
2. If we give up on prescription, we still should be interested in relative consumption differences across income classes. 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



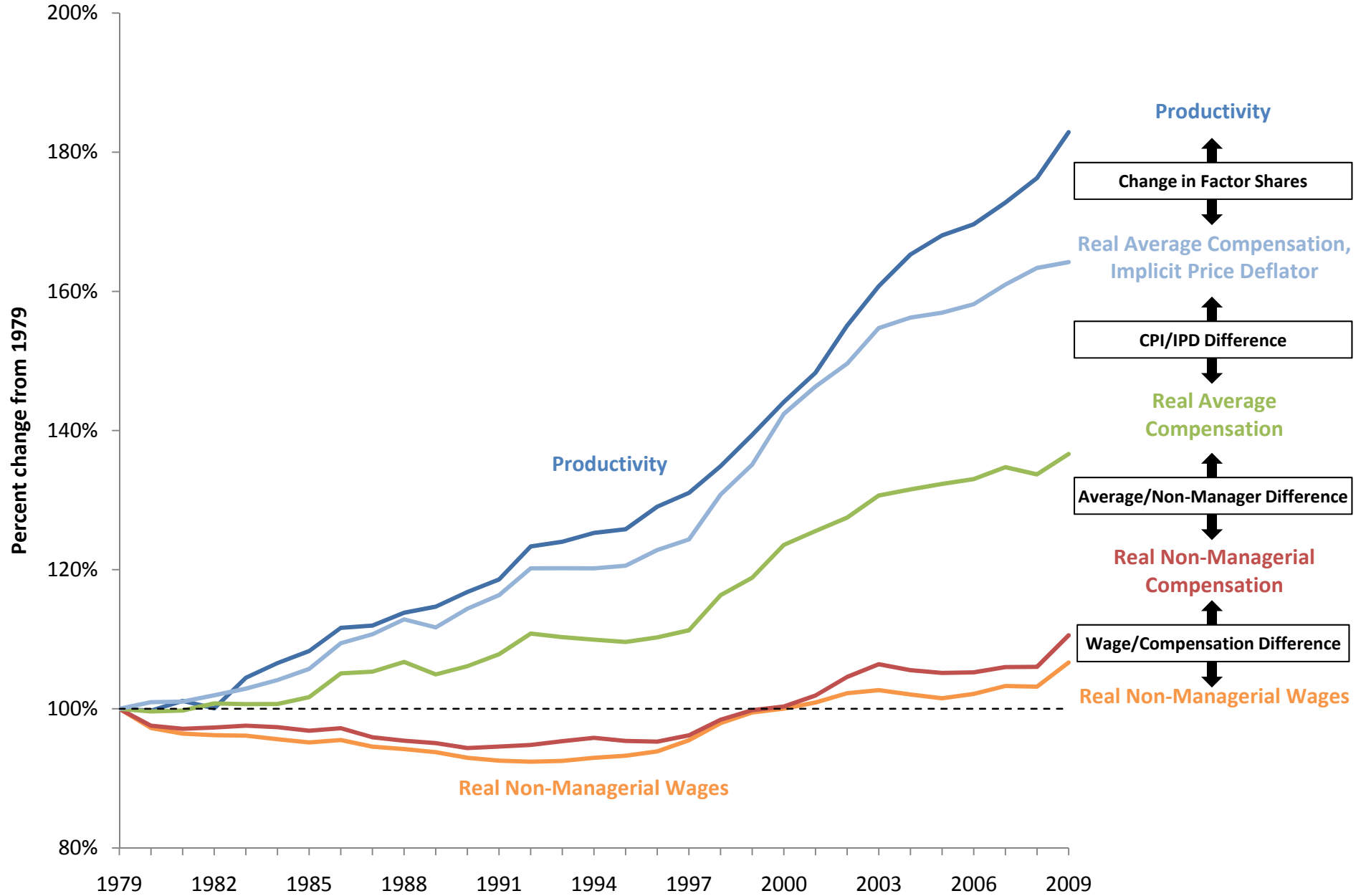
Source: Department of Commerce, "Middle Class in America." Underlying data from various sources.

Growth in Real Income and Consumption by Income Quintile, 2000-2007



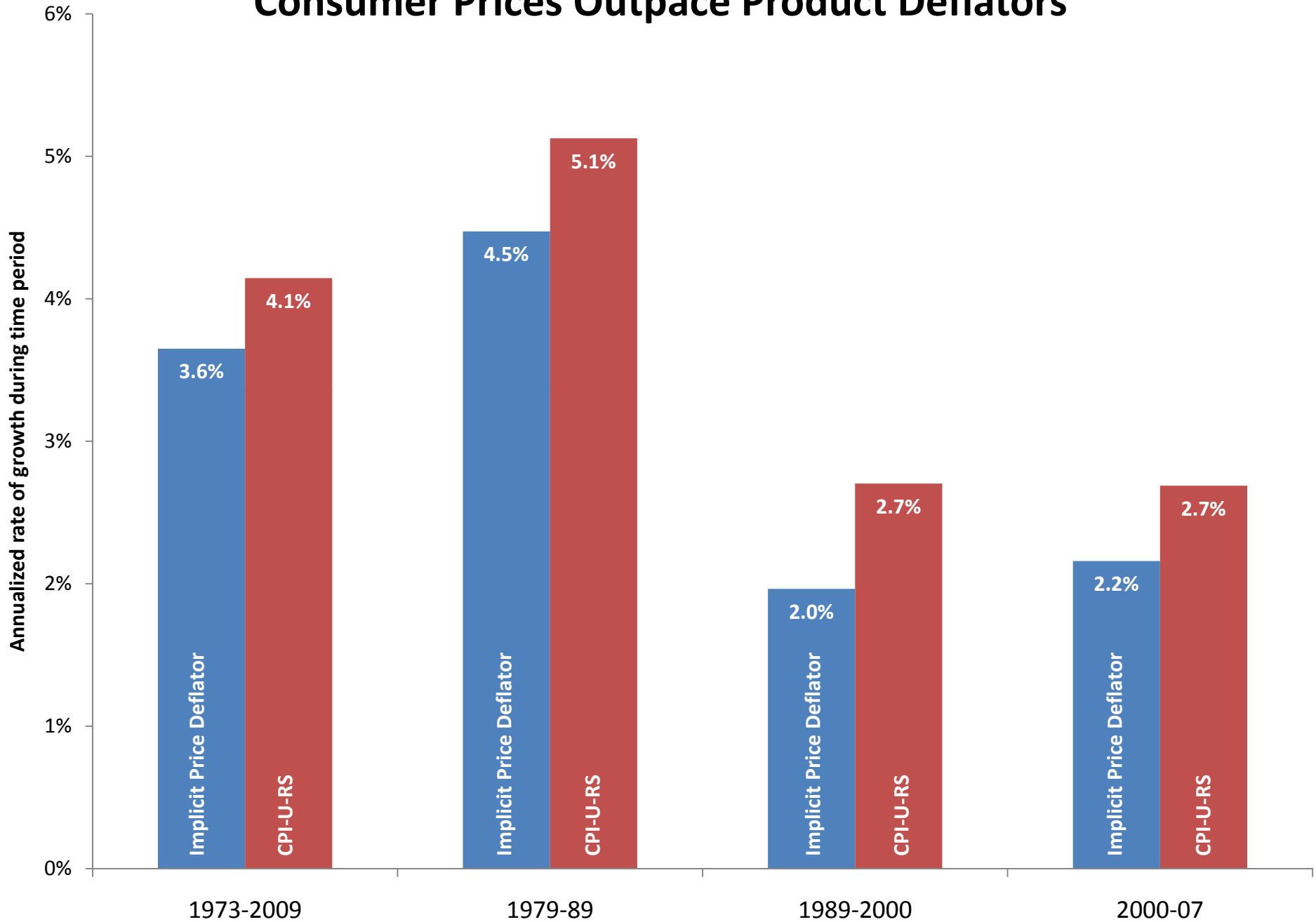
Source: Current Expenditure Survey, CPS ASEC.

Decomposition of Wage-Productivity Disparity, 1979-2009



Source: Bureau of Labor Statistics.

Consumer Prices Outpace Product Deflators



Source: Bureau of Labor Statistics.