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Were the Good Old Days *That* Good?

By LOUIS UCHITELLE

TOM RATH, the protagonist in Sloan Wilson's 1955 novel, "The Man in the Gray Flannel Suit," certainly had his share of troubles: the stressful conformity, the constant striving for success, the superficial suburban friendships, the war experiences he kept hidden from his wife. It all ate away at him.

But Tom, like most Americans in the first three decades after World War II, took a rising standard of living for granted. When he needed more income to make ends meet, he simply landed a better-paying job. Indeed, at parties throughout suburbia, Mr. Wilson wrote, "the public celebration of increases in salary was common." And Tom didn't fret about medical bills, job security or the quality of public schools for his three children.

Fast forward to Tom and Marie DeSisto in 2005. They are real people in their early 50's, living in a three-bedroom condominium in Newton, Mass. Ask them if their standard of living is rising and they say yes, indeed, it is - but not in the Rath family's sense of the word. The DeSistos' income made a U-turn last year, but they manage to live within its limits, even eking out money for extras. And that success lifts their spirits. "We are not really into boats and cars," Mrs. DeSisto said, "but we are traveling more."

Pushed into early retirement last year by his employer, [Verizon](#), Mr. DeSisto's salary plummeted from more than \$100,000 as a manager to \$36,000 as a first-year math teacher at Newton High School. His wife, on the other hand, has just been promoted to director of nursing in the Framingham public schools. Her salary rose by nearly \$4,000, to \$67,000 a year, but she is also adding eight working days a year to handle the additional responsibilities.

While the Rathes moved up in income, home size and leisure time, the DeSistos sold their four-bedroom colonial home in Newton, pocketing a profit while cutting their property taxes and maintenance costs. "We planned carefully," Mrs. DeSisto said, "and we downsized successfully."

So, did the Rathes, that quintessential 1950's family, enjoy a higher standard of living than middle-class families like the DeSistos do today? In other words, can it be that living standards are actually slipping in America?

No economist, demographer or historian would make that case. Living standards, after all, almost never

go backward, at least not in a material sense. Indeed, the economy today is growing, consumer spending is plentiful and new technologies - from the Internet to laparoscopic surgery - make life better than ever, as they do in every generation.

BUT for the DeSistos and their contemporaries, the trajectory is no longer the steadily upward line that the Rath family enjoyed. Instead, the line appears to be climbing erratically. That is certainly true of the traditional measures of standard of living. After 20 years of very small gains, the rate of improvement surged from 1995 to 2000 - only to fall back toward zero over the last four years, a reversal that puzzles analysts.

"When you talk about living standards, you have to focus on people in the middle," said Robert Gordon, an economist at Northwestern University. "A lot of the goodies that we think of as raising living standards have gone to the people at the top at the expense of the broad mass of Americans in the middle."

Kevin Hassett, director of economic policy studies at the American Enterprise Institute, argues that federal subsidies in the form of tax credits, mainly the earned income tax credit, are raising living standards for low-income families by more than many people realize. Those subsidies have risen by about \$2,000 since President Bush took office in 2001, to just over \$3,000 a year for a married couple with two children and a family income of \$27,300, Mr. Hassett estimates.

"The standard income numbers don't capture what is happening to people at the bottom," he said. "So you have to look at their consumption, not their income, to gauge standard of living. And consumption has significantly outperformed income."

While income and consumption are the chief measures of a nation's standard of living, other, more subtle indicators also play an important role - and several of them are not doing so well. Life expectancy in the United States, while still rising, has fallen behind that in France, Germany and Japan. Home ownership is at a record high for the population as a whole, but it has dropped since the 1970's for some groups - working families with children, for example, according to the Center for Housing Policy. In overwhelming numbers, Americans say they are satisfied with their standard of living, a Gallup poll reports. But 25 percent of the nation's families also worry all or most of time that they won't be able to pay their bills. That is up from 21 percent in the late 1990's.

And in many cases, public services are not holding their own. "Thirty years ago a lot of public goods were free, and now they are fee-based," said Michael Hout, a sociologist at the University of California, Berkeley. "Even the Grand Canyon charges, and many public schools are engaged in fund-raising. So public goods that contribute to living standards are more dependent today on family income."

The good news for the nation is that productivity - a measure of output per worker that is the bedrock on which income and living standards are built - is rising. When it goes up, so does the revenue from the sale of the additional goods and services that each worker produces. In theory, some of that revenue feeds back into the income of the workers, financing improvements in their standard of living.

That symbiotic relationship worked very well for Tom Rath. From the late 1940's through 1973, productivity grew at an annual rate of nearly 3 percent, and incomes rose almost as briskly. Then came a horrific slowdown: productivity fell back to an annual growth rate of less than 1.5 percent from the mid-1970's to the mid-90's, and median income hardly rose at all.

The revival that started in 1995 brought productivity growth back to its old rate of increase, and for five years incomes also rose smartly. What happened next is tough for economists to explain. The productivity growth rate has stayed strong - rising at an average annual rate of just under 3 percent since 1995, according to the Bureau of Labor Statistics. But starting in 2000, median income, adjusted for inflation, has grown more slowly every year - and this year the increase is almost imperceptible.

"There is no question that a huge gap has opened up between productivity and living standards," said Jared Bernstein, a senior labor economist at the Economic Policy Institute.

Not since World War II have productivity and income diverged so sharply, yet that phenomenon barely registers in public opinion surveys. Nearly 9 in 10 people surveyed by Gallup say they are satisfied with their standard of living, a higher proportion than in the 1960's. In answering that question, however, those surveyed make no comparisons with the past, said Lydia Saad, a senior editor at Gallup, "so they don't know whether they are falling behind on some treadmill of life."

Richard A. Easterlin, an economic historian at the University of Southern California, has a different take. Satisfaction is always relative, he says. If a family's debt rises, that is not a negative as long as other people's debt is increasing at roughly the same pace.

The parity helps to explain why consumption has risen 40 percent faster than income since 2001, and why people are able to focus on the amenities they acquire - the cellphones, the bigger homes, the cars and the digital cameras - without feeling weighed down by rising debt or by income that is rising more slowly.

TOM RATH'S generation, having experienced the Depression, expected more hard times after World War II. When the economy boomed instead, the aspirations of his generation rose and so, eventually, did their sense of well-being. All of that changed in the 1980's, when globalization infected public attitudes and people told pollsters that they expected their children's living standards to decline.

That shift in expectations soon gave way to a new norm. In the age of layoffs, tens of thousands of families have done what the DeSistos have done: adjusted to a decline in income after a job loss. The DeSisto family's income is still more than twice the national median of nearly \$53,000, and Mrs. DeSisto's eight additional days of work are not really eight additional days, as she sees it.

"I always worked those extra days," she said. "I just didn't get paid for them in my old job as supervisor of nurses."

While the glass may be half full in the eyes of many beholders, living standards certainly are not

improving for everyone. Productivity, as it rises, throws off more and more income, which is then distributed to capital in the form of profits, and to labor in higher wages, more paid hours and benefits.

Labor's share, which has historically represented 60 to 65 percent of the total, has fallen in the last five years to the low end of that range. But for Mr. Gordon at Northwestern, that is only part of the story. Capital's share, he says, has increasingly found its way to upper-income families as stock options, dividends, special bonuses and the like.

"We had much less income inequality in the first couple of decades after World War II because of strong unions, restricted trade and a decline in immigration," Mr. Gordon said. "Then all three reversed, which means that the income from productivity falls to the bottom line and for the time being stays there."

To him and others, living standards cannot be truly rising if the improvement is so unevenly distributed; in addition, they say, earning a living has become increasingly stressful.

Job security, which Tom Rath took for granted, has deteriorated. "People talk of the new economy and of reinventing themselves in the workplace, and in that sense most of us are less secure," said Daniel Kahneman, a Princeton University economist who shared a Nobel in economics for his contributions to behavioral economics.

People approaching the age of 65 face a different uncertainty: smaller retirement incomes than their parents enjoyed. That is happening as the nation shifts from a system of fixed monthly pensions to 401(k)-type accounts, in which people save what they can for their own retirement. In the process, retirement income is falling from 93 percent of preretirement pay for today's retirees to 80 percent, on average, for the next generation, according to an Urban Institute projection.

Some retirees cannot afford the pension hit, and they continue to work. The portion of the 65-and-over population that is employed has risen to 14 percent from less than 12 percent in 1995, the Bureau of Labor Statistics reports. The option to retire is slipping away, and that damages living standards.

"People who have a choice experience a greater standard of living," said Richard T. Curtin, director of the University of Michigan's Surveys of Consumers. "They are not constrained from choosing what they prefer."

Choosing not to work is no longer an option for many families who need two incomes to pay what they consider basic expenses. Two of those expenses - health care and education - have risen faster than incomes, says Elizabeth Warren, a bankruptcy specialist at Harvard Law School and co-author of "The Two-Income Trap."

"Half of all people who file for personal bankruptcy do so in the aftermath of a serious medical problem," she said, noting that the number of Americans without health insurance has increased in recent years. As for education, the rising cost is mostly in the purchase of expensive homes in upscale areas known to have

good public schools. "A generation ago," Ms. Warren said, "the majority of American parents believed they could buy whatever home they could afford and send their kids to a good school down the street."

There is a problem with this argument. The quality of public school education, measured by test scores, is in fact holding up quite well, on average. The National Assessment of Education Progress, a federally sponsored testing program that started in the 1960's, periodically measures the skills and achievements of students at the ages of 9, 13 and 17. Scores have risen slightly since the early 1980's, on average, but so, too, has the disparity in school performance.

"The variation is extraordinary across school districts and even across schools in the same district," said Richard Murnane, an economist at Harvard's Graduate School of Education, "so when you ask about how good the schools are, the measure of central tendency is less interesting than the variation around the average."

HEALTH problems also undermine living standards. Life expectancy at birth is one symptom. At 69.7 years in the late 1950's, life expectancy in the United States was slightly ahead of that of Germany and France, and well ahead of Japan's. Now Japan is far ahead at 80.5 years, compared with 78.5 in France, 77.5 in Germany and 76.5 in the United States.

Infant mortality, at more than six deaths per thousand live births, similarly trails the rates in France, Germany and Japan, according to the Organization for Economic Cooperation and Development. Height, too, is no longer an American hallmark. Average height has been stuck at less than 6 feet for a decade or more while Europeans have grown passed that mark, suggesting that they are somehow healthier.

Obesity is now a distinguishing feature. The percentage of obese American adults has doubled in the last 15 years, to 30 percent, said Kenneth E. Thorpe, chairman of the department of health policy management at Emory University's School of Public Health.

The way we live makes that happen, he argues: the lack of exercise, the marketing of foods high in sugar and fat, the over-large portions. As a result, weight-related illnesses - diabetes, heart disease, hypertension, asthma - have risen sharply.

"Once you are sick, we are doing a better job in treatment," Dr. Thorpe said. "The pace of technological development has probably accelerated since 1980 more than in previous generations. That's the good news. The bad news is that we have larger shares of the population who are sick."

For Dr. Thorpe, the much better treatment is clearly a big improvement in standard of living - offset, however, by the big increase in the incidence of illness. He estimated that the additional health care cost resulting from the decline in healthiness would total \$70 billion this year.

"You can't have a rising standard of living," he said, "if you have people getting less healthy."

The Rath family had no such misfortune. In Sloan Wilson's hands, the man in the gray flannel suit enjoyed an ever more prosperous life - a happy ending that many middle-class families can't seem to match today.

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