Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Heather M. Marabeti at 11:19:51.00. Subject: Dept of Labor. (1 page)	03/16/1999	P6/b(6)

COLLECTION:
Clinton Presidential Records
Automated Records Management System [Email]
WHO ([AFL-CIO])
OA/Box Number: 500000

FOLDER TITLE:
[01/25/1999 - 04/16/1999]

2013-0306-F
ab1208

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Christopher J. Lavery (CN=Christopher J. Lavery/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:25-JAN-1999 11:59:16.00

SUBJECT: Re:

TO: Jeffrey A. Forbes (CN=Jeffrey A. Forbes/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
It is the AFL-CIO event in Manchester, where we will be in the evening. He does not feel strongly about going to this.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Christine A. Stanek (CN=Christine A. Stanek/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:26-JAN-1999 16:25:20.00

SUBJECT: Social Security Event

TO: Barbara D. Woolley (CN=Barbara D. Woolley/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
Barbara:

AFL-CIO called and wanted to know if John Sweeney and Richard Trumpka (Secty -Treasure) could attend the SS event tomorrow. Is this possible?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:26-JAN-1999 11:16:00.00

SUBJECT: Re: Meeting with AFL folks

TO: Caroline R. Fredrickson (CN=Caroline R. Fredrickson/OU=WHO/O=EOP @ EOP [WHO]
READ:UNKNOWN

TEXT:
ok. So you just need a meeting with you, folks from AFL-CIO and Karen?
Maybe 30 min?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Monica M. Dixon (CN=Monica M. Dixon/O=OVP [UNKNOWN])

CREATION DATE/TIME:27-JAN-1999 11:15:19.00

SUBJECT: Re:

TO: Moe Vela (CN=Moe Vela/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

CC: Elizabeth J. Potter (CN=Elizabeth J. Potter/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

CC: Ansley Jones (CN=Ansley Jones/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

CC: Craig Hughes (CN=Craig Hughes/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Irwin P. Raij (CN=Irwin P. Raij/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

CC: Lisa A. Berg (CN=Lisa A. Berg/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

TEXT:
Given our limited time and already compressed schedule, we will not be doing ANY events outside of AFL related meetings/speeches and press. We should explain to all our friends that VP arrives from South Africa at 7:00 a.m. on Friday and we are booked with AFL related meetings until 4:45 that day -- and need to get VP back here for early evening commitment. We may be able to squeeze in a call or two but probably nothing more. We will be in FL many times in the next 4 months and we will try to do our priority outreach and message events on those trips.

Moe Vela
01/27/99 11:12:35 AM
Record Type: Record

To: Monica M. Dixon/OVP, Lisa A. Berg/OVP, Ansley Jones/OVP
cc: Irwin P. Raij/OVP, Elizabeth J. Potter/OVP
Subject:

Over the weekend, I had several opportunities to have discussions with Mayor Alex Penelas, Miami-Dade, and I assured him that I would forward his suggestions to the appropriate folks.

He is aware that we are trying to be in Miami for the AFL-CIO Convention and he strongly recommends that we take the requisite amount of time to do an amplification event in the newly designated empowerment zone on the border of Little Havana (Hispanic) and Liberty City (African American)---he suggested a walk-through with him, the VP and a Liberty City leader.

He went on to recommend one other thing as well............he really feels strongly that we need to get the VP on a Cuban American radio show.

Let's discuss!

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:27-JAN-1999 19:09:03.00

SUBJECT: Re: Fair Pay Radio Address List

TO: Jennifer M. Luray (CN=Jennifer M. Luray/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
great -- if there is room you may want to invite other labor women like gloria johnson from iue who also sits on the presidents women's history commission w/ ann lewis. there are also other women officers of afl-cio affiliates who would love to attend -- karen should have the list like seiu, afscme, etc. also, what about judy lichtman, marsha greenburger(sp)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:30-JAN-1999 13:24:34.00

SUBJECT: Re: Electricity Mtg w/ Labor

TO: Dirk Forrister (CN=Dirk Forrister/OU=WHCCTF/O=EOP @ EOP [WHCCTF])
READ:UNKNOWN

CC: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

CC: bill-samuels (bill-samuels @ dol.gov @ inet [UNKNOWN])
READ:UNKNOWN

CC: Todd Stern (CN=Todd Stern/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
thanks for holding the meeting -- i heard from the afl-cio that they thought the meeting was very productive -- they were concerned that some of their colleagues were not engaged in the most productive way -- and they wanted to pass on to you and your team that they would work on that issue -- internally we should hold this comment very close!

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:30-JAN-1999 13:59:19.00

SUBJECT: sca/fasa

TO: Dee Lee (CN=Dee Lee/OU=OMB/O=EOP @ EOP [OMB])
READ:UNKNOWN

TEXT:
i just got a call from the afl-cio -- said they want to resolve this and move on --- is there anyway we can drop one of the categories -- of the 4 they raised w/ us -- pls let me know. thanks, kt

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Dee Lee (CN=Dee Lee/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME: 1-FEB-1999 09:25:51.00

SUBJECT: Re: sca/fasa

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TEXT:
Great -- I'll try and run this one more time. A little hick-up tho (guessing AFL CIO knows this- inspiration perhaps??)

I now have a copy of a memo written by Greg Jones at DOJ, that in essence supports the FAR council's action-- it reads, in part:

... "We believe the asertion in the DOL draft are inconsistent witht he relevant provisons of the Federal Acquistion Streamling Act of 1994 (FASA) which specify that exemptions from certain covered lawas may be authroized by the Federal Acquistion Regulatory Council (FARC)...

...Section 4 of the SCA, moreover, provies no basis for departing from the speciifc and subsequently enacted provisons of the FASA. Far from poviding an exclusion from FASA's requirments through specific reference to FASA -- as requried for effective exclusion under 41 USC 430(c)(2) -- section 4 of the SCA merely provides that the Secretary of Labor possesses her own distinct and independent authority to authorize exemptions and variations from the requirments of the SCA. Thus, the FARC's authority under FASA and the Secretary of Labor's under section 4 of the SCA are compatible and complementary, rather than mutually exclusive. "

So -- the FAR counsel now seems perfectly comfortable with letting things stand as is...
Which is the FAR reads SCA does not flow down to subs. (In spite of DOL's issues, this is still what it reads since we were never able to resolve last summer and put the compromise in place-- DOL was supposed to draft and be ready to publish the exemption list)

Even the Agreement to retract and have DOL publish the 4 isn't as appealing... top that off with the Council still thinks DOL reneg'ed on this compromise agreement.

I'll make some calls. D.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Paul A. Tuchmann (CN=Paul A. Tuchmann/O=OVP [UNKNOWN])

CREATION DATE/TIME: 1-FEB-1999 19:02:45.00

SUBJECT: Hotel issues in Miami

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
Who should I talk to at AFL-CIO to work out space for VP and staff?
---------------------- Forwarded by Paul A. Tuchmann/OVP on 02/01/99 08:02 PM ---------------------------

Paul Hegarty
01/29/99 03:33:05 PM
Record Type: Record

To: Paul A. Tuchmann/OVP
cc:
Subject:Albany and Miami

Any help you can give us with the AFL-CIO at the Fountaibleu????

---------------------- Forwarded by Paul Hegarty/OVP on 01/29/99 03:29 PM ---------------------------

Theresa F. Granger @ EOP
01/29/99 03:28 PM
To: Paul Hegarty/OVP
cc:
Subject:Albany and Miami

Ok here we go -

Albany holding the Quality Inn at $63.00/$126 suite
Omni sold out the 12th
Desmond will not work with us unless we sign a contract

Miami Fountainebleau sold out the entire week-and don't want to assist
Sheraton Bal Harbour sold out entire week
now calling the Miami Beach Resort (formerly the Doral Ocean)
and then the only other union option is the Everglades hotel

Now might be a good time to reach out to an AFL/CIO contact.............

Faye

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME: 2-FEB-1999 10:06:02.00

SUBJECT: yokich

TO: Kevin S. Moran (CN=Kevin S. Moran/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
In addition to giving John information on the auto industry, generally and trade in particular -- it would be helpful to me if you would put the following infomation in a memo to john

I. Yokich is coming to DC for a series of meeting. We requested that he meet with you for about 1/2 hour.

2. Alan Reuther will be attending. legislative director

3. As you will recall, in beginning to achieve a new consensus on trade, John Sweeney asked if you would hold a couple of one-on-ones w/ International Presidents to state clearly that the President does want to form a new consensus on trade, that we want to work with the afl-cio and its affiliates to begin a dialogue on trade

4. One good faith step was the International labor intiative which we announced at UAW Solidarity House. Yokich was extremely happy. His staff -- both his Chief of Staff and Reuther made a point of saying it was not enough and that they were not going to stop fighting w/ us about trade just because of this initiative.

5. Frequently, we use the IMF as a model for both a productive process and achieving our goal -- the problem is that in the end the UAW was the only union that opposed the IMF. It had no impact on the end result but it was embarrassing to the AFL-CIO; they managed the problem. Without highlighting the IMF process and result, it is important to stress that we want to begin a dialogue with labor specifically, although we will work through the afl-cio, we want the uaw to be a part of the process and the dialogue. We want to achieve the President's trade agenda, but we want to engage in a different process and hopefully achieve a different result. We may, in the end, continue to disagree, but we will not be in open warfare.

6. The UAW -- at least Alan Reuther -- also opposes the portion of our social security plan that calls for investing a part of the surplus in equities. Gene Sperling and I met with Alan last night but the meeting ended before we could come to closure. The UAW is trying to put a Legislative Director's letter together to circulate to members of Congress opposing the collective investment. The AFL-CIO does not support the letter and is trying to get it killed. Since this is being generated from Reuther, we are not sure how wedded Yokich is to the argument. You should let him know that oppostion to the investment is more likely to result in benefit cuts that in another more favorable alternative. The point Gene and I made yesterday with some success was that their members' pension plans are invested in equities in some cases as much as 50% in equities and if they were opposed to investing their members' pensions in equities they would be in serious trouble with their membership.

Kevin -- you can delete the numbers -- make some sense out of this -- and write it up in anyway you think works -- i hope the salient points are here. thanks

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Laura K. Demeo (CN=Laura K. Demeo/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME: 9-FEB-1999 12:02:34.00

SUBJECT: Re: AFL-CIO meeting

TO: Veronica DeLaGarza (CN=Veronica DeLaGarza/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
ok, let me know if i need to do anything or get anything from him.

Veronica DeLaGarza
02/09/99 11:28:25 AM
Record Type: Record

To: Laura K. Demeo/WHO/EOP
cc:
Subject: Re: AFL-CIO meeting

yes, Bob is going to give me some information for Mr. Podesta and Karen to take to the AFL-CIO meeting re: NTSB and SURF board.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Dee Lee (CN=Dee Lee/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:10-FEB-1999 19:45:18.00

SUBJECT: AFLCIO

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: G. E. DeSeve (CN=G. E. DeSeve/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:
Karen - Thanks for the introductions. Had a fruitful meeting today - in that we agreed to open dialogue on some issues. Looks like SCA can be resolved (publish for comment and go from there) IF I can close with DOL ---- have phone calls pending.

AFL CIO did mention what we call "labor responsiblity", but didn't seem to me to be pushing hard. I made no commitment, talked about if we expect people to make judgments - they need information upon which to base it .

D.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Maya Seiden (CN=Maya Seiden/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:11-FEB-1999 11:35:18.00

SUBJECT: Re: VP AFL/CIO w/Podesta, Herman, and Karen Tramontano

TO: Sean P. O'Shea (CN=Sean P. O'Shea/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
no clue. i guess there is going to be an event next week with the VP, Podesta, Herman, and Slater with the AFL/CIO?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Kevin S. Moran (CN=Kevin S. Moran/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:16-FEB-1999 11:29:11.00

SUBJECT: AFL-CIO

TO: Elena Kagan (CN=Elena Kagan/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Bruce N. Reed (CN=Bruce N. Reed/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

CC: Laura Emmett (CN=Laura Emmett/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Cathy R. Mays (CN=Cathy R. Mays/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TEXT:
John is going to meet with the AFL-CIO's executive committee on Thursday. Are there any specific Education talking points or Q&As that he should have, beyond what we've already gotten from your shop?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Kevin S. Moran (CN=Kevin S. Moran/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:16-FEB-1999 08:19:16.00

SUBJECT: Climate Change

TO: Meagan M. Earley (CN=Meagan M. Earley/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Todd Stern (CN=Todd Stern/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
John is heading down to Miami on Thursday to speak to the AFL-CIO Executive Council. Do we have any paper / points on climate change and labor?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Kevin S. Moran (CN=Kevin S. Moran/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:16-FEB-1999 13:46:49.00

SUBJECT: AIP / ILO

TO: Paul A. Tuchmann (CN=Paul A. Tuchmann/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

TEXT:
AIP / ILO

The President's budget includes a $40 million initiative aimed at addressing international labor issues. While this money alone is not likely to change anyone's minds about fast-track, it will allow us to work together on common goals with some of the main opponents of our trade agenda.

Specifically, the money will be used for three things:

First, as the President announced in mid-January, we are asking for $25 million to create a new arm of the International Labor Organization dedicated to implementing core labor standards and building social safety nets in developing countries. The project flows from the ILO's adoption last year of a Universal Declaration on Core Labor Standards and is modeled after the IPEC child labor program -- donor directed grants through a multilateral agency which builds projects involving all the key p layers necessary to see progress on an issue.

Second, the budget also includes $10 million for the Labor Department to provide "technical assistance" to our international partners who request help in building labor market institutions and social safety nets or in enforcing labor laws (e.g., unemployment insurance, occupational health and safety, pensions, etc.). While some of this will be done by the ILO, there are some issues, especially implementation and enforcement, in which we have special expertise. Additionally, we can support various bilateral relationships by providing assistance when asked. Labor has found that they have had dozens of requests but inadequate resources to respond. And, when some countries ask for help on "social safety net" issues, it creates a relationship and opportunity for us to engage them in discussions on core labor standards.

Third, the budget calls for a new $5 million grant program aimed at supporting innovative ways to eliminate sweatshops. Based out of State ,s Democracy, Labor and Human Rights Division, it is modeled after their "democracy building" grant program. This project is viewed as a way to demonstrate the message we have been advancing: we strongly support AIP, but are happy to support any approach that can be effective in eliminating sweatshops. While AIP is eligible to apply for these funds, no one group would get more than 25% of the available funds, so many different approaches might be tested.

The AFL-CIO has projects in many countries, often working cooperatively with companies or local governments, to help improve labor conditions and enforce rights to organize. A secondary goal of this meeting was to hear their ideas about the kind of projects that the State "anti-sweatshop" program could support. Unfortunately, they had not completed their internal thinking about this but promised to get back to us.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Laura Emmett (CN=Laura Emmett/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:16-FEB-1999 11:30:00.00

SUBJECT: AFL-CIO

TO: Jonathan H. Schnur (CN=Jonathan H. Schnur/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Tanya E. Martin (CN=Tanya E. Martin/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TEXT:
heads up
any ideas?
-------------- Forwarded by Laura Emmett/WHO/EOP on 02/16/99 11:29 AM

Kevin S. Moran 02/16/99 11:28:40 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Cathy R. Mays/OPD/EOP, Laura Emmett/WHO/EOP
Subject:AFL-CIO

John is going to meet with the AFL-CIO's executive committee on Thursday. Are there any specific Education talking points or Q&As that he should have, beyond what we've already gotten from your shop?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Kevin S. Moran (CN=Kevin S. Moran/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:16-FEB-1999 11:48:16.00

SUBJECT: AFL-CIO question

TO: Elwood Holstein (CN=Elwood Holstein/OU=OMB/O=EOP @ EOP [OMB])
READ:UNKNOWN

TEXT:
John is heading down to Florida on Thursday to meet with the AFL-CIO Executive Council. I understand electricity deregulation might come up. Do you have any talking points / guidance on this issue as it relates to labor that I could include in John's briefing book?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Kevin S. Moran (CN=Kevin S. Moran/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:17-FEB-1999 19:50:07.00

SUBJECT: Q&A for AFL-CIO Mtg.

TO: Paul A. Tuchmann (CN=Paul A. Tuchmann/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

TEXT:
These are modified education tps from Education. k
---------------------- Forwarded by Kevin S. Moran/WHO/EOP on 02/17/99 07:18 PM ---------------------------

Laura Emmett
02/17/99 07:14:08 PM
Record Type: Record

To: Kevin S. Moran/WHO/EOP
cc:
Subject:Q&A for AFL-CIO Mtg.

sorry for the delay- we just wanted to ake sure that you already had info on davis bacon & UAW which karen said she is good with. here is our share:

==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D80]MAIL40744225D.036 to ASCII,
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Q&A for AFL-CIO Meeting
February 17, 1999

Q: **USA Today, AP, and the Washington Post are reporting that the Secretary of Education is calling for a uniform licensing system for teachers. Is the Administration proposing a new national teaching license or teaching test?**

Background: In a speech last week, Secretary Riley proposed that states institute a licensing system for teachers -- giving "initial" licenses, "professional" licenses, and "advanced" licenses to teachers based on each teacher's experience and skills. The Secretary did not propose any federal action with respect to this proposal.

A: No. This week, Secretary Riley gave his annual State of American Education Address, which he uses to assess the state of education and to raise ideas and spark long-term discussions among academics, educators and others. In his speech, Secretary Riley raised some ideas about how states and communities could change the way they license and certify teachers, and said he wanted to spark and shape a dialogue about these issues in the coming months. The Administration is not making a legislative or budget proposal along these lines. And it's important to understand that Secretary Riley did not call for any kind of national teaching license or national test for teachers, and he did not call for states to adopt any single idea or proposal. Moreover, he didn't suggest that states consider changes to teacher tenure or suggest testing for licensed teachers. In fact, the ideas the Secretary mentioned build on and reflect much of the work that AFT has done over the years -- including AFT's support for the National Board for Professional Teaching Standards, AFT's support for tests for new teachers, and AFT's support for high-quality teaching.

Q: **Will the Administration include this licensing proposal in its draft legislation to reauthorize the Elementary and Secondary Education Act? In light of the Administration's support for other requirements on states -- e.g., to end social promotion and intervene in failing schools -- how will it oppose efforts to require states to implement licensing systems?**

A: As you know, in his State of the Union Address, the President proposed steps to end social promotion, fix failing schools, and other steps to strengthen accountability in our schools. These ideas are based on considerable experience at the state and local level and reflect broad consensus across the nation -- and strong support from the AFT. The preliminary ideas on teacher licensure and certification outlined by Secretary Riley reflect neither such extensive experience at the state and local level, nor such consensus. Neither Secretary Riley nor anyone at the White House believe these ideas should be the basis of any legislative proposals. The Secretary was simply trying to jumpstart an important dialogue on these issues among academics, educators, states, and communities.

Q. **Will the President support an Ed-Flex bill when it comes to the Senate floor later this month?**

A. The President has supported the Ed-Flex concept, but wants to be sure that it is done right. He would strongly prefer to see Congress consider this bill as part of the reauthorization of the Elementary and Secondary Education

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In addition, the President will use any congressional consideration of this bill as an opportunity to press for other, more important efforts to improve education. We must not let debate over a relatively minor measure to reduce regulatory burdens distract us from the more important effort of improving the education of our students through such crucial initiatives as reducing class size and modernizing schools.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Todd Stern (CN=Todd Stern/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:17-FEB-1999 09:06:05.00

SUBJECT: labor

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
Joe -- Podesta is going to Miami to speak to AFL-CIO tomorrow and needs some briefing material, which we are preparing. Do you have any info on the economic analysis they did, our view on it, Janet's meeting with UMW to discuss economics, etc.? Most useful thing would be for you to do a paragraph on this that I could plug into what we're doing. E.g., Labor very concerned about economic costs; UMW commissioned their own study that shows xyz; we think their view flawed because abc; Janet met with UMW for d iscussion in November... that kind of thing.

Has to be really short and to the point because I can't give John a lot of material. Is this doable by noon? (Sorry for the short notice.) tds

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Laura Emmett (CN=Laura Emmett/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:17-FEB-1999 19:50:04.00

SUBJECT: Q&A for AFL-CIO Mtg.

TO: Kevin S. Moran (CN=Kevin S. Moran/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
sorry for the delay- we just wanted to ake sure that you already had info on davis bacon & UAW which karen said she is good with. here is our share:
==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D41]MAIL40634225U.036 to ASCII,
The following is a HEX DUMP:

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Q&A for AFL-CIO Meeting
February 17, 1999

Q: **USA Today, AP, and the Washington Post are reporting that the Secretary of Education is calling for a uniform licensing system for teachers. Is the Administration proposing a new national teaching license or teaching test?**

Background: In a speech last week, Secretary Riley proposed that states institute a licensing system for teachers -- giving "initial" licenses, "professional" licenses, and "advanced" licenses to teachers based on each teacher's experience and skills. The Secretary did not propose any federal action with respect to this proposal.

A: No. This week, Secretary Riley gave his annual State of American Education Address, which he uses to assess the state of education and to raise ideas and spark long-term discussions among academics, educators and others. In his speech, Secretary Riley raised some ideas about how states and communities could change the way they license and certify teachers, and said he wanted to spark and shape a dialogue about these issues in the coming months. The Administration is not making a legislative or budget proposal along these lines. And it's important to understand that Secretary Riley did not call for any kind of national teaching license or national test for teachers, and he did not call for states to adopt any single idea or proposal. Moreover, he didn't suggest that states consider changes to teacher tenure or suggest testing for licensed teachers. In fact, the ideas the Secretary mentioned build on and reflect much of the work that AFT has done over the years -- including AFT's support for the National Board for Professional Teaching Standards, AFT's support for tests for new teachers, and AFT's support for high-quality teaching.

Q: **Will the Administration include this licensing proposal in its draft legislation to reauthorize the Elementary and Secondary Education Act? In light of the Administration's support for other requirements on states -- e.g., to end social promotion and intervene in failing schools -- how will it oppose efforts to require states to implement licensing systems?**

A: As you know, in his State of the Union Address, the President proposed steps to end social promotion, fix failing schools, and other steps to strengthen accountability in our schools. These ideas are based on considerable experience at the state and local level and reflect broad consensus across the nation -- and strong support from the AFT. The preliminary ideas on teacher licensure and certification outlined by Secretary Riley reflect neither such extensive experience at the state and local level, nor such consensus. Neither Secretary Riley nor anyone at the White House believe these ideas should be the basis of any legislative proposals. The Secretary was simply trying to jumpstart an important dialogue on these issues among academics, educators, states, and communities.

Q. **Will the President support an Ed-Flex bill when it comes to the Senate floor later this month?**

A. The President has supported the Ed-Flex concept, but wants to be sure that it is done right. He would strongly prefer to see Congress consider this bill as part of the reauthorization of the Elementary and Secondary Education

Act, rather than as a freestanding bill. This would ensure that Ed-Flex is designed to fit the federal education programs of the next five years, rather than the last five years. If Congress does take up Ed-Flex prior to ESEA reauthorization, the President will insist that it be consistent with his approach to ESEA and that it include tough accountability measures to ensure a high-quality education for all children -- especially those in greatest need. It is essential that an Ed-Flex provision strike the right balance between flexibility and accountability for results. We understand the concerns raised by AFT and others in the education community and we will work with you and our friends in Congress to address these concerns in the coming weeks.

In addition, the President will use any congressional consideration of this bill as an opportunity to press for other, more important efforts to improve education. We must not let debate over a relatively minor measure to reduce regulatory burdens distract us from the more important effort of improving the education of our students through such crucial initiatives as reducing class size and modernizing schools.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John D. Gibson (CN=John D. Gibson/OU=WHCCTF/O=EOP [WHCCTF])

CREATION DATE/TIME:17-FEB-1999 12:12:46.00

SUBJECT: afl-cio

TO: Todd Stern (CN=Todd Stern/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: Meagan M. Earley (CN=Meagan M. Earley/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TEXT:
Here's the draft edited per your instructions. If you go to final on this please copy me. Thanks.

==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D2]MAIL41219215F.036 to ASCII,
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CLIMATE CHANGE & LABOR

- **We know you have concerns about climate change and the Kyoto Protocol.**

    - Want to emphasize to you that we have a **common sense approach** to this issue that is balanced and measured.

    - We don't think there's any question that there is a **scientific imperative to take appropriate action.** People differ over the scope and urgency of the problem, but there is little doubt that the risks are serious.

    - Taking action now amounts to an **insurance policy** against these risks.

    - **Cost of this insurance policy is reasonable.** Administration's economic analysis concludes that implementing Kyoto Protocol would mean a $70-100/year increase in the average household's energy bill.

    - We think that our policy on climate change reflects the kind of balanced, moderate approach that this issue requires:

        - On both the diplomatic side, we have negotiated long and hard for various **cost-saving, free market measures** to be included in the treaty;

        - On the domestic side, we have **promoted win-win solutions** and avoided mandates and taxes.

- **We appreciate that despite your concerns you've been engaging with us in a constructive way. Important that we keep the lines of communication open.**

    - High-level Administration officials met w/labor leaders [at the White House] last September to discuss issues relating to labor and climate change.

    - Since then we've had a series of meetings with IBEW and AFL-CIO representatives to look at ways to improve the Administration's proposal for **restructuring the electricity industry**.

    - Another interagency group is looking into more **general transition issues**. So far they've been reviewing federal transition assistance efforts in other areas -- such as clean air laws and base closures -- to see what types of programs have been the most effective. As part of our ongoing dialogue on these issues, we have a meeting scheduled with Dave Smith [of AFL-CIO] for _____ .

    - Finally, there's an interagency group looking at ways to ensure a smooth transition for the **coal industry**. Administration believes coal plays an important role in the nation's energy portfolio. We have a vigorous R&D effort underway at DOE to develop next-generation, high-efficiency coal technologies. And we will continue working with both labor and industry on possible tax incentives to spur adoption of these new technologies.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Emory Mayfield (Emory Mayfield [UNKNOWN])

CREATION DATE/TIME:26-FEB-1999 17:15:08.00

SUBJECT: USTR Hot Issues for Washington State.

TO: Jon P. Jennings (CN=Jon P. Jennings/OU=WHO/O=EOP [WHO])
READ:UNKNOWN

TEXT:
Jon, in the event that you're doing a hot issues memo for the VP's trip to Washington State, you may want to include this submission from USTR. Thanks.

"As you know, Seattle was recently chosen to be host to the 134 member countries and 34 observer nations of the World Trade Organization (WTO) at the Ministerial Conference November 30 -December 3, 1999. This will be the largest trade event ever held in America, bringing government leaders, Trade Ministers, business leaders, non-governmental organizations and others interested in trade policy from around the world.

Last week, representatives from USTR were in Seattle to begin laying the groundwork for the Ministerial. A major effort was placed on reaching out to the State of Washington labor and environmental organizations to stress the Administration's desire to work with them in a collaborative effort as the negotiating agenda for this conference is determined. During the AFL-CIO Executive Committee meeting that you attended last weekend, the labor community called for a re-thinking of U.S. Trade Policy that they call *deeply flawed.* Additionally, the environmental community has been less than satisfied with U.S. Trade policy and has stated their opinion that international environmental concerns be a focal point of the negotiations in Seattle. USTR is currently in the process of planning an extensive consultation process with each of these communities."

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ann F. Lewis (CN=Ann F. Lewis/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:27-FEB-1999 10:23:06.00

SUBJECT: Equal Pay Event

TO: Stephanie S. Streett (CN=Stephanie S. Streett/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Elena Kagan (CN=Elena Kagan/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

CC: Lawrence J. Stein (CN=Lawrence J. Stein/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Jennifer M. Luray (CN=Jennifer M. Luray/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
In meeting with Sen Harkin and Del Norton on Thursday we discussed a Presidential event for Equal Pay Day which is April 8. Eleanor specifically suggested a roundtable discussion on issue.

John observed President was busy that day so we would look at day before. AFL-CIO is probably going to do events around country on this ,and House and Senate Dems will want to join in (this is during their recess) -- so if we can tentaively look at date it would be helpful.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:27-FEB-1999 15:03:39.00

SUBJECT: NTSB

TO: Bob J. Nash (CN=Bob J. Nash/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Laura K. Demeo (CN=Laura K. Demeo/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
Thank you for making this happen. You may have heard the AFL-CIO meeting was pretty tough -- especially for John who got hit w/ most of the bullets --- this was literally the only piece of good news we were able to deliver. thanks again

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jennifer M. Luray (CN=Jennifer M. Luray/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME: 1-MAR-1999 13:00:16.00

SUBJECT: Equal Pay Event

TO: Robin Leeds (CN=Robin Leeds/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
FYI
---------------------- Forwarded by Jennifer M. Luray/WHO/EOP on 03/01/99
01:01 PM ---------------------------

Ann F. Lewis
02/27/99 10:22:22 AM
Record Type: Record

To: Stephanie S. Streett/WHO/EOP
cc: Karen Tramontano/WHO/EOP, Lawrence J. Stein/WHO/EOP, Jennifer M. Luray/WHO/EOP, Elena Kagan/OPD/EOP
Subject:Equal Pay Event

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Stephanie S. Streett (CN=Stephanie S. Streett/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME: 1-MAR-1999 08:42:12.00

SUBJECT: Equal Pay Event

TO: Karin Kullman (CN=Karin Kullman/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Jeffrey A. Forbes (CN=Jeffrey A. Forbes/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Charles J. Payson (CN=Charles J. Payson/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
fyi, she is talking about April 7, Chip please put on block with a "t'
---------------------- Forwarded by Stephanie S. Streett/WHO/EOP on
03/01/99 08:41 AM ---------------------------

Ann F. Lewis
02/27/99 10:22:22 AM
Record Type: Record

To: Stephanie S. Streett/WHO/EOP
cc: Karen Tramontano/WHO/EOP, Lawrence J. Stein/WHO/EOP, Jennifer M. Luray/WHO/EOP, Elena Kagan/OPD/EOP
Subject:Equal Pay Event

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Bob J. Nash (CN=Bob J. Nash/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME: 1-MAR-1999 12:19:18.00

SUBJECT: Re: NTSB

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Veronica DeLaGarza (CN=Veronica DeLaGarza/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Dorian V. Weaver (CN=Dorian V. Weaver/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Laura K. Demeo (CN=Laura K. Demeo/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
Karen,
You're welcome. We will still have a tough time getting Goglia confirmed because we do not have a Republican to pair him with in 1999. However, he can holdover. Bob

Karen Tramontano
02/27/99 03:02:55 PM
Record Type: Record

To: Bob J. Nash/WHO/EOP
cc: Laura K. Demeo/WHO/EOP
Subject:NTSB

Thank you for making this happen. You may have heard the AFL-CIO meeting was pretty tough -- especially for John who got hit w/ most of the bullets --- this was literally the only piece of good news we were able to deliver. thanks again

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alejandro G. Cabrera (CN=Alejandro G. Cabrera/O=OVP [UNKNOWN])

CREATION DATE/TIME: 1-MAR-1999 17:43:29.00

SUBJECT: Mother Jones

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
Mark Boal, with Mother Jones Magazine, is writing an article on Gore and Labor.

He would like to talk someone here on background to understand the '96 federal procurement proposal the VP announced at the AFL-CIO conference. Paul Tuchmann recommended that I talk to you.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Bob J. Nash (CN=Bob J. Nash/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME: 5-MAR-1999 09:35:54.00

SUBJECT: Sue McClosky - FLRA

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Heather M. Marabeti (CN=Heather M. Marabeti/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Dorian V. Weaver (CN=Dorian V. Weaver/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Laura K. Demeo (CN=Laura K. Demeo/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
We are planning to move ahead with a decision memo to nominate Sue McClosky as a Member of the FLRA and later designate her as Chair.

I understand that we should not be supportive of FLRA Member Wasserman as Chair. However, I understand that the AFL-CIO wants him as Chair. Is this your understanding? How should we handle this?

-Bob

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Julia M. Payne (CN=Julia M. Payne/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME: 5-MAR-1999 17:32:16.00

SUBJECT: REQUEST FOR DOCUMENTS

TO: Karl A. Racine (CN=Karl A. Racine/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
I used to work for the Vice President at this time and any document I would have would be on the OVP hard drive not EOP. I do not expect to have anything other than a press schedule which I will have the OVP press office forward to you if found. Let me know if this is a problem. Thanks
--------------------- Forwarded by Julia M. Payne/WHO/EOP on 03/05/99 05:30 PM ---------------------------

PostMaster 03/05/99 05:26:29 PM

Record Type: Record

To: All WHO Users, All Staff
cc:
Subject:REQUEST FOR DOCUMENTS

MEMORANDUM TO: White House Office and Office of the Vice President Staff
FROM: Cheryl D. Mills
Deputy Counsel to the President

SUBJECT: REQUEST FOR DOCUMENTS

We have received a request for records and materials relating to certain individuals and entities. Please conduct a thorough and complete search of all your records -- whether in hard copy, computer form, or any other form -- for the period January 1, 1995 to December 31, 1996, for any of the following material:

1. All materials reflecting, referring to, or relating to any meeting or meetings on
or about November 15, 1995, in which the participants included, among others, the President, the Vice President, Harold Ickes, Jennifer O ,Connor, or representatives of the AFL-CIO, and in which was discussed, among other topics, the AFL-CIO's plans for political contributions and other political activity in 1996.

2. All materials reflecting, referring to, or relating to any meeting or meetings on
or about December 5, 1995, in which the participants included, among others, Harold Ickes and representatives of the AFL-CIO or the American Federation of State, County and Municipal Employees ("AFSCME"), and in which was discussed, among other topics, "Project +95" or "The +95 Project" and the AFL-CIO and/or AFSCME ,s plans for political and/or field activity in 1996.

3. All materials reflecting, referring to, or relating to

any meeting or meetings, on
or about December 7, 1995, in which the participants included, among others, Harold Ickes, Dick Morris, or representative of, or consultants to, the AFL-CIO or other labor organizations, and in which was discussed, among other topics, advertisements that were broadcast or proposed to be broadcast by the AFL-CIO and/or other labor organizations.

4. All materials or other information that reflect, refer to, or relate to any occasion on which the AFL-CIO or its representatives screened for, played for, or transmitted to the White House any communications made or proposed to be made by the AFL-CIO to any of its members or to the general public, that contained the name or names of any candidate(s) for Federal office in 1996, or that urged people to vote or to register to vote.

5. A memorandum dated January 31, 1996 from Joe Velasquez to Harold Ickes
referring or relating to the United Steelworkers of America or its president, George Becker.

6. All memoranda, including drafts, dated on or about February 14, 1996 from
Jennifer O ,Connor to Harold Ickes concerning "labor."

7. All materials that reflect, refer to, or relate to communications between the
White House and any individual identified as, or you know to be, an officer, employee, agent or vender of, consultant to, or otherwise acting on behalf of, the AFL-CIO regarding:

a. "Issue advocacy" advertisements or "electronic voter guide" advertisements to be run or broadcast by the AFL-CIO;
b. Communications by the AFL-CIO to any of its members, or to the general public, that contained the name or names of any candidate(s) for Federal office in 1996, or that urged people to vote, or to register to vote;

c. Any plans by the AFL-CIO to run, sponsor, make or engage in advertising, communication to any of its members or the general public;

d. Participation by the AFL-CIO, its affiliates or members in the Democratic National Committee's "coordinated campaign," or the "coordinated campaigns" of state Democratic party committees or any particular state Democratic party committee, in 1996; or

e. Any plans, projects, activities or needs of any political party committee or any candidate for Federal office in the 1995-96 election cycle.

8. All materials reflecting, referring to, or relating to any communication or meeting between the White House and AFL-CIO Political Director Steven Rosenthal during the time period October 15, 1995 to December 31, 1996 regarding any subject identified in parts "a" through "d" of question 7 above.

9. All materials reflecting, referring to or relating to any communication between the White House and any individual identified as, or

you know to be, an officer, employee, agent, or vendor of, consultant to, or otherwise acting on behalf of DNC Services Corp./Democratic National Committee ("DNC") regarding any subject identified in parts "a" through "d" of question 7 above.

10. All materials reflecting, referring to or relating to any communications between the White House and any individual identified as, or you know to be, an officer, employee, agent, or vendor of, consultant to, or otherwise acting on behalf of the Clinton-Gore campaign regarding any subject identified in parts "a" through "d" of question 7 above.

11. All materials including, but not limited to, written notes, transcripts, invitations or other material, which reflect, refer to, or relate to the appearance of the Vice President of the United States before the AFL-CIO Executive Council in Bal Harbour, Florida in February 1995 and on or about February 19, 1996.

12. Any transcripts, audio or video recordings, written notes, transcripts, outlines or other documents (including, but not limited to, invitations of any other preliminary or preparatory materials) which reflect, refer to, or relate to, the remarks of the Vice President of the United States to the Special Convention of the AFL-CIO in Washington, D.C., on or about March 25, 1996.

Every employee is responsible for searching his or her own files and records to ensure a comprehensive search. Each office head of Assistant to the President must certify that his or her staff has done a complete and thorough search.

In addition, if you believe that files from your office that have been sent to the Office of Records Management may contain responsive information, please advise us so that we may ensure that all responsive documents have been located.

All Materials must be provided to Karl Racine (OEOB 479) by noon on Thursday, March 18, 1999.

If you have any questions or anticipate any difficulty in meeting this deadline, please call Karl Racine at 456-6285.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Rebecca M. Blank (CN=Rebecca M. Blank/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 5-MAR-1999 10:04:35.00

SUBJECT: AFL/CIO meeting at 5

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
Karen -- I want to check on what's likely to happen at the 5 p.m. AFL-CIO meeting scheduled for 5 tonight. Janet Yellen and I both have other commitments. Is this something where I can send a more junior person to listen in and report back? Are there decisions being made?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Nicole R. Rabner (CN=Nicole R. Rabner/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:12-MAR-1999 17:15:00.00

SUBJECT: speech

TO: Christine N. Macy (CN=Christine N. Macy/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
---------------------- Forwarded by Nicole R. Rabner/WHO/EOP on 03/12/99 05:10 PM ---------------------------

Mary L. Smith
03/12/99 05:07:10 PM
Record Type: Record

To: Nicole R. Rabner/WHO/EOP
cc: Thomas L. Freedman/OPD/EOP
bcc:
Subject: Re:

Here is a couple thoughts:

1. The AFL study uses comparable worth analysis in some parts of it -- so if you cite it, the issue could arise that we are endorsing comparable worth.
2. CEA had some methodogical problems with the study in that translating unequal wages into losses or gains for family income makes a big assumption that men's wages won't go down.

But if you cite it anyway -- here are some edits

But we can ,t stop there. If we are to fulfill our commitment to help keep our families economically secure * then we must close the pay gap between men and women -- once and for all. Just last week, the AFL-CIO released a report highlighting the critical importance of ensuring equal pay for equal work (the study also talks about comparable worth)-- and the high price we incur when that equity is denied. The study found that When an average working family loses more than $4,000 every year because of the wage gap between women and men ... it hurts women. It hurts single mothers. It hurts families. It hurts our nation ,s economy. And it surely hurts our nation ,s commitment to equal justice.

Think about it. The study also found that of the families in poverty (also makes the assumption that men ,s wages won ,t go down) over half of the two-earner and single mother households across the country would be lifted out of poverty if equal pay were enacted and enforced at the state level. In this part they are talking about enacting comparable worth at the state level) That means those working families could have health care; afford to send their children to college, and enjoy a secure retirement. We must all work together to make that happen.

Nicole R. Rabner

03/12/99 03:08:26 PM
Record Type: Record

To: Mary L. Smith/OPD/EOP
cc:
Subject:

Per my voice-mail message, would you please review the HRC speech language below -- is it saying anything we don't want to re: Equal Pay?

But we can ,t stop there. If we are to fulfill our commitment to help keep our families economically secure * then we must close the pay gap between men and women -- once and for all. Just last week, the AFL-CIO released a report highlighting the critical importance of ensuring equal pay for equal work -- and the high price we incur when that equity is denied. When an average working family loses more than $4,000 every year because of the wage gap between women and men ... it hurts women. It hurts single mothers. It hurts families. It hurts our nation ,s economy. And it surely hurts our nation ,s commitment to equal justice.

Think about it. Over half of the two-earner and single mother households across the country would be lifted out of poverty if equal pay were enacted and enforced at the state level. That means those working families could have health care; afford to send their children to college, and enjoy a secure retirement. We must all work together to make that happen.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Christine A. Stanek (CN=Christine A. Stanek/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:15-MAR-1999 19:11:06.00

SUBJECT: Re: Child Labor Meeting

TO: Victoria A. Lynch (CN=Victoria A. Lynch/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
Meant to "cc:" you on this.....
--------------------- Forwarded by Christine A. Stanek/WHO/EOP on 03/15/99 07:11 PM ---------------------------

Christine A. Stanek
03/15/99 07:09:43 PM
Record Type: Record

To: Sarah Rosen/OPD/EOP
cc:
bcc: Records Management
Subject: Re: Child Labor Meeting

Sarah:
I know this got dropped with the holidays, SOTU and impeachment stuff - sorry! But glad to work with you to get this back on the schedule. I still have the list of recommendations from DOL and Karen Tromantano asked that I call AFL-CIO for any additions. I will call AFL-CIO as soon as you have a paragraph statement on the meeting. Once we get their additions, I can send you a master list and we can get the meeting scheduled.

Sarah Rosen
03/11/99 07:13:03 PM
Record Type: Record

To: Christine A. Stanek/WHO/EOP
cc: Victoria A. Lynch/WHO/EOP
Subject: Re: Child Labor Meeting

We never got back together about scheduling a meeting with Child Labor advocates. I would still like to do that, although would like to describe the agenda carefully. We'll draft a paragraph. I got another copy of the DoL list of recommendations, but recall you guys wanted to add some other names. Have you a master list now? Do you need the DoL names again? Could we get this set up in the next couple of weeks?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:16-MAR-1999 22:20:24.00

SUBJECT: Mother Jones

TO: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
i never followed up on this do you want to call and see if i should do something about this?
---------------------- Forwarded by Karen Tramontano/WHO/EOP on 03/16/99 10:20 PM ---------------------------

From: Alejandro G. Cabrera @ OVP on 03/01/99 05:43:47 PM
Record Type: Record

To: Karen Tramontano/WHO/EOP
cc:
Subject:Mother Jones

Mark Boal, with Mother Jones Magazine, is writing an article on Gore and Labor.

He would like to talk someone here on background to understand the '96 federal procurement proposal the VP announced at the AFL-CIO conference. Paul Tuchmann recommended that I talk to you.

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Heather M. Marabeti at 11:19:51.00. Subject: Dept of Labor. (1 page)	03/16/1999	P6/b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
WHO ([AFL-CIO])
OA/Box Number: 500000

FOLDER TITLE:

[01/25/1999 - 04/16/1999]

2013-0306-F
ab1208

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:16-MAR-1999 21:26:14.00

SUBJECT: Re: Barbara Sapin -- OSHRC

TO: Heather M. Marabeti (CN=Heather M. Marabeti/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
i understand barbara got here paper work in -- has mark childress met w/ her -- i think we should figure out the afl-cio strategy -- can we talk tomorrow?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Heather M. Marabeti (CN=Heather M. Marabeti/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:17-MAR-1999 08:50:39.00

SUBJECT: Re: Barbara Sapin -- OSHRC

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
KT -- I don't believe Marky Mark has met with her. I would love to strategize with you today!

Karen Tramontano
03/16/99 09:25:12 PM
Record Type: Record

To: Heather M. Marabeti/WHO/EOP
cc:
Subject: Re: Barbara Sapin -- OSHRC

i understand barbara got here paper work in -- has mark childress met w/ her -- i think we should figure out the afl-cio strategy -- can we talk tomorrow?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Timothy J. Cooney (CN=Timothy J. Cooney/OU=ONDCP/O=EOP [ONDCP])

CREATION DATE/TIME:17-MAR-1999 09:23:01.00

SUBJECT: $ 20-$25

TO: maria (maria @ afl-cio.hit.com [WHO])
READ:UNKNOWN

CC: kelly_h_johnson (kelly_h_johnson @ email.mobil.com [UNKNOWN])
READ:UNKNOWN

TEXT:
Oh, forgot one thing, as the bill will be on my account, i though about asking people for $25.00 contribution as drinks will be $5 plus food the room...Is that too much ? This assumes people have 3 drinks and food. We know that some may drink more than three and some none...

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:18-MAR-1999 10:52:43.00

SUBJECT: FWD: Message from Larry Mishel (AFL-CIO) following up our meeting with tra

TO: Malcolm R. Lee (CN=Malcolm R. Lee/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Rebecca M. Blank (CN=Rebecca M. Blank/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TO: Robert.Cumby (Robert.Cumby @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
I forward this message from Larry Mishel, following up to our meeting with trade union economists. I do not have the email of any Labor and Commerce Depts. colleagues who may be interested in this. Do you have them?
Nouriel

---------------------- Forwarded by Nouriel Roubini/CEA/EOP on 03/18/99 10:46 AM ---------------------------

lmishel @ epinet.org (Lawrence Mishel)
03/18/99 10:27:32 AM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc: Tom Palley
Subject: Follow-up

Nouriel,
I have attached a spreadsheet with annual data, 1959-97 on labor and capital income, capital-output ratio etc for the corporate sector. The data are drawn from NIPA Table 1.16 coupled with asset data from Fed/BEA. Note that capital income and "profits" are equated, for simplicity of exposition, but always include both profit and interest(so the composition shift within capital income doesn't affect any

conclusions).
My analysis is in chapter one of our State of Working America, attached as a PDF file. Please review the material starting on page 62, especially Tables 1.15 and 1.15 and Figure 1F.
This topic is treated too simply in most circumstances, in my view. There doesn't seem to be any clear or explicit standard, for instance, to determine whether there has been a redistribution from L to K. Constant shares don't do it because there's been a rapid fall in the K/Y ratio. Other changes such as a growt in labor quality should be considered, too. Noone, including me, has specified a model of what drives factor shares or the return to capital and has estimated whether there has been a structural shift. There's frequent discussion that there's "small" changes, but little rcognition of any yardstick with which to measure size- a 1%pt shift in labor's share in the corporate sector is equivalent to a 1.2% wage decline, an amount larger than all of the expected gains from a range of policies(GATT, deficit reduction,etc.). There's also sometimes a reference to the current shift being within the historical norm, but we had a large swing from very high returns in the 60's to very low returns in the 70's. This leaves me wondering whether any large shift would be outside of the "norm" of the last 40 years. I use a metric of how much the shift means in terms of compensation levels
I'd be interested in your, and your CEA colleagues' comments. I think this area is vastly underdeveloped in economic analysis, so it's important to dialogue about the metric for making judgements. At this point, a constant share argument is neither factually true or a useful standard. If there's not a tremendous rise in "profitability" then is the stock market boom purely speculative? Or solely based on expected returns with no current shift to higher returns?
Thanks for your interest.

--
Lawrence Mishel
Economic Policy Institute
Suite 1200
1660 L St.,N.W.
Washington,D.C. 20036

LMISHEL@EPINET.ORG
Direct line (202) 331-5533
Fax (202) 775-0819

- 1income.pdf
- Factor.xls

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D89]MAIL421087484.036 to ASCII,
The following is a HEX DUMP:

255044462D312E310D0A25E2E3CFD30D0A312030206F626A0D0A3C3C0D0A2F4372656174696F6E
446174652028443A31393939303331373134333734312900D0A2F50726F647563657220285C3337
365C3337375C303030415C303030635C303030725C3030306F5C303030625C303030615C303030
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CHAPTER 1

Family income: slower growth, greater inequality

THE SLOW AND UNEVEN GROWTH OF FAMILY INCOME SINCE THE EARLY 1970S IS THE most important economic problem confronting American families. In this regard, understanding the dynamics of family income growth is central to the theme of this book. This chapter examines how the economy, through the production of jobs, wages, and returns on investment, has generated slow growth and increasing inequality in family incomes.

The 1990s recovery, despite racking up some impressive numbers on aggregate economic indicators such as unemployment and recent productivity growth, provides an excellent example of the income problem. For the first time in the postwar period, family income fell four years in a row, declining each year from 1989 to 1993. The initial decline was attributable to the recession that began in 1990, but the median continued to fall as the recovery got under way in 1991 and 1992. In 1994, median family income finally responded to overall growth, and it has increased each year since (the most recent available data on family income are from 1997). Nevertheless, the median family — the family in the middle of the income scale — was only slightly better off (by $285 in 1997 dollars) in 1997 than it was at the peak of the last business cycle, in 1989. This is also historically unprecedented: in every prior recovery, the income of the typical family had, by this point, far surpassed its level of the prior peak. But in the 1990s, thanks to the continued surge of income inequality, the relationship between the growing economy and improving living standards has eluded all but the wealthiest families.

Even with the growth that has occurred since 1994, by 1997 the income of the median family was essentially back where it started in 1989, despite a 9% increase in productivity over the period.

The underlying factor driving the income problem is the growth of inequality — the ever-expanding gap between those at the top and the middle and the middle and the bottom of the income distribution. While this pattern of income growth has prevailed since the late 1970s, it departs from the earlier postwar period, which saw a much more equalizing growth pattern. In fact, inflation-adjusted incomes about doubled for each family income "fifth" from 1947 to 1979, but after that incomes stagnated for middle-income families, fell at the bottom, and rose at the top. Even in 1996, when the labor market was finally beginning to reflect the benefits of the continued recovery, the average real income of the bottom fifth of families fell by 1.8%. The strongest growth occurred among the top 5%, whose average income grew 3.1% from 1995 to 1996.

Why have income trends continued to be so negative in the 1990s? Along with overall slow growth, the primary reason, at least through 1996, is the continuing wage deterioration among middle- and low-wage earners, now joined by white-collar and even some groups of college-educated workers. Another key factor in understanding recent income trends is the contribution of working wives.

In the 1980s, many families compensated for the fall in hourly compensation, which was particularly steep for male workers, by working more hours (either through more family members working or through longer hours by those employed). This strategy — working longer for less — is most notable among married-couple families, in part because these families tend to have more potential workers than do families headed by one person. In fact, in the absence of increased hours and earnings by working wives in married-couple families in the 1980s, the incomes of the bottom 60% of families would have fallen.

In the 1990s, however, there was a slowdown in the growth (for some, even a decline) of hours and earnings among working wives in married-couple families, particularly among low- and middle-income women. Unlike the prior decade, wives' contributions were no longer sufficient to offset the lower earnings of husbands, whose wages continued to fall (only husbands in the top fifth experienced wage increases). By 1996, the bottom 80% of married-couple families would have experienced flat or declining incomes in the absence of wives' work; even with wives' contributions, families in the bottom 40% lost economic ground in the 1990s.

The slowdown in wives' hours and earnings also affected inequality growth. In the 1980s, the fastest growth in wives' work effort was among the bottom 60%, and their contributions to their families' incomes counteracted, to an extent, the sharp growth of income among the richest married-couple families. The net effect was equalizing. But since hours and earnings losses were most concentrated among this same middle- and low-income group of wives in the 1990s, their earnings had little impact on the growth of inequality over this period. Over the full period, 1979-96, however, wives' contributions were equalizing.

One difficulty in assessing the progress of inequality in the 1990s stems from an important change in the methodology used by the Census Bureau, the primary source for income data in this chapter. Starting in 1993, Census counters allowed families to report higher levels of income from earnings than in previous years, creating an inconsistency that led to an upward bias in the inequality trend. Below, we have adjusted the data to allow a comparison to 1989, but we still find solid evidence that family income inequality continued to grow in the 1990s — at about half the rate of the 1980s and twice the rate of the 1970s.

Not only have incomes grown slowly, they have declined for younger families. A cohort, or intergenerational, analysis of income growth shows that recent groups of young families have started out at lower incomes and obtained slower income gains as they approached middle age. Consequently, families headed by someone entering their prime earning years after 1976 may not achieve the same incomes in middle age as did the preceding generation. One result of this trend has been to diminish the role of income mobility in offsetting increasing income inequality.

The growth of inequality has also been fueled by large increases in the capital incomes of the wealthy. These gains stem in large part from the increase in the rate of profit, or the return to capital holdings. Profit rates continue to soar in the 1990s, but (as discussed in the Introduction) these gains have not led to increased investment in capital stock, nor have they been accompanied by increases in efficiency, as measured by productivity growth. Their main effect has been to increase the incomes of the richest families at the expense of the broad working class.

In the first few sections of this chapter we examine the changes in income in recent years relative to other periods since 1947. This analysis focuses on changes in median family income for families overall as well as for families differentiated by the age or race/ethnicity of the household head and by family type (families with children, married-couple families, single-parent families, and so on). In the final sections we turn to the growth of inequality and its causes.

Median income grows slowly in 1980s, declines in 1990s

Income growth over the last two business cycles — 1979-89 and 1989-97 — was slow and the gains were unequally distributed. **Tables 1.1** and **1.2** show changes in family income, adjusted for changes in consumer prices, in various cyclical peak (or low-unemployment) years since World War II. (These Census data exclude the impact of the sharp increase in capital gains over the 1980s and 1990s; we adjust for this omission in Chapter 2). As explained in the section on documentation and methodology, examining income changes from business cycle

TABLE 1.1 Median family income,* 1947-97 (1997 dollars)

Year	Median family income*
1947	$20,102
1967	35,076
1973	40,978
1979	42,483
1989	44,283
1997	44,568
Total increases	
1947-67	$14,974
1967-73	5,902
1973-79	1,505
1979-89	1,800
1989-97	285

* Income includes all wage and salary, self-employment, pension, interest, rent, government cash assistance, and other money income.

Source: Authors' analysis of U.S. Bureau of the Census data. For detailed information on table sources, see Table Notes.

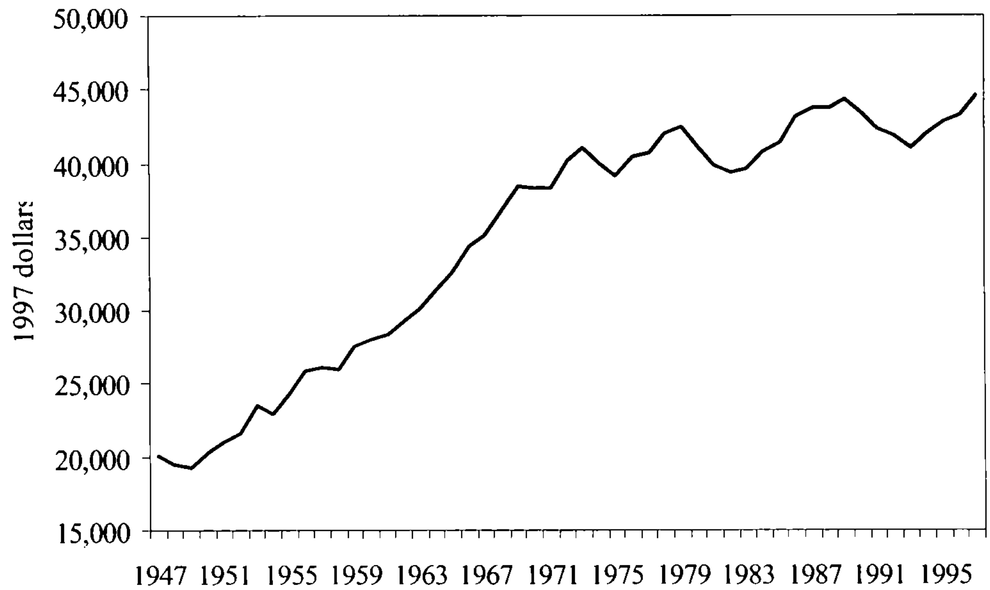
TABLE 1.2 Annual growth of median family income, 1947-97 (1997 dollars)

	Median family income growth		Adjusted for family size*
Period	Percent	Dollars	Percent
1947-67	2.8%	$749	n.a.
1967-73	2.6	984	2.8%
1973-79	0.6	251	0.5
1979-89	0.4	180	0.5
1989-97	0.1	36	0.1

* Annualized growth rate of family income of the middle fifth, divided by the poverty line for each family size.

Source: Authors' analysis of U.S. Bureau of the Census data.

FIGURE 1A Median family income, 1947-97



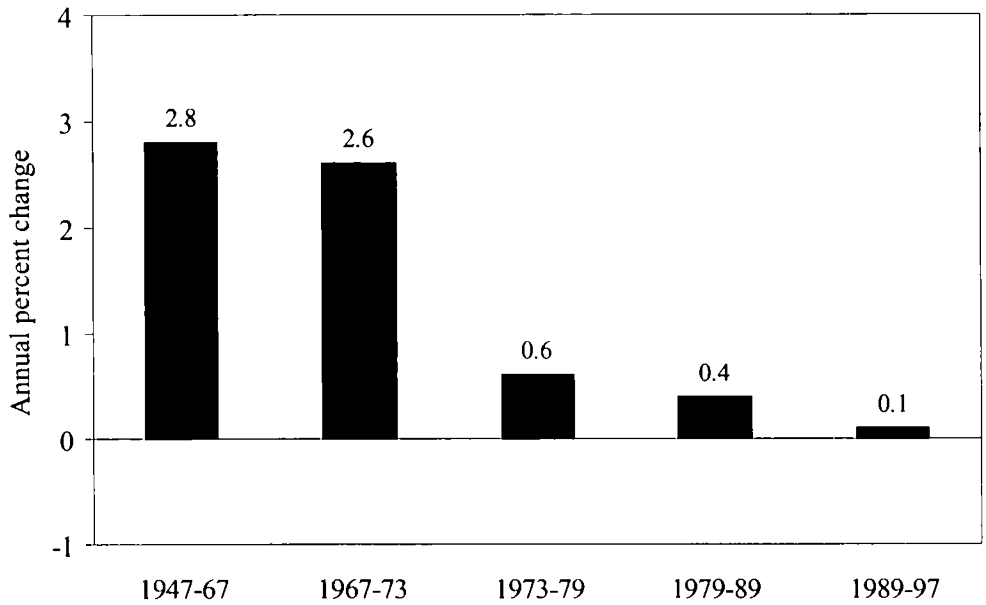
Source: U.S. Bureau of the Census.

peak to business cycle peak eliminates the distortion caused by the fact that incomes fall significantly in a recession and then recover in the subsequent upswing (see **Figure 1A**).

Family income increased substantially in the two decades immediately following World War II (1947-67). During that time, median family income increased by $14,974, for an annual rate of growth of 2.8% (Table 1.2). Family incomes continued to grow into the early 1970s, but since 1973 they have risen slowly. In 1989, the median family's income was $1,800 greater than it was in 1979, translating into growth of just 0.4% per year from 1979 to 1989, or only two-thirds of the sluggish 0.6% annual growth of the 1973-79 period and only one-seventh the rate of the postwar years prior to 1973 (**Figure 1B**). In fact, the $1,800 income growth over the 10 years after 1979 equals the amount that incomes rose every 22 months in the 1967-73 period.

The recession that began in 1990 and ended in 1991 (or in 1992 in terms of unemployment) significantly reduced incomes through 1993. Despite income growth from 1993 to 1997, the median family income in 1996 was only 0.6%, or $285, above its 1989 level. This small 1989-97 income growth appears to reflect more than the unemployment accompanying a normal business cycle downturn. First, considering the mildness of the 1991 recession (unemployment rose by

FIGURE 1B Annual growth of median family income, 1947-97



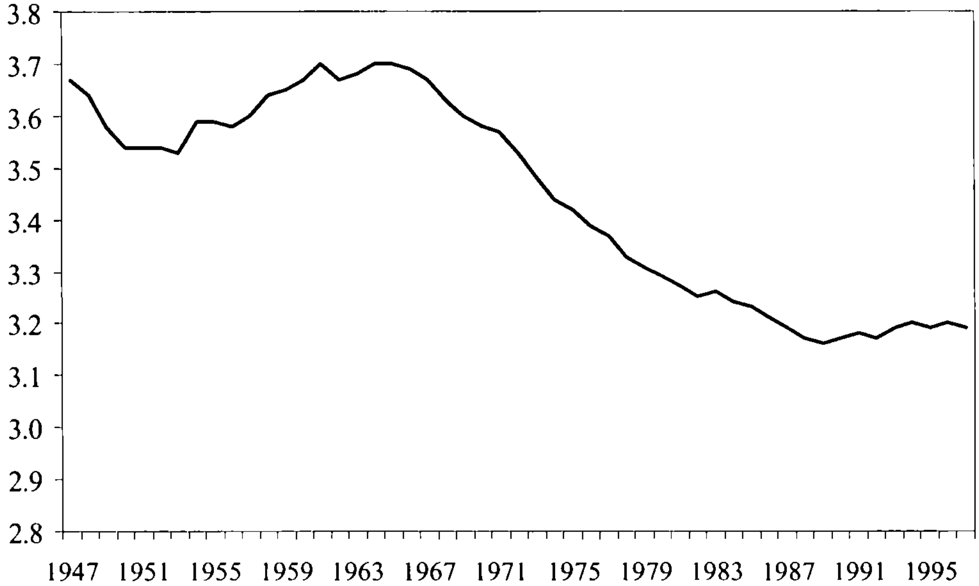
Source: U.S. Bureau of the Census.

2.1 percentage points, which is less than in the usual downturn), we would have expected median family income to recover much sooner, as it did following much deeper recessions. Second, the income decline reflects several ongoing and new structural shifts in income growth, such as the falloff in wages among white-collar and college-educated workers that preceded the recession.

The fact that the median income took eight years to return to its pre-recessionary peak is historically unique. Typically, job growth, falling unemployment, and increasing productivity — all of which occurred in the recovery that began in 1991 — would have helped return median family income to its previous level. But as we show below, increasing income inequality and continued earnings declines through 1996 have eroded the incomes of all but the top 5% of families.

It is common practice also to examine measures of family income growth that adjust for changes in family size, since the same total family income shared by fewer family members can be interpreted as improved economic well-being for each family member. However, trends in incomes adjusted for family size can be misleading, since the recent decline in the average family's size is partially due to lower incomes; that is, some families feel they cannot afford as many children as they could have if incomes had continued to rise at early postwar rates. Yet a family deciding to have fewer children or a person putting off

FIGURE 1C Average number of persons per family, 1947-97



Source: U.S. Bureau of the Census.

starting a family because incomes are down appears "better off" in size-adjusted family income measures. It also seems selective to adjust family incomes for changes in family size and not adjust for other demographic trends such as more hours of work and the resulting loss of leisure.

Nevertheless, even when income growth is adjusted for the shift toward smaller families (Table 1.2, column 3), the income growth from 1979 to 1989 is only slightly higher than the "unadjusted" measure (0.5% versus 0.4%). In fact, the trends in size-adjusted income never diverge more than 0.2% from the unadjusted measure in any period, suggesting that the shrinking size of families has only marginally offset the slow growth of median family income since 1973.

Note that the decline of size-adjusted family income was the same as that of unadjusted income in the 1990s. This stems largely from the fact that family size, after falling continuously over the 1980s, stabilized in the 1990s. **Figure 1C** shows the average number of persons per family in the 1947-97 period. At the beginning of the figure, in 1947, families had on average about 3.7 members. By 1989 the number had fallen to 3.2. Since then the trend has been flat, and so we would not expect size adjustments to play a role in income trends in the 1990s.

We return below to a more detailed investigation of the impact of other aspects of demographic change on family income growth and inequality.

An economic 'generation gap'

Table 1.3 shows that income declines have been greatest among the youngest families. The average income of families headed by someone under age 25 declined at an annual rate of 2.4% from 1979 to 1989 and 0.7% from 1989 to 1997. These young families in 1997 had about $5,000 less income to spend in real dollars than their 1967 counterparts had when they were starting out. This pattern of income loss has meant that the income gap between the median income of these youngest families and those of older persons has expanded since 1979.

Families headed by someone between the ages of 25 and 34 have also fared poorly relative to earlier years. The incomes of these families eroded 0.5% per year from 1979 to 1989 and was flat from 1989 to 1997, in stark contrast to their 3.1% and 2.5% annual growth rates in 1947-67 and 1967-73. Many families in this age group are likely to be bringing up young children and trying to buy a home of their own; their income problems thus represent income problems for the nation's children. Families with household heads age 25 to 34 in 1997 had incomes about $1,900 less than their counterparts had in 1979.

The incomes of the 35-44 and 45-54 age groups grew modestly — 0.5% and 0.8% per year — between 1979 and 1989, compared to growth of about 3% per year between 1947 and 1973. Incomes of families headed by someone over 65 increased at a 2.0% pace from 1979 to 1989, only half as fast as in the 1967-73 period. From 1989 to 1997, families headed by individuals less than 55 experienced income stagnation or losses; only those families headed by older persons saw their incomes grow. Thus, Table 1.3 underscores a post-1979 economic "generation gap," with younger families starting out lower down the income scale and falling further behind, while older families hold their ground.

Income growth among racial/ethnic groups

While sluggish income growth has affected all racial groups, **Table 1.4** illustrates some important differences in income growth by race, particularly in the 1989-97 period, when black families were the only racial group with significant positive median income growth. Hispanic families, however, lost ground at a highly accelerated rate in the 1990s.

White families, who fared the best from 1967 to 1979, experienced modest 0.5% annual growth in their real median income from 1979 to 1989. Black families, whose 1996 median income was 40% lower than that of whites, experienced slower income growth than whites in 1973-79 (0.3% versus 0.6%) and in

TABLE 1.3 Median family income by age of householder, 1947-97 (1997 dollars)

Year	Under 25	25-34	35-44	45-54	55-64	Over 65
1947	$15,553	$19,439	$21,840	$22,815	$21,236	$12,124
1967	25,840	35,792	40,850	42,783	35,558	17,368
1973	27,251	41,506	48,650	51,765	43,461	21,851
1979	28,220	41,877	49,699	54,874	47,532	24,557
1989	22,086	39,960	52,036	59,671	48,724	29,877
1997	20,820	39,979	50,424	59,959	50,241	30,660
Annual growth rate						
1947-67	2.6%	3.1%	3.2%	3.2%	2.6%	1.8%
1967-73	0.9	2.5	3.0	3.2	3.4	3.9
1973-79	0.6	0.1	0.4	1.0	1.5	2.0
1979-89	-2.4	-0.5	0.5	0.8	0.2	2.0
1989-97	-0.7	0.0	-0.4	0.1	0.4	0.3

Source: Authors' analysis of U.S. Bureau of the Census (1996) and unpublished Census data.

TABLE 1.4 Median family income by race/ethnic group, 1947-97 (1997 dollars)

				Ratio to white family income of:	
Year	White	Black*	Hispanic**	Black	Hispanic
1947	$20,938	$10,704	n.a.	51.1%	n.a.
1967	36,407	21,554	n.a.	59.2	n.a.
1973	42,829	24,717	$29,635	57.7	69.2%
1979	44,330	25,103	30,731	56.6	69.3
1989	46,564	26,158	30,348	56.2	65.2
1997	46,754	28,602	28,142	61.2	60.2
Annual growth rate					
1947-67	2.8%	3.6%	n.a.		
1967-73	2.7	2.3	n.a.		
1973-79	0.6	0.3	0.6%		
1979-89	0.5	0.4	-0.1		
1989-97	0.1	1.1	-0.9		

* Prior to 1967, data for blacks include all nonwhites.
** Persons of Hispanic origin may be of any race.

Source: Authors' analysis of U.S. Bureau of the Census (1996) and unpublished Census data.

1979-89 (0.4% versus 0.5%). The median income of families of Hispanic origin declined slightly (0.1% per year) between 1979 and 1989.

The ratio of black to white median family income fell from 1967 to 1979 and then remained fairly constant, declining slightly by the end of the 1980s. Interestingly, in the 1989-97 period, the income of the median black family rose at a much faster annual rate (1.1%) than in the prior two periods, while that of the median white family fell. These countervailing trends led to an increase in the black/white ratio. (Chapter 6 reveals similar relative gains by blacks in poverty rates.) Prior to the 1990s, Hispanic family incomes were higher than those of African Americans, but they fell sharply in the 1990s, at an annual rate of 0.9%. Thus, by the end of the period, Hispanic median family income was lower than that of black families and had fallen to a historical low of 60.2% that of white families. In 1997 dollars, the median Hispanic family was $2,206 worse off than in 1989.

Only dual-income, married couples gain

The only type of family that experienced income growth over the 1980s and the 1990s was married couples with a wife in the paid labor force (**Table 1.5**). Incomes among married couples where the wife was not employed declined 0.3% over the 1980s and 0.4% in the 1990s (1989-97). Similarly, the slight fall in income experienced by single-parent families in the 1980s accelerated somewhat in the 1990s. This was a dramatic turnaround for female-headed families, since their incomes grew 1.4% per year in the 1973-79 period. (The effect of this income decline on poverty rates is explored in Chapter 6.)

This pattern of income growth suggests that it was only among families with two adult earners that incomes grew in the post-1979 period. The data in Table 1.5 also show sizable growth in the importance of working wives. In 1979, the share of married couples without a wife in the labor force was about equal to that of those with a wife in the labor force (41.9% versus 40.6% of all families). By 1997, married couples with two earners (assuming the husband worked) made up 47.3% of all families, while one-earner married couples were proportionately fewer in number, 29.3% of the total.

While this shift toward two-earner families has been a major factor in recent income growth, this shift appears to be attenuating, since the rate at which wives (and women in general) have been joining the labor force has slowed in recent years (see Chapter 4). For example, among married-couple families, wives joined the paid labor force at an annual rate of 1.3% in the 1970s, 0.8% in the 1980s, and 0.5% in the 1989-97 period (not shown in table). Furthermore, as we show below, the hours of working wives grew more slowly in the 1990s relative to the 1980s.

TABLE 1.5 Median family income by family type, 1947-97 (1997 dollars)

	Married couples			Single		
Year	Total	Wife in paid labor force	Wife not in paid labor force	Male-headed	Female-headed	All families
1947	$20,619	n.a.	n.a.	$19,472	$14,405	$20,102
1967	37,322	$44,020	$33,652	30,128	18,986	35,076
1973	44,301	51,812	38,826	36,527	19,712	40,978
1979	46,477	53,921	38,403	36,455	21,429	42,483
1989	49,893	58,590	37,209	36,043	21,281	44,283
1997	51,591	60,669	36,027	32,960	21,023	44,568
Annual growth rate						
1947-67	3.0%	n.a.	n.a.	2.2%	1.4%	2.8%
1967-73	2.9	2.8%	2.4%	3.3	0.6	2.6
1973-79	0.8	0.7	-0.2	0.0	1.4	0.6
1979-89	0.7	0.8	-0.3	-0.1	-0.1	0.4
1989-97	0.4	0.4	-0.4	-1.1	-0.2	0.1
Share of families						
1951*	86.7%	19.8%	66.9%	3.0%	9.9%	100.0%
1967	86.4	31.6	54.8	2.4	10.6	100.0
1973	85.0	35.4	49.7	2.6	12.4	100.0
1979	82.5	40.6	41.9	2.9	14.6	100.0
1989	79.2	45.7	33.5	4.4	16.5	100.0
1997	76.6	47.3	29.3	5.5	17.8	100.0

* Earliest year available.

Source: Authors' analysis of U.S. Bureau of the Census (1996) and unpublished Census data.

Married-couple families, although still predominant — they represented 76.6% of all families in 1997 — make up a smaller share of families than they did in the 1950s and 1960s. There has been a continuing rise in the importance of female-headed families; in 1997 they represented 17.8% of the total. Although this phenomenon has been the focus of increased attention in recent years, the share of female-headed families grew more quickly in the 1967-79 period than in the period since 1979. Note also that the median incomes of these female-headed families actually grew over the 1967-79 period, when their share of the population of families was increasing. This pattern suggests that income trends *within* demographic groups were a more important source of income loss than the often-cited shift to female-headed families. (Chapter 6 looks closely at this issue in the context of poverty.)

Examined as a whole, family income growth was stagnant over the 1989-97 period (Table 1.5, last column), with losses experienced by single-headed families and families with wives not in the paid labor force. Families with working wives were the only family type to achieve income growth over this period; their incomes rose a modest 0.4% per year. As we show below, this growth was driven primarily by the increase in annual hours of work by wives.

Growing inequality of family income

The vast majority of American families have experienced either modest income growth or an actual erosion in their living standards in recent years, while the small minority of upper-income families have experienced substantial income growth. The result has been an increase in inequality such that the gap between the incomes of the well-off and those of everyone else is larger now than at any point in the postwar period. The rich have gotten richer, low-income and even poor families are more numerous and are poorer than they have been in decades, and the middle has been "squeezed." This section examines the income trends of families at different income levels and the dramatic growth of income inequality in the 1980s and 1990s.

Table 1.6 shows the share of all family income received by families in different segments of the income distribution. Families have been divided into fifths, or "quintiles," of the population, and the highest income group has been further divided into the top 5% and the next 15%. The 20% of families with the lowest incomes are considered the "lowest fifth," the next best-off 20% of families are the "second fifth," and so forth. The table also shows the trend in the "Gini ratio," a standard measure of inequality, bounded by zero and one, wherein higher numbers reveal greater inequality. Because the Census Bureau raised the "top codes" (i.e., the highest income levels it would record) in 1993, income shares beyond that year are less comparable to those of prior years (a factor we correct for in the next section).

The upper 20% of families received 47.2% of all income in 1997. The top 5% received more of total income, 20.7%, than the families in the bottom 40%, who received just 14.1%. In fact, the 1997 share of total income in each of the three lowest-income fifths—the 29.8% of total income going to the bottom 60% of families—was smaller than the 34.5% share this group received in 1979. As we will see in a later chapter providing international comparisons (Chapter 8), income in the United States is distributed far more unequally than in other industrialized countries.

The 1980s was a period of sharply increasing income inequality, reversing

TABLE 1.6 Shares of family income by income fifth and top 5%, 1947-97

Year	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Breakdown of top fifth: Bottom 15%	Breakdown of top fifth: Top 5%	Gini ratios
1947	5.0%	11.9%	17.0%	23.1%	43.0%	25.5%	17.5%	0.376
1967	5.4	12.2	17.5	23.5	41.4	25.0	16.4	0.358
1973	5.5	11.9	17.5	24.0	41.1	25.6	15.5	0.356
1979	5.4	11.6	17.5	24.1	41.4	26.1	15.3	0.365
1989	4.6	10.6	16.5	23.7	44.6	26.7	17.9	0.401
1997*	4.2	9.9	15.7	23.0	47.2	26.5	20.7	0.429
Percentage-point change								
1947-67	0.4	0.3	0.5	0.4	-1.6	-0.5	-1.1	-0.018
1967-73	0.1	-0.3	0.0	0.5	-0.3	0.6	-0.9	-0.002
1973-79	-0.1	-0.3	0.0	0.1	0.3	0.5	-0.2	0.009
1979-89	-0.8	-1.0	-1.0	-0.4	3.2	0.6	2.6	0.036
1989-97	-0.4	-0.7	-0.8	-0.7	2.6	-0.2	2.8	0.028

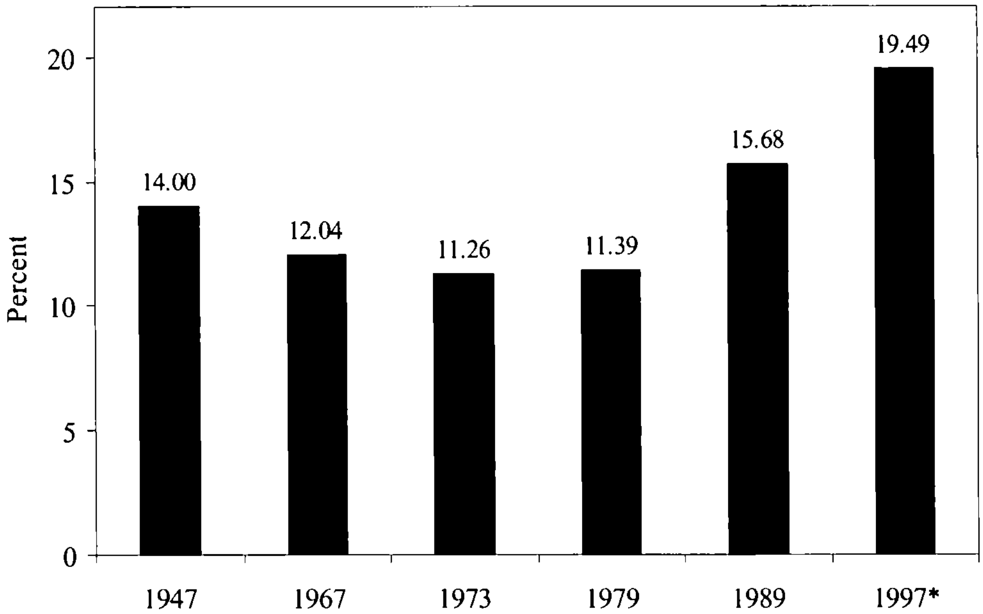
* These shares reflect a change in survey methodology leading to greater inequality.

Source: Authors' analysis of unpublished Census data.

the trend toward less inequality over the postwar period into the 1970s. Between 1979 and 1989, the bottom 80% lost income share and only the top 20% gained. Moreover, the 1989 income share of the upper fifth, 44.6%, was far greater than the share it received during the entire postwar period and even higher than the 43% received in 1947. Even among the rich, the growth in income was skewed to the top: between 1979 and 1989, the highest 5% saw their income share rise 2.6 percentage points (from 15.3% to 17.9%), accounting for the bulk of the 3.2 percentage-point total rise in the income share of the upper fifth. The Gini ratio grew four times faster in the 1980s than in the 1970s, reflecting the acceleration of inequality over the decade.

The increase in inequality continued unabated over the 1989-96 period. For example, the share received by the top 5% grew from 17.9% in 1989 to 20.7% in 1997 (recall that part of this increase — as shown below, perhaps a third — is due to lifting the top code). Comparing the bottom two rows of the table reveals that the rate of share loss among the bottom 80% was slower than that of the 1980s. However, note that these two rows compare a 10-year to a seven-year period; correcting for this difference reveals that inequality grew at a similar

FIGURE 1D Ratio of family income of top 5% to lowest 20%, 1947-97



* This ratio reflects a change in survey methodology leading to increased inequality.

Source: Authors' analysis of U.S. Bureau of the Census data.

annualized rate in both periods. The Gini ratio also continued to increase at a similar rate in the 1990s as in the 1980s (accounting for the shorter time period from 1989 to 1996). The top fifth, and in particular the top 5%, continued to gain at the expense of everyone else, including the group in the 80-95th percentile range, whose income share fell 0.2 points in the 1990s.

The increase in the income gap between upper- and lower-income groups is illustrated in **Figure 1D**, which shows the ratio of the average incomes of families in the top 5% to the average income of those in the bottom 20% from 1947 to 1997. The gap between the top and the bottom incomes fell from 1947 to 1979 but grew to a historic high of 19.5 by 1997, reversing three decades of lessening inequality.

Another way of viewing this recent surge in income inequality is to compare the "income cutoff" (the income of the best-off family in each group) of families by income group, as in **Table 1.7**. By focusing on this measure, we are able to discuss income gains and losses for complete groupings of families (e.g., the bottom 40%).

Over the early postwar period, from 1947 to 1973, there was strong and even income growth across the income spectrum. From 1947 to 1967, for in-

TABLE 1.7 Real family income growth by income group, 1947-97, upper limit of each group (1997 dollars)

Year	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	95th percentile	Average
1947	$10,506	$16,952	$22,988	$32,618	$53,536	$23,517
1967	18,167	29,823	39,992	54,827	88,094	38,914
1973	20,678	34,120	47,606	65,468	102,063	46,321
1979	21,388	35,169	49,825	68,607	110,064	48,402
1989	20,714	36,242	52,810	77,079	128,093	53,723
1997	20,586	36,000	53,616	80,000	137,080	56,902
Annual growth rate						
1947-67	2.8%	2.9%	2.8%	2.6%	2.5%	2.5%
1967-73	2.2	2.3	2.9	3.0	2.5	2.9
1973-79	0.6	0.5	0.8	0.8	1.3	0.7
1979-89	-0.3	0.3	0.6	1.2	1.5	1.0
1989-97	-0.1	-0.1	0.2	0.5	0.9	0.7

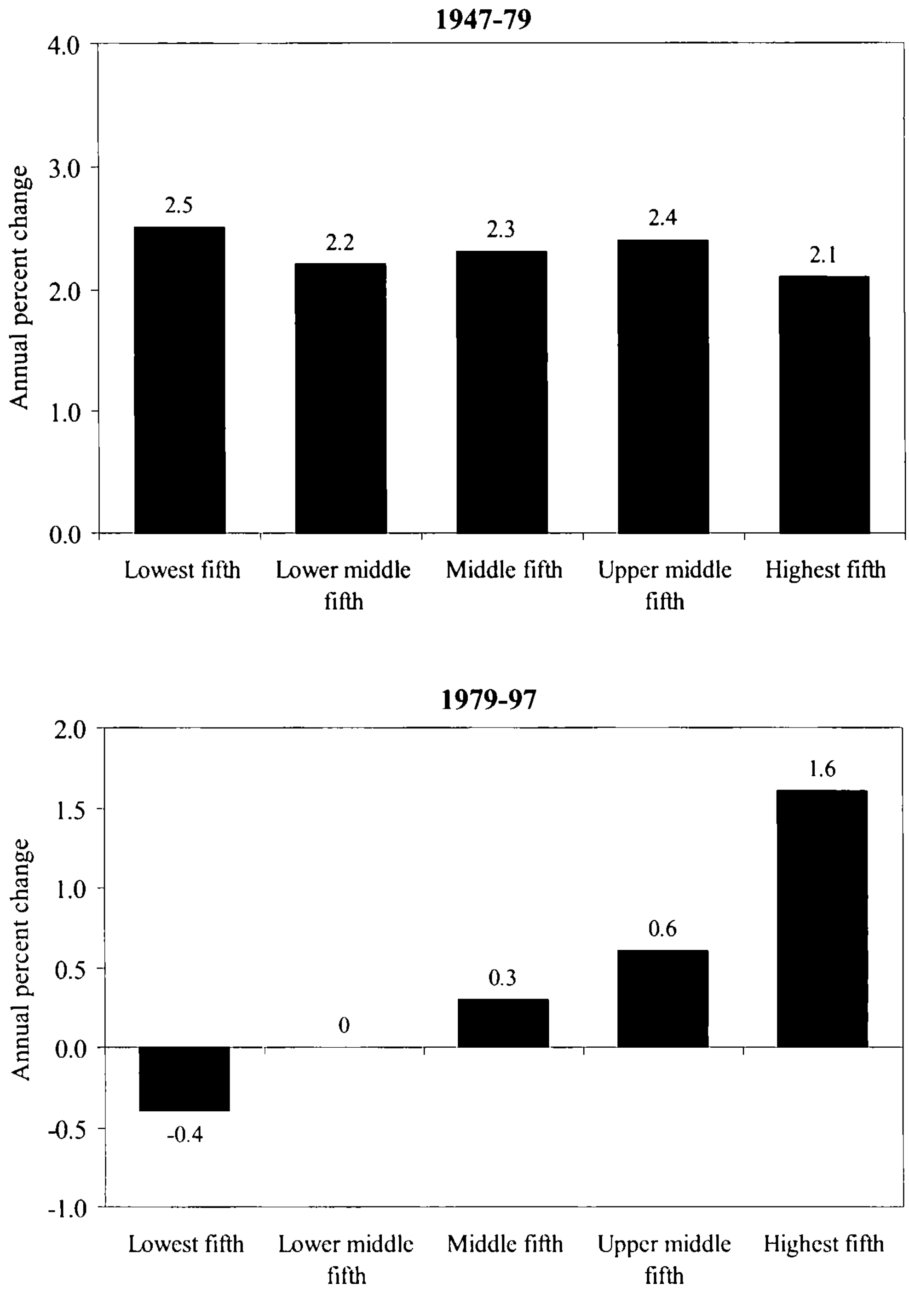
Source: Authors' analysis of U.S. Bureau of the Census data.

stance, the growth in the top value in each fifth ranged from the 2.5% annual pace obtained by the top 5% to the 2.9% annual pace obtained by those in the second fifth. Because incomes grew slightly faster for lower- and middle-income families than upper-income families (the top 5%) from 1947 through 1967, there was a general decline in income inequality, as shown by the falling Gini ratio in the previous table.

The pattern of income growth since 1973 has been far more uneven and far slower than in the earlier period. From 1973 to 1979 the fastest income growth was the 1.3% annual growth among the top 5% of families, which, though modest, was twice the 0.6% and 0.5% annual income growth among the first and second fifths. Incomes across the spectrum continued to grow slowly in the 1979-89 period, but the pattern of growth was even more unequal. The families with the lowest incomes actually lost ground from 1979 to 1989 (incomes fell 0.3% annually), while the top 5% accelerated to a 1.5% annual rate. In the most recent period, 1989-97, average annual growth slowed considerably, but inequality continued to increase, as the growth went mostly to families at the top of the income scale. The bottom 40% of families lost 0.1% per year, while the top 5% gained 0.9%.

Figure 1E presents a revealing picture of incomes growing together in the first 30 years of the postwar period and growing apart thereafter. The bars in

FIGURE 1E Family income, average annual change



Source: Authors' analysis of U.S. Bureau of the Census (various years).

each panel represent the annual growth rate of average income by income fifth over the periods 1947-79 and 1979-96. The top panel, covering the years 1947-79, shows strong and even growth. In fact, over this period, growth was slightly faster at the bottom of the income scale relative to the top, i.e., growth was equalizing. The bottom panel shows a very different pattern. Since 1979, the annual growth of family income has been negative for the bottom fifth, falling 6.4% per year. Income growth has been flat for the next fifth and positive for the top three fifths. Note that between 1947 and 1979 income grew 0.4% per year more slowly in the top relative to the bottom fifth (found by subtracting one rate of growth from the other); since 1979, income has grown 2.0% more *quickly* in the top relative to the bottom fifth. Thus, the 1947-79 equalizing pattern of growth has sharply reversed in the post-1979 period.

Counter-arguments to the evidence on income trends

A number of questions have been raised regarding the above evidence. First, Census data have undergone some important changes in the 1990s, and these changes have most likely imparted an upward bias to the levels and growth of income inequality in the measures published by the Census Bureau over the 1989-96 period. Thus, while we know that inequality has increased since the late 1980s, the changes in the primary data source (March CPS data) have previously left us uncertain as to the magnitude of the increase. Using data specially prepared by the Census to account for this difference, we address this issue in this section.

Second, some economists argue that consumption, a proxy measure for "permanent" income, is a better measure of family well-being than annual income. This raises the question of whether the inequality of consumption has increased along with that of income.

Finally, some economists argue that it is demographic, not economic, factors that are responsible for the growth and inequality problems documented above. This is an important distinction, because an incorrect diagnosis of the problem will lead to inappropriate policy responses. We explore the validity of this claim below.

How much has inequality really grown in the 1990s?

Most government surveys of income data are "top coded," meaning that, for reasons of confidentiality, the values that respondents report are "capped" (i.e., values above the top code are simply assigned the same top-coded value). Beginning in 1993, these caps were significantly raised. Also, in 1995, the Census

Bureau began to report more fully the earnings of the highest-paid workers (see Appendix B for a more detailed explanation). The impact of these changes is to raise the reported income levels of high earners from the 1996 survey relative to those from earlier years, before these changes went into effect. Thus, researchers have been unable to determine the precise magnitude of the increase in inequality from 1989 to, for example, 1996.

To remedy this measurement issue, **Table 1.8** presents data from a version of the Census Bureau's Current Population Survey dataset specifically prepared to be comparable over the two years 1989 and 1996. It reports average income by income fifth (the same measure underlying the growth rates shown in Figure 1E) and income shares (along with the Gini ratio). The top panel presents changes in average income by income fifth, with the top fifth separated into the 80-95th percentile, the 96-99th percentile, and the top 1%. The bottom panel shows income shares and the Gini ratio, as in Table 1.6.

The table corroborates the above findings that inequality continued to increase in the 1990s. While the increase is smaller once we correct for the change in survey procedure, the inequality-inducing pattern of growth is unmistakable. The average income of families in the first two fifths fell by 4.0%, while that of the middle fifth fell by 2.1%. The only growth that occurred was among the top 20% of families, and even that growth was concentrated in the top 5%. The fastest growth was among the very richest — the top 1% of families — whose incomes increased by 10.0% over this seven-year period.

The changes in income shares also reflect increasing income imbalances. Tracking the gains in the top panel, the only increase in shares — 1.8 percentage points — went to the top 20%, and the top 1% claimed fully one-third of this growth.

Figure 1E above showed that the ratio of the average family income of the top 5% to that of the bottom fifth grew by 3.4 points (19.1 compared to 15.7) from 1989 to 1996. These adjusted data (last column of panel 1) show a growth in this ratio of 2.0 points, about two-thirds that of the unadjusted data. Similarly, while the change in income shares at the bottom of the income scale is about the same from both data sources, the 1989-96 change among the top fifth is 0.4 points lower than that shown in Table 1.6. The Gini ratio grows two-thirds as fast in these data as the growth of this indicator taken from the last column of Table 1.6. This suggests, therefore, that about a third of the growth in family income inequality as presented in the Census Bureau's published series is driven by changes in the top-coding procedure. However, recall that neither these data nor the Census Bureau's series reflect the full gains going to the top 1%, because of both top codes that remain even in the adjusted data and the omission of capital gains.

TABLE 1.8 The growth of income inequality, 1989-96, using comparable data

	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	80 to 95%	96-99%	Top 1%	Top 5%/ bottom fifth
Average income									
1989	$12,745	$29,337	$45,212	$64,479	$120,203	$96,319	$164,442	$296,941	15.0
1996	12,234	28,164	44,254	64,037	125,039	97,740	177,436	326,777	17.1
Percent changes	-4.0%	-4.0%	-2.1%	-0.7%	4.0%	1.5%	7.9%	10.0%	2.0*
Income shares									*Gini ratio*
1989	5.2%	11.7%	17.1%	23.4%	42.5%	25.5%	11.6%	5.4%	0.394
1996	4.9	11.1	16.6	23.0	44.4	26.1	12.3	6.0	0.411
Point changes	-0.3	-0.7	-0.5	-0.4	1.8	0.6	0.6	0.6	0.017

* Point change.

Source: Authors' analysis of specially constructed CPS March data; see table note for detailed explanation.

Nevertheless, when examined in tandem with pre-1989 data from the previous section, these data suggest that income inequality proceeded to expand strongly in the 1990s, although it has grown somewhat more slowly — about two-thirds as fast — than in the 1980s.

Inequality as measured by consumption

Some economists express doubts about analyses of income because the incomes of families fluctuate from year to year in response to special circumstances— a layoff, a one-time sale of an asset, and so on. As a result, a family's income may partially reflect transient events and not its economic well-being over the long term. In this view, consumption levels of families provide a better measure of inequality, since families typically gear their consumption to their expected incomes over the long term.

Table 1.9, which presents the ratio of consumption levels at different percentiles, permits a view of this final dimension of growing inequality. Over the 1970s, the distance between levels of consumption of families at the top and the middle of the distribution grew slightly, from 1.87 to 1.90. A countervailing trend (decreasing inequality) occurred among families at the 50th percentile relative to those at the 10th, but these changes were small .

The 1980s, however, saw a large increase in consumption inequality, mirroring the trend in income inequality shown above. As the ratios show, the top pulled away from the middle (the 90/50 ratio grew from 1.90 to 2.13), and the middle pulled away from the bottom (the 50/10 ratio grew from 2.01 to 2.31). Unlike the income data, these consumption data suggest a slight contraction of inequality since 1989 (this analysis is available only through 1993, however). Whether this contraction reflects a true shift in the trend is yet to be determined, but even with it, consumption inequality remains at a historically high level.

The impact of demographic changes on income

It is often suggested that changes in the demographic composition of American families have been a major cause of the income problems documented above, implying a lesser role for economic causes such as wage decline. While it is unquestionably the case that the increased share of economically vulnerable families has put downward pressure on income growth, this process is a dynamic one that has not been constant over time. In addition, some demographic factors, such as the increase in educational attainment, have led to increased family income. It is important, then, to look at the net effect of the different type of demographic shifts in various time periods.

Table 1.10 shows the impact of the following demographic factors on household income: age, education, family type, and race (all refer to the head of the

TABLE 1.9 Distribution of real consumption expenditure, 1972-93

	Ratio of consumption between different percentiles*		
Year	90th/10th	90th/50th	50th/10th
1972/73	3.89	1.87	2.08
1980/81	3.82	1.90	2.01
1989	4.92	2.13	2.31
1993	4.61	2.11	2.18

* Ratios reflect adjustment for family size using equivalency scales.

Source: Authors' analysis of U.S. Department of Labor.

household; households, unlike families, include one-person units). The challenge of this analysis is to quantify the impact of changes in these factors on income trends over time. For example, of the list of factors examined, the two with the largest impact are family type and education level. Over time, as seen in the bottom panel of Table 1.5, a demographic shift has occurred toward family types more likely to have low incomes, such as single-parent families or individuals living alone. A countervailing trend, however, has been the higher education levels of heads of households, a demographic trend that should lead to higher income levels over time.

Which of these two factors — educational upgrading or the shift to lower-income family types — has had a larger impact, and how has the impact varied by income level? (Race and age, while important, have played a secondary role in income trends.) Contrary to the conventional wisdom, which has typically assigned the primary role to changes in family type, there is clear evidence that, while the shift to less well-off families has put downward pressure on incomes, educational upgrading has more than compensated for this effect. Most importantly, on net, during the 1979-96 period when income inequality was increasing most quickly, the demographic factors considered here led to increasing, not falling, household incomes. Thus, explanations that depend on demographic change to explain income decline should be discounted.

The numbers in Table 1.10 show the percent changes in real household income from 1969 to 1996, along with the changes due to these specific demographic factors. For example, the first panel shows that, among families in the lowest fifth of the income scale, the shift to lower-income family types led to a

TABLE 1.10 The impact of demographic change on household income, 1969-96, by income fifth

	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Average
Income change (%), actual, 1969-79	8.1%	0.8%	4.8%	10.0%	10.4%	8.1%
Change due to:						
Age	-1.0	-1.6	-1.8	-1.8	-1.8	-1.7
Education	5.6	5.9	5.4	4.5	4.6	4.9
Family type	-15.4	-12.0	-8.8	-5.9	-3.6	-6.5
Race	-1.3	-1.1	-0.8	-0.5	-0.4	-0.6
Total demographic effect*	-8.9	-7.5	-5.4	-2.6	0.5	-2.6
Income change (%), demographics constant**	17.0	8.3	10.3	12.6	9.9	10.8
Income change (%), actual, 1979-89	2.2	3.3	4.3	7.8	16.5	10.3
Change due to:						
Age	1.3	0.6	0.6	0.5	-0.1	0.3
Education	4.9	5.3	4.7	4.5	4.6	4.7
Family type	-5.6	-5.4	-4.1	-3.0	-2.1	-3.2
Race	-1.5	-1.3	-0.9	-0.5	-0.4	-0.6
Total demographic effect*	-1.1	-0.2	0.6	1.4	2.6	1.5
Income change (%), demographics constant**	3.4	3.6	3.7	6.4	13.9	8.7
Income change (%), actual, 1989-96***	-2.6	-5.3	-3.6	-0.6	18.0	6.7
Change due to:						
Age	-0.1	0.5	1.0	1.1	1.2	1.0
Education	5.8	6.7	6.2	5.1	4.8	5.3
Family type	-4.8	-4.5	-3.5	-2.5	-2.1	-2.8
Race	-2.2	-1.6	-0.9	-0.5	-0.5	-0.8
Total demographic effect*	0.2	1.7	2.5	2.9	4.2	3.2
Income change (%), demographics constant**	-2.7	-7.0	-6.1	-3.5	13.8	3.5

Addendum: Household income levels by fifth, 1969-96 (1996 dollars)

	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Average
1969	$8,289	$21,229	$33,493	$46,742	$80,193	$37,989
1979	8,964	21,390	35,109	51,415	88,497	41,075
1989	9,165	22,103	36,626	55,442	103,105	45,288
1996	9,000	21,284	35,689	55,193	115,801	47,393

* Components do not sum to the aggregate effect due to interactions between the groups (see table note for further explanation).

** This row—the actual change minus the total demographic effect—shows the impact of income changes within each demographic group.

*** Percent changes are given as 10-year rates so as to be comparable with above panels.

Source: Authors' analysis of March CPS data.

15.4% decline in income from 1969 to 1979. Note also that this effect declines as we move up the income scale; the negative effect of family type in the top fifth was only 3.6% over this period. As expected, however, educational upgrading lifted incomes between 4.5% and 5.9%. The next-to-last row of the panel, which gives the impact of each of the above demographic factors taken as a whole, shows that, on net, the impact of demographic change was negative for all but the highest income group (implying that demographic change served to increase inequality over this period).

Note, however, that the average incomes of all but the second fifth grew significantly over this period (top row). Thus, despite the downward pressure of the negative factors (primarily family type), incomes *within* each demographic group grew enough to offset these losses. The last row of each panel, which shows the percent of income growth within each demographic group by income fifth, quantifies this point. These changes are net of demographic effects and thus represent the impact of economic changes such as real wage trends or the growth of income inequality on household incomes.

During the 1970s, household incomes within demographic groups grew strongly and were equalizing in nature. Net of demographic change, the income of the bottom fifth of households grew 17.0%, while that of the top fifth grew 9.9%. Thus, over the period when demographic pressure was exerting its strongest negative effects, favorable economic growth among low-income households was great enough to more than offset the unfavorable demographic trends. (Chapter 6 finds similar dynamics regarding the impact of demographic change on poverty rates over this period.)

Over the 1980s, the impact of family type, though still negative, was less a factor than in the previous period for each income group, particularly for the least well-off. For example, while shifts in family structure lowered the average income of the bottom fifth by 15.4% over the 1970s, continuing shifts lowered that group's average income by 5.6% in the 1980s. For the middle fifth, the comparable changes were 8.8% in the 1970s and 4.1% in the 1980s. Conversely, the positive impact of educational upgrading fell only slightly for each income group; for the bottom fifth they fell from 5.6% in the 1970s to 4.9% in the 1980s. Thus, in the 1980s, the net impact of demographics (second panel, second-to-last row) was notably smaller than in the previous period, with incomes for the bottom lowered by 1.1% and raised at the top by 2.6%.

Unlike the prior period, however, income growth net of demographic change (i.e., within demographic groups) slowed considerably for all but the wealthiest households. For example, the last row of the middle panel shows that, holding demographics constant, incomes grew by 3.4% for the bottom fifth, 3.7% for the middle fifth, and 13.9% for those at the top of the income scale. Thus, despite the decelerated negative impact of changes in family type, economic growth shifted in such a way as to dampen the growth of income for low-income households within each demographic category.

Over the most recent period, 1989-96, the impact of changes in family type has continued to decline while that of education has slightly increased (the values in this panel are given as 10-year rates so as to be comparable with the earlier periods). Thus, in this time period, net changes in demographics were actually *positive* for each group, though less so at the bottom of the income scale. In the bottom quintile, the negative impacts of family type and race were essentially reversed by the positive impact of education.

At the same time, however, nondemographic factors such as wage decline led to real average income losses for the bottom 80% of households. In the prior period (the 1970s), income growth net of demographic change was slow but positive, meaning low- and middle-income families made some economic progress, controlling for demographic changes (though less so than the 1960s). In the 1990s, within-group incomes fell, as much as 7.0% for households in the second fifth. Thus, most households were unable to take advantage of the positive impact that demographic changes had on their incomes in the 1990s, as their within-demographic-group losses outpaced these gains.

In sum, the message from Table 1.10 is that demographic factors do not account for the scope of income problems documented thus far. Nor do they help explain why income trends were slower and more unequal after 1979 relative to earlier periods. Over the 1970s, while the shift to less-well-off family types was putting significant downward pressure on income growth, incomes grew at a strong pace both at the top (10.4%) and the bottom (8.1%) of the income scale. In the 1990s, however, when changes in family type had the smallest negative impact of each of the time periods we examine, income growth was highly unequal, growing 18.0% at the top and falling 2.6% at the bottom. Additionally, while the negative impact of changes in family type was tapering off, the positive effect of educational upgrading persisted at similar levels in each time period.

The 'hollowing out' of the middle class

Another dimension of income growth is the proportion of the population that has low, middle, and high incomes. Two factors determine the distribution of the population at various income levels: the rate of growth of average income and changes in income equality. As average income grows (holding inequality constant), there will be a greater proportion of the population at higher income levels. However, if inequality grows such that the low-income population re-

TABLE 1.11 Distribution of persons, households, and families by income level, 1969-97

	1969	1979	1989	1997	1969-79	1979-89	1989-97
Under $25,000	27.3	25.8	25.4	25.5	-1.5	-0.4	0.1
$25,000 to $75,000	62.6	58.4	53.5	51.5	-4.2	-4.9	-2.0
Over $75,000	10.1	15.8	21.1	22.8	5.7	5.3	1.7
Total	100.0	100.0	100.0	100.0			
Household incomes							
Under $25,000	35.7	35.3	33.6	34.0	-0.4	-1.7	0.4
$25,000 to $75,000	55.6	52.0	49.5	47.7	-3.6	-2.5	-1.8
Over $75,000	8.7	12.7	17.0	18.4	4.0	4.3	1.4
Total	100.0	100.0	100.0	100.0			
Persons (income relative to the median)							
Less than 50	18.0	20.1	22.1	22.3	2.1	2.0	0.2
50-200	71.2	68.0	63.2	61.6	-3.2	-4.8	-1.6
200 or more	10.8	11.9	14.7	16.1	1.1	2.8	1.4
Total	100.0	100.0	100.0	100.0			

Source: Authors' analysis of U.S. Bureau of the Census.

ceives an unusually low proportion of the income growth and the high-income population obtains an unusually large proportion, then a rise in average income is unlikely to translate into a general upward movement of the population to higher income levels. The following table reveals that, as expected, economic growth has led to a larger share of families with higher incomes, both in absolute and relative terms. However, the growth of inequality, particularly over the 1990s, has also led to increases in the share of families with low incomes. The combination of these two patterns means that fewer families reside in the middle class.

The first two panels of **Table 1.11** show the proportion of families and households (which include one-person units) with low, middle, and high incomes in 1969, 1979, 1989, and 1997. The definition of middle income has been arbitrarily set as a range from $25,000 to $75,000. Over the 1969-89 period, the proportion of families and households with low and middle incomes declined as the shares with incomes beyond $75,000 increased. Income losses since 1989 have led to a downward shift in household income, as 0.4% of households have moved into the lower income group, and the share of families in the top income group has increased by 1.4%.

The third panel of Table 1.11 examines the incomes of people — single and in families — according to the per capita incomes of their families (size-adjusted), with a single person given their individual income. In this analysis, the income of persons is measured relative to the median. Thus, unlike the above panels, which fix the income brackets in real dollar terms, the brackets for the income categories in this panel move with the median income. This approach provides more important insights into inequality, because it measures the relative, as opposed to the absolute, changes in family incomes. Thus, in the first panel, the absolute income level of a low-income family may grow such that they cross from the $25,000 category into the middle group. But if their income grows more slowly than that of the median, they will still fall behind relative to more affluent families. The bottom panel shows evidence of precisely this pattern.

From 1979 forward, more than one-fifth of the population lived in households with income below half of the median. Over both the 1970s and 1980s, this share grew by about two percentage points. As we have stressed throughout the chapter, median income fell over the 1990s, as well as the income levels of those below the median. This led to a slightly larger share of persons in low-income families, as measured by absolute dollar cutoffs (top two panels), while the share of *relatively* low-income families changed little. At the other end of the income scale, there is further evidence of the top pulling away from the rest of the pack. In 1979, 11.9% of the population lived in households whose income was at least 200% of the median; by 1996, that share had increased to 16.1%, an increase of 1.4 percentage points.

Greater capital incomes, lower labor incomes

The fortunes of individual families depend heavily on the sources of their incomes: labor income, capital income, or government assistance. For instance, one significant reason for the unequal growth in family incomes in the 1979-89 period was an increase in the share of personal total income that was in the form of capital incomes (such as rent, dividends, interest payments, capital gains) and a smaller share earned as wages and salaries. Since most families receive little or no capital income, this shift had a substantial impact on income distribution.

Table 1.12 presents data that show the sources of income for families in each income group in 1989. The top fifth received a larger share of its income (13.8%) from financial assets (capital) compared to the other 80% of the population. For instance, the top 1% received 41.0% of its income from financial assets. The other income groups in the upper 10% received from 12% to 19% of

TABLE 1.12 Source of family income for each family income group, 1989

Income group	Labor	Capital*	Government transfer	Other	Total
All	75.3%	12.9%	6.7%	5.1%	100.0%
Bottom four-fifths					
First	46.3%	4.6%	39.9%	9.1%	100.0%
Second	69.6	7.7	14.3	8.4	100.0
Middle	79.1	8.0	6.7	6.2	100.0
Fourth	83.4	8.0	3.9	4.7	100.0
Top fifth	80.0%	13.8%	2.0%	4.2%	100.0%
81-90%	83.6	9.6	2.4	4.3	100.0
91-95%	81.8	12.3	1.9	4.0	100.0
96-99%	74.3	19.4	1.6	4.6	100.0
Top 1%	57.6	41.0	0.4	1.1	100.0

* Includes rent, dividend, interest income, and realized capital gains.

Source: Authors' analysis.

their income from capital. In contrast, the bottom 80% of families relied on capital income for less than 8% of their income in 1989.

Those without access to capital income depend either on wages (the broad middle) or on government transfers (the bottom) as their primary source of income. As a result, the cutback in government cash assistance primarily affects the income prospects of the lowest 40% of the population, but particularly the bottom fifth (see Chapter 6). For instance, roughly 40% of the income of families in the bottom fifth is drawn from government cash assistance programs (e.g., Aid to Families With Dependent Children, unemployment insurance, Social Security, Supplemental Security Income). The income prospects of families in the 20th to 99th percentile, on the other hand, depend primarily on the level and distribution of wages and salaries.

The shift in the composition of personal income toward greater capital income is shown in **Table 1.13**. Over the 1979-89 period, capital income's share of market-based income (personal income less government transfers) shifted sharply upward, from 16.1% to 21.0%. This shift toward capital income was slightly reversed over the 1989-97 period as interest rates and, therefore, interest income fell. In 1997, however, capital income's share of 20.4% was still significantly above its 1979 value. Correspondingly, the share of labor income, including wages and all nonwage compensation (benefits), was still significantly

TABLE 1.13 Shares of market-based personal income by type, 1959-97

	Shares of income				
Income type*	1959	1973	1979	1989	1997
Total capital income	14.1%	14.4%	16.1%	21.0%	20.4%
Rent	4.7	2.5	1.4	1.3	2.4
Dividends	3.4	2.7	2.7	3.2	5.3
Interest	6.0	9.2	12.0	16.5	12.6
Total labor income	72.0%	74.1%	74.0%	70.3%	70.7%
Wages & salaries	69.2	69.3	67.3	63.6	63.8
Fringe benefits	2.8	4.8	6.7	6.7	6.9
Proprietor's income*	13.8%	11.4%	9.9%	8.7%	9.0%
Total market-based personal income **	100.0%	100.0%	100.0%	100.0%	100.0%
Realized capital gains	n.a.	n.a.	1.5%	3.5%	5.0%

* Business and farm owners' income.
** Total of listed income types.

Source: Authors' analysis of NIPA data.

lower in 1997 than in 1979, 70.7% versus 74.0%, despite a slight increase over the 1989-97 period.

This shift away from labor income and toward capital income is unique in the postwar period and is partly responsible for the recent surge in inequality. Since the rich are the primary owners of income-producing property, the fact that the assets they own have commanded an increasing share of total income automatically leads to income growth that is concentrated at the top.

It is difficult to interpret changes in proprietor's income (presented in Table 1.13), because it is a mixture of both labor and capital income. That is, the income that an owner of a business (or farmer) receives results from his or her work effort (labor income) and his or her ownership (capital income) of the business or farm. To the extent that the shrinkage of proprietor's income results from a shift of people out of the proprietary sector (e.g., farming) and into wage and salary employment, there will be a corresponding increase in labor's share of income (e.g., as farm income is replaced by wage income). This shift out of proprietor's income thus helps to explain a rising labor share in some periods. However, labor's share of income fell from 1979 to 1989 despite an erosion of the share of proprietor's income from 9.9% to 8.7%.

This analysis of personal income understates the shift toward capital income in the 1979-97 period because the data in Table 1.13 do not include the growth of realized capital gains, the profit made when capital assets are sold. Capital gains primarily accrue to the highest-income families since they control most of the wealth (see Chapter 5). Income from capital gains grew strongly in the 1980s (from 1.5% of personal income to 3.5%) and 1990s (up to 5.0%), and thus the share of capital income has grown more strongly in the 1979-89 and 1989-97 periods than is shown in the top panel of Table 1.13. In fact, the inclusion of capital gains in the national income accounts would show an increase in the capital income share in the period 1989-97.

From the point of view of national income (incomes generated by the corporate, proprietor, and government sectors), one can also discern a strong shift away from labor income toward capital income **(Table 1.14)**. For instance, labor's share of national income fell from 73.5% in 1979, to 71.9% in 1989, and to 70.8% in 1996. A closer look at the underlying data, however, suggests an even more significant shift away from labor income. First, labor's share of national income rose steadily from 1959 to 1979. One reason for the expanding share of labor income was the steady expansion of the government/nonprofit sector. When the government/nonprofit sector grows, there is a tendency for labor's share of income to grow, since this sector generates *only* labor income and no capital income. For example, the growth of the government/nonprofit sector from 18.3% of national income in 1979 to 19.3% in 1989 necessarily added 1.0 percentage points to labor's share of national income (other things remaining equal). Labor's share of national income also grows as the proprietary sector (farm and nonfarm unincorporated businesses) shrinks, as it did from 1959 to 1979, because labor's share of income in that sector is relatively low (about one-third in 1979). When resources shift from a sector with a low labor share of income, such as the proprietor's sector, to sectors with a higher labor share (all of the other sectors), the share of labor income in the economy necessarily rises. Thus, the changing composition of income across organizational sectors (expanding government, shrinking proprietors) provides momentum for an increase in labor's share of national income and has done so for the entire postwar period.

This analysis suggests that the question to be asked is not only why did labor's share of income fall since 1979, but also why did labor's share of national income not continue to rise over the 1979-96 period, as it had earlier? The failure of labor's share to grow stems primarily from the unique decline in labor's share of the corporate and business sector between 1979 and 1997, reversing the tendency toward more labor income from the 1960s to the 1970s. This is most clearly seen in the bottom panel of Table 1.14 and in **Figure 1F**, which shows the division of incomes in the corporate sector. There, labor's share fell from

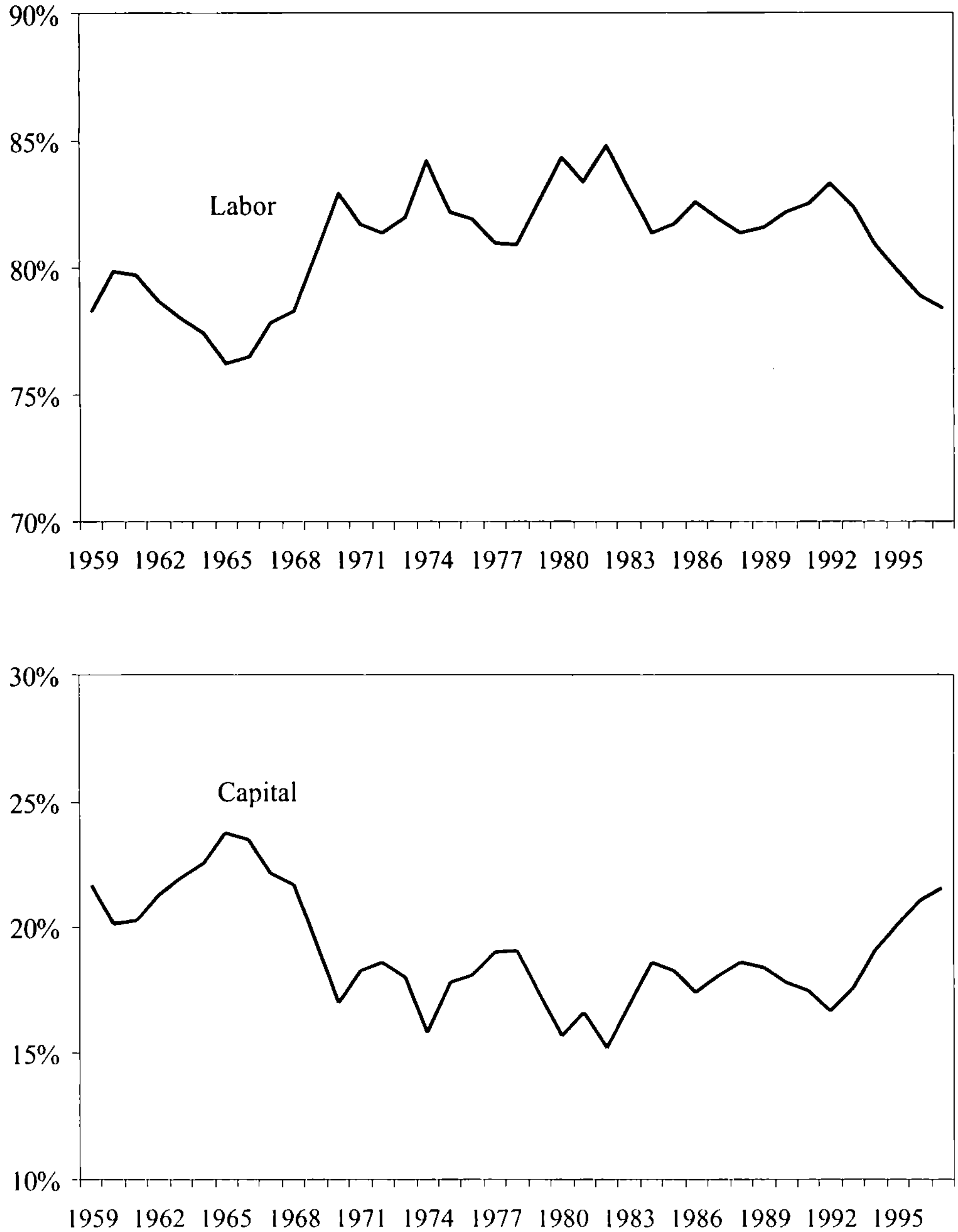
TABLE 1.14 Shares of income by type and sector, 1959-97

	Shares of domestic national income					
Sector	1959	1973	1979	1989	1996	1997
National income all sectors						
Labor	68.4%	72.6%	73.5%	71.9%	70.8%	n.a.
Capital	18.9	16.9	17.5	19.9	20.8	n.a.
Proprietor's profit	12.6	10.4	9.0	8.2	8.3	n.a.
Total	100.0	100.0	100.0	100.0	100.0	n.a.
Corporate and business sector						
Labor	44.2%	48.2%	50.5%	48.3%	47.0%	n.a.
Capital	18.7	15.9	16.0	17.8	19.7	n.a.
Total	62.9	64.1	66.5	66.1	66.7	n.a.
Proprietor's sector						
Labor	9.0%	5.2%	4.7%	4.2%	4.6%	n.a.
Capital	0.3	1.0	1.4	2.2	1.1	n.a.
Proprietor's profit	12.6	10.4	9.0	8.2	8.3	n.a.
Total	21.9	16.6	15.2	14.6	14.0	n.a.
Government/ monprofit sector						
Labor	15.2%	19.2%	18.3%	19.3%	19.2%	n.a.
Capital	0.0	0.0	0.0	0.0	0.0	n.a.
Total	15.2	19.2	18.3	19.3	19.2	n.a.
ADDENDUM						
Shares of corporate-sector income*						
Labor	78.3%	82.0%	82.6%	81.6%	78.9%	78.4%
Capital	21.7	18.0	17.4	18.4	21.1	21.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

* Does not include sole proprietorships, partnerships, and other private noncorporate businesses. The corporate sector, which includes both financial and nonfinancial corporations, accounted for 58% of national income in 1989.

Source: Authors' analysis of NIPA data.

FIGURE 1F Income shares in the corporate sector, 1959-97



Source: Authors' analysis of NIPA data.

82.6% in 1979, to 81.6% in 1989, and to 78.4% in 1997. These data suggest that there has been a shift away from labor income in the private sector (both corporate and proprietor) that does not show up in national income because of the growth of the labor-intensive government/nonprofit sector.

How important is the shift in the shares of labor and capital income? Between 1979 and 1997, labor's share in the corporate sector fell 4.2 percentage points. A return to the 1979 labor share would require average hourly compensation to be 5.4% greater (82.6 divided by 78.4, less 1), a compensation growth equal to that typically achieved over 10 years, or more than half of the actual growth from 1979-96 (see Chapter 3). Similarly, the shift of income from labor to capital lowered compensation growth by 4.1% over the 1989-97 period. These calculations illustrate that the shift toward greater capital income shares has had substantial implications for wage and compensation growth.

An examination of labor and capital income shares, however, cannot fully determine whether there has been a redistribution of income from labor to capital, or vice versa. This type of analysis assumes that, if labor and capital shares remain constant, then there has been no redistribution. Such an analysis is too simple for several reasons. First, in contrast to most topics in economics, such an analysis makes no comparison of actual outcomes relative to what one might expect given a model of what drives labor and capital income shares. This means we need to look at the current period relative to earlier periods and examine variables that affect income shares. Several trends suggest that, other things being equal, capital's share might have been expected to decline and labor's share to rise. One reason for this expectation is that there has been a rapid growth in education levels and labor quality that would tend to raise labor's share. The primary trend, however, that would tend to lessen capital's share (and increase labor's share) is the rapid decline in the capital-output ratio since the early 1980s (see **Table 1.15**). This fall in the ratio of the capital stock to private-sector output implies that capital's role in production has lessened, suggesting that capital's income share should have fallen in tandem.

Rather than fall, as we have seen the share of capital income has risen: this is due to the rapid growth in the return to capital, before- and after-tax, starting in the late 1980s and continuing steadily through 1997 (Table 1.15 and **Figure 1G**). That is, the amount of before-tax profit received per dollar of assets (i.e., the capital stock) has grown to its highest levels since the mid-1960s, while the after-tax return on capital is as high as in any year since 1959 (the earliest year for which a measure is available). The relationship between the return to capital and capital's share of income is illustrated in the accompanying box.

As discussed in the Introduction, this large increase in profitability does not correspond to a growth in efficiency, as measured by the ongoing growth of

TABLE 1.15 Profit rates and shares at business cycle peaks, 1959-97

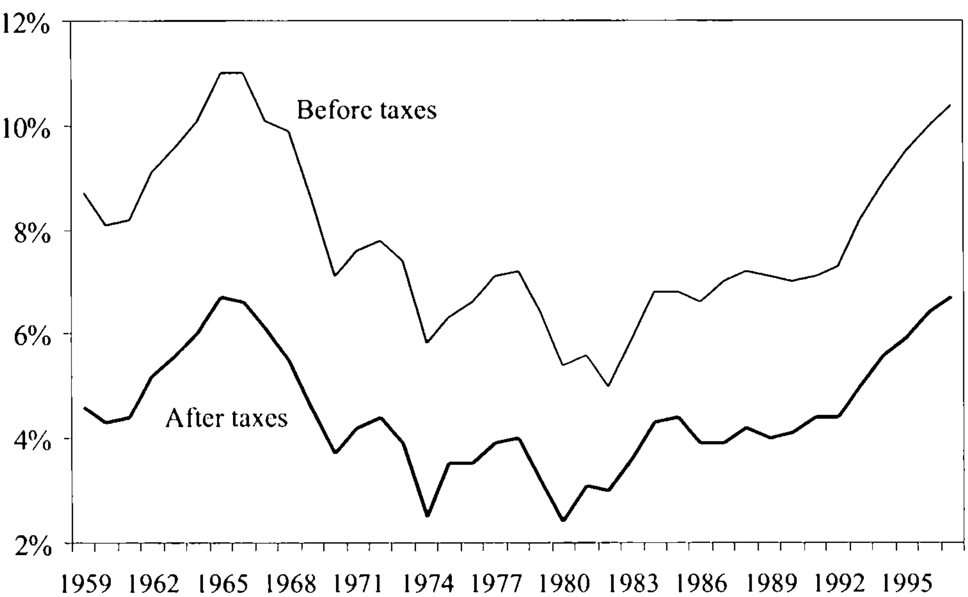
	Business cycle peaks				
Corporate sector	1959	1973	1979	1989	1997
Profit-rates*					
Pre-tax	8.7%	7.4%	6.4%	7.1%	10.4%
After-tax	4.6	3.9	3.2	4.0	6.7
Income shares					
Profit share**	21.7%	18.0%	17.4%	18.4%	21.6%
Labor share	78.3	82.0	82.6	81.6	78.4
Total corporate income	100.0	100.0	100.0	100.0	100.0
Capital-output ratio	2.05	1.98	2.23	2.08	1.68

* "Profit" is all capital income. This measure, therefore, reflects the returns to capital per dollar of assets.

** "Profit share" is the ratio of capital income to all corporate income.

Source: Authors' analysis of NIPA and FRB data.

FIGURE 1G Corporate sector profit rates, 1959-97



Source: Authors' analysis of NIPA and FRB data.

Automated Records Management System
Hex-Dump Conversion

RISING PROFIT RATES, CONSTANT PROFIT SHARE

There has been some confusion as to the difference between a rise in the *profit rate*, or return to capital (which has risen dramatically in the last 15 years), and a rise in *capital's share of income*, which has grown less. The following exercise is designed to show how these two rates differ and how each can rise or fall at its own pace.

Income is the sum of the returns to capital and labor. It can be expressed in the following equation:

$(K * r) + (W * L) = Y$

where K is the capital stock, r is the rate of return on capital (the profit rate), W is the average hourly wage, L is the number of labor hours, and Y is income.

Capital's share of income can be calculated by dividing capital income, $K * r$, by total income, Y. If the capital share remains constant, then the quantity $(K * r)/Y$ doesn't change (nor does the labor share, $(W * L)/Y$). Capital's share, $(K * r)/Y$, can also be written as $(K/Y) * r$, where the quantity K/Y is equal to the ratio of the capital stock to total income. If K/Y falls, as it has over the last 10 years, then r can rise a great deal, even if capital's share remains constant.

For example, if K = \$2,000, r = .05, and Y = \$1,000, then the capital share of income would be 10%:

$(K * r)/Y = (\$2{,}000 * .05)/\$1{,}000 = \$100/\$1{,}000 = .10$

If the capital stock fell to \$1,000 (so that $K' = \$1{,}000$), the profit rate rose to 10% (so that $r' = .10$), and income remained unchanged ($Y' = \$1{,}000$), the capital share would still be 10%:

$(K' * r')/Y' = (\$1{,}000 * .10)/\$1{,}000 = \$100/\$1{,}000 = .10$

In this example, the profit rate doubles, but the capital share of income remains the same because the capital stock has fallen 50%.

Over the last 15 years, the fall in the capital-output ratio has muted the rise in capital's share of income. From 1979 to 1997 the capital-output ratio fell 25% (from 2.23 to 1.68) while the "profit rate," or return to capital, rose from 6.4% to 10.4% (a 62.5% rise). The combined effect of these two trends was to raise capital's income share from 17.4% to 21.6%.

productivity in the economy. That is, this higher profitability has not been a payoff for enhanced private sector efficiency. Rather, higher profitability in the current context implies a larger flow of income to owners of capital out of the same steady stream of income (productivity) that the economy has been generating for several decades.

This growth in profitability has left less room for wage growth, or it might be considered the consequence of businesses successfully being able to restrain (or impose) slow wage growth as sales and profits grew in recent years. If the return to capital in 1997 (10.4%) had been at the average of the cyclical peaks of

1959, 1973, and 1979 (7.5%), then hourly compensation would have been 7.7% higher in the corporate sector in 1997. This is a large loss: its impact on the wages of the typical worker is greater than the impact of the shift to services, globalization, deunionization, or any of the other prominent causes of growing wage inequality (which are discussed in Chapter 3).

Increased work by wives cushions income fall and counteracts inequality

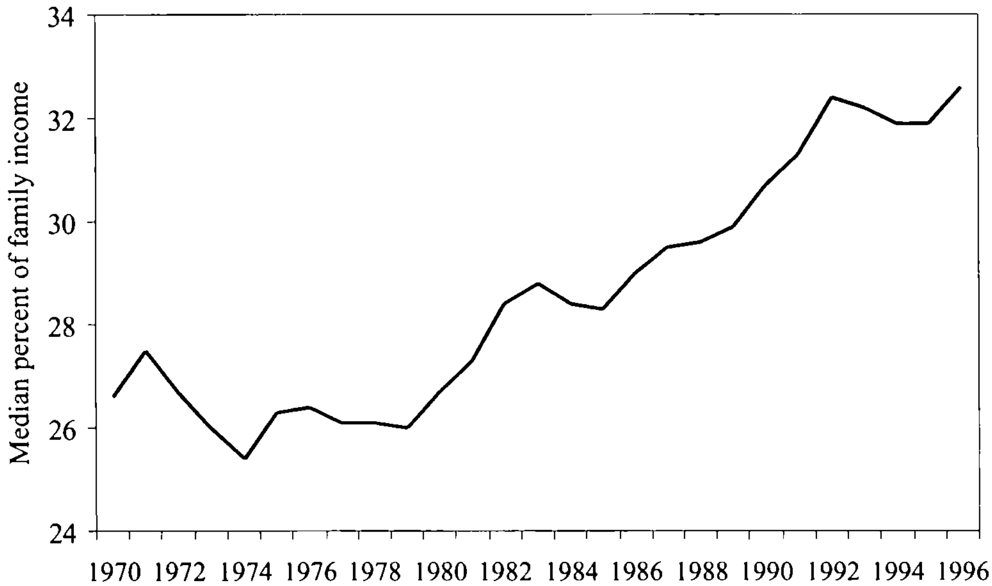
Family earnings growth has not only been slow and unequal, it has also come increasingly from greater work effort — from a rise in the number of earners per family and in the average weeks and weekly hours worked per earner. Thus, "working longer for less" has become a significant source of family stress into the 1980s and 1990s. In this section we examine this phenomenon from the perspective of married-couple families with a prime-age (25-54-year-old) family head. (We exclude families headed by elderly persons to avoid the effect of retirement on hours of work.)

As is well known, the largest increase in work effort in our labor market has come from the long-term increase in female participation in the labor force. In part, this stems from the fact that the impact of historical conventions that once served to reduce female economic independence has lessened, and sex discrimination has probably become less severe. Neither has disappeared, but these changes represent a positive social/economic evolution of women's integration into the labor force.

At the same time, for many families, the increased work effort of their female members (who were either out of the paid labor force or working few hours) has been the only way to keep their incomes from sliding. (Although women have long been the major contributors to nonmarket work, "work" in this section refers exclusively to labor market employment.) As will be detailed in Chapter 3, this increased work effort has occurred simultaneously with a fall in real hourly wages for men and for some groups of women over the decade. The result has been increases in annual earnings primarily through more work rather than through higher hourly wages.

This trend is troublesome for several reasons. As the 1990s results will show, depending on increased work effort as the primary source of income growth is self-limiting, because it can go on only until all adult (or even teen) family members are full-time, full-year workers. The slowdown in the growth in women's labor force participation in recent years may even, in fact, signal the near exhaustion of this type of income growth. Below, we present evidence of this con-

FIGURE 1H Working wives' contribution to family income, 1970-96



Source: Hayghe (1993) and unpublished updates.

jecture: wives' hours of market work, after growing sharply over the 1980s, grew significantly more slowly over the 1990s, and they even fell for families in the bottom income fifth. Moreover, there are significant costs and problems associated with this growth strategy, one of the most significant being the lack of adequate, affordable child care.

Thus, the problem is not that more women or mothers are working but that many are doing so in part to maintain family incomes in the face of lower real wages. Increased work elicited through falling real wages is a sign of poor performance of the economy. In addition, families are clearly worse off if, to obtain higher incomes, they must work more hours rather than rely on regular pay increases.

Married-couple families (76.3% of all families in 1996, Table 1.5) are most able to increase income through greater work effort because they have two potential adult workers. Single-parent families and individuals, however, can increase work effort only by having the adult work more weekly hours and/or more weeks in a year. It is for this reason that we focus first on the greater work hours of prime-age, married couples.

Figure 1H, which graphs the median percent of total family income contributed by wives' earnings for all families with working wives, shows the growing importance of wives' earnings since 1970. The median percent contribution

TABLE 1.16 Family income, married couple, prime-age families,* 1979-96, by income component

Family income	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Average
1979	$21,475	$38,676	$50,732	$64,950	$109,129	$56,992
1989	20,453	39,119	53,908	72,000	126,750	62,446
1996	19,911	39,046	54,515	73,057	138,280	64,962
Percent change						
1979-89	-4.8%	1.1%	6.3%	10.9%	16.1%	9.6%
1989-96	-2.7	-0.2	1.1	1.5	9.1	4.0
Dollar change by source:						
1979-89	$-1,022	$443	$3,176	$7,050	$17,621	$5,454
Due to:						
Husbands' earnings	-2046	-2117	-1802	1541	7444	604
Wives' earnings	1117	2574	4725	5466	11146	5006
Other income	-93	-14	253	43	-969	-156
1989-96	$-543	$-73	$607	$1,058	$11,530	$2,516
Due to:						
Husbands' earnings	-656	-1901	-1196	-2329	3547	-507
Wives' earnings	4	1377	1501	3168	5420	2294
Other income	109	451	302	218	2563	729

* Families where the family head is 25-54.

Source: Authors' analysis of March CPS data.

of working wives grew from around 26% of family income in 1979 to just below 33% in 1996. Note that all of the growth in this series occurred after 1980, when family income growth was slowest.

The income growth in total and by type of income among prime-age, married-couple families is shown in **Table 1.16** (the values in the table are averages for each income group). Among the bottom two-fifths, incomes were either stagnant or falling from 1979 to 1989, while the middle fifth achieved modest growth (6.3% over 10 years, or 0.6% annually). In contrast, income growth among married-couple families in the top two fifths grew by 10.9% and 16.1% over this period, again reinforcing the pattern of inequality growth seen throughout the chapter. In the 1990s, average income growth among the bottom 80% of these families slowed, with only the top fifth maintaining its rate of growth (annualized, the average income of this group grew by 1.5% over the 1980s and 1.3% in the 1990s).

The data in Table 1.16 also show the dollar changes in average incomes for each group by three sources: earnings of husbands, earnings of wives, and all other income, including transfers, capital incomes, and the earnings of other family members. Over the 1980s, husbands' earnings fell among the bottom 60%, but the earnings of wives grew in each income fifth. Other income played a small role, but for these families the major determinants of their changing economic fortunes over the 1980s were the poor performance of husbands earnings and the strong growth of the earnings of wives.

Note, for example, that in the lowest fifth, while average family income fell by $1,022 (in 1996 dollars), it would have fallen by another $1,117 from 1979 to1989 were it not for wives' increased earnings. In the second and middle fifth, family income grew by $443 and $3,176, exclusively due to wives' contributions, since average husbands' earnings fell by $2,117 (second fifth) and $1,802 (middle fifth).

In the 1989-96 period, husbands' earnings declined for all but the top fifth of prime-age, married-couple families. In addition, wives' earnings stagnated in the bottom 20% and grew more slowly in the other quintiles. Thus, whereas wives in all income quintiles were able to offset their husbands' losses in the 1980s, this was no longer the case for the bottom 40% in the 1990s. For example, the added $1,377 of average wives' earnings in the second fifth failed to offset the $1,901 decline in husbands' earnings. Only families in the top fifth experienced relatively strong income growth, as the average earnings of both husbands and wives continued to grow, though less so on an annual basis, than in the 1980s.

Table 1.17 presents the growth in annual hours worked by husbands and wives in prime-age families; **Table 1.18** shows average hourly wage rates. Together, these results show that it was more work, rather than higher hourly wages, that fueled income growth over the 1980s and 1990s. (The growth in hours of wives reflects both greater hours of those already working as well as the added hours of wives who joined the workforce over the period.)

Turning first to the hours data in Table 1.17, note that the drop in husbands' annual earnings from 1979 to 1989, shown in the previous table, occurred despite the fact that the average husband was working more, not fewer, hours. Excepting the bottom fifth, where hours were essentially unchanged, husbands in each fifth added at least another week's worth of hours in 1989 relative to 1979. By 1989, the average husband (including some not employed) in the second to top fifths worked more than full time and year-round (2,080 hours, or 40 hours for 52 weeks).

Wives' hours grew a great deal over the 1980s — about 28% — with above-average growth rates among wives in the bottom 60%. The addition of 270 hours

TABLE 1.17 Annual hours of work, husbands and wives in prime-age families,* 1979-96

	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Average
Husbands' hours						
1979	1,714	2,079	2,155	2,220	2,350	2,104
1989	1,712	2,146	2,207	2,278	2,412	2,151
1996	1,633	2,126	2,227	2,312	2,450	2,150
Change, 1979-89						
Hours	-2	67	52	58	62	47
Percent	-0.1%	3.2%	2.4%	2.6%	2.6%	2.2%
Change, 1989-96						
Hours	-79	-19	20	34	38	-1
Percent	-4.6%	-0.9%	0.9%	1.5%	1.6%	-0.1%
Wives' hours						
1979	555	851	1,003	1,212	1,222	969
1989	756	1,115	1,342	1,451	1,530	1,239
1996	717	1,250	1,458	1,595	1,595	1,323
Change, 1979-89						
Hours	201	264	340	238	308	270
Percent	36.2%	30.9%	33.9%	19.7%	25.2%	27.9%
Change, 1989-96						
Hours	-40	135	116	145	65	84
Percent	-5.2%	12.1%	8.6%	10.0%	4.2%	6.8%

* Families where the family head is 25-54.

Source: Authors' analysis of March CPS data.

to the average family's labor supply added more than six and a half weeks of paid work to the family's income.

For those in the bottom 60% of prime-age, married-couple families, husbands' annual earnings fell in the 1980s because of the erosion of their hourly wages: they fell 7.0% for husbands in the middle fifth and 13.3% for husbands in the lowest fifth (Table 1.18). Only husbands in the best-off fifth of families experienced significant real hourly wage growth (7.1%). Despite these wage gains at the top, the majority of husbands in these families lost ground over the 1980s, even with their increased work effort.

It is useful to note the degree to which an increase in wives' hours is neces-

TABLE 1.18 Hourly wages, husbands and wives in prime-age families,* 1979-96

	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Average
Husbands' wages						
1979	$8.92	$13.99	$17.46	$20.48	$31.84	$18.54
1989	7.74	12.57	16.23	20.64	34.10	18.26
1996	7.71	11.79	15.55	19.32	35.03	17.88
Wives' wages						
1979	$5.78	$7.71	$9.29	$11.03	$14.44	$9.65
1989	5.72	8.20	10.46	12.99	18.82	11.24
1996	6.05	8.41	10.66	13.80	21.46	12.07
Percent changes:						
Husbands						
1979-89	-13.3%	-10.2%	-7.0%	0.8%	7.1%	-1.5%
1989-96	-0.4	-6.2	-4.2	-6.4	2.7	-2.1
Wives						
1979-89	-1.0%	6.3%	12.6%	17.7%	30.3%	16.4%
1989-96	5.6	2.6	1.9	6.2	14.0	7.4

* Families where the family head is 25-54.

Source: Authors' analysis of March CPS data.

sary to offset the fall in the wages of husbands, given that men earn significantly higher hourly wages. For example, the $1.23 drop in the hourly wage of husbands in the middle fifth from 1979 to 1989 (working 2,207 annual hours) created an annual loss of $2,715. Replacing this income would require a wife in the middle fifth (earning $10.46 an hour) to work 260 additional hours annually, or more than six extra full-time weeks.

Various factors combined to reduced the economic fortunes of the majority of these families in the 1989-96 period. First, both husbands' and wives' hours of work either fell or increased less quickly for most families, with larger declines for those in the bottom 60%. For example, husbands' hours fell by just under 80 hours (two full-time weeks) in the bottom quintile and about 20 hours in the second fifth. Wives' hours also fell in the bottom fifth from 1989 to 1996, and grew much more slowly in each other income class.

In addition, wage decline for husbands (Table 1.18) accelerated on average and was more widespread in the 1990s; only husbands in the top fifth saw an increase. The average hourly earnings of wives grew more slowly over the 1989-

96 period; only for those in the lower fifth did wages, on average, grow more quickly in the 1990s. It appears that the strategy of increasing hours of work to counteract wage decline was less viable for these families in the 1990s relative to the 1980s, and their incomes either continued to decline (bottom fifth), stagnated (second fifth), or grew more slowly as a result.

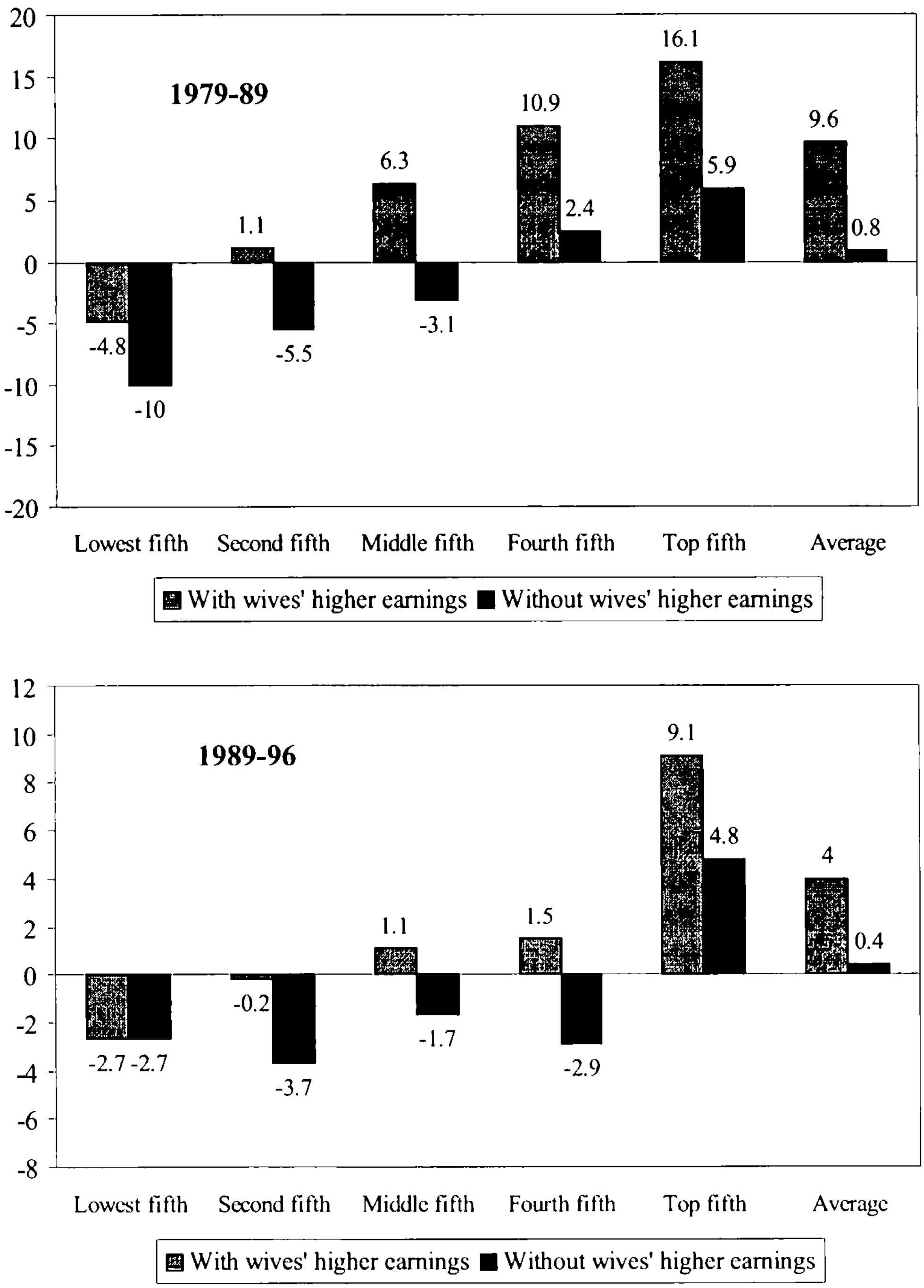
It is not always obvious how these changes of wages earned and hours worked affected family income. **Figure 1I** and **Table 1.19** bring together the information from the prior tables to identify the role of increased earnings and hours worked by wives on family income growth in the 1980s and 1990s. The first panel of the figure focuses on the 1980s, and the bottom panel examines the 1989-96 period.

As shown in the figure, the average family income of prime-age, married-couple families would have been essentially unchanged in the absence of wives' contributions, growing 0.8% in the 1980s and 0.4% over the 1990s. In the 1979-89 period, the lowest-income families would have experienced twice the income loss that actually occurred (10.0% versus 4.8%) were it not for wives' greater work effort. As Table 1.19 shows, this contribution from low-income wives came exclusively in the form of more hours of work, which raised family income by $1,163 (1996 dollars), or 5.4% (the small decline in the wage rate of wives in this income category lowered family income by $45).

For families in the second and third fifths in the 1979-89 period, average family income would have fallen in the absence of wives' added work effort and higher wage rates. The average income of families in the middle fifth, for example, would have fallen 3.1% had not wives' added contribution led to an increase of 6.3% (Figure 1I). Table 1.19 shows that most of the $4,725 of earnings that middle fifth wives contributed over the 1980s stemmed from more work hours; about a third of this increase came from wives' higher wages. For the top two fifths, incomes would have grown on average even in the absence of wives' earnings. Nevertheless, as Table 1.19 shows, wives' contributions increased family income by 8.4% in the fourth fifth and 10.2% in the top fifth. In both of these cases, wives' wage growth outpaced growth in hours as a primary source of the increase.

In the 1990s, wives' contributions played a smaller role in family income changes. For example, the first two bars of Figure 1I, bottom panel, show that wives' earnings played no role in the 2.7% decline in the income of the bottom fifth of prime-age, married-couple families. Table 1.19 reveals that this lack of effect is attributable to the countervailing roles of the falling hours and increases in the average wage rates of low-income wives. Family income growth in the second fifth was stagnant in the 1990s, but would have fallen 3.7% in the absence of wives' contributions, which came mostly in terms of increased hours, as 2.8% of a 3.5% income gain was due to increased work effort. Only families

FIGURE 1I The effect of wives' earnings on family income, prime-age families,* 1979-96



* Families where the family head is 25-54.

Source: Authors' analysis of March CPS data.

TABLE 1.19 Effect on family income of changes in wives' earnings, prime-age families,* 1979-96 (1996 dollars)

Effect on family income of changes in:	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Average
1979-89						
Wives' earnings and hours	$1,117	$2,574	$4,725	$5,466	$11,146	$5,006
Wives' hours	1,163	2,032	3,153	2,628	4,448	2,606
Wives' wages	-45	542	1,572	2,838	6,697	2,399
Percent:						
Wives' earnings and hours	5.2%	6.7%	9.3%	8.4%	10.2%	8.8%
Wives' hours	5.4	5.3	6.2	4.0	4.1	4.6
Wives' wages	-0.2	1.4	3.1	4.4	6.1	4.2
1989-96						
Wives' earnings and hours	$4	$1,377	$1,501	$3,168	$5,420	$2,294
Wives' hours	-227	1,107	1,209	1,877	1,217	944
Wives' wages	231	269	292	1,292	4,203	1,350
Percent:						
Wives' earnings and hours	0.0%	3.5%	2.8%	4.4%	4.3%	3.7%
Wives' hours	-1.1	2.8	2.2	2.6	1.0	1.5
Wives' wages	1.1	0.7	0.5	1.8	3.3	2.2

* Families where the family head is 25-54.

Source: Authors' analysis of March CPS data.

in the top fifth experienced significant income growth over the 1989-96 period (9.1%), about half of which stemmed from wives increased earnings. As in the prior period, high-income wives gained more from increased wage rates than from added hours. Despite these large gains at the top, the fact remains that wives' contributions, though crucial to their families' economic well-being, were less effective drivers of income growth in the 1990s than they were in the 1980s.

Have the growing earnings of wives contributed to the growth of income inequality? The notion that the growth of "two-earner" families has contributed to growing inequality is intuitively plausible if one thinks that (1) there has been a growth of high-wage employed women marrying high-wage men, and (2) the increase in the hours and earnings of these women has been greater than that of their lower-income counterparts. It is true, in fact, that wives in higher-income families earn more than those in other families and that their hourly wages have grown the quickest (Table 1.18). However, the fastest growth in work hours has been among the wives in the bottom three-fifths (Table 1.17), and, as shown in Table 1.19, the effect of wives' hours on family income growth has been fairly even. The data discussed so far, however, only indirectly relate to whether the pattern of growth of wives' earnings led to greater inequality, and they do not address whether inequality would be higher or lower without any earnings from wives. The following table addresses this omission.

The data in **Table 1.20** allow a direct examination of the effect of wives' earnings on income inequality of prime-age, married-couple families from 1979 to 1996 and on the growth of inequality over that period. The numbers in the table are the shares of total income going to each income group, calculated with and without wives' earnings (note that, in this analysis, the top fifth is broken down into the 80-95th percentile and the top 5%). The difference between shares calculated in this manner reveals the contribution of wives' earnings to inequality. For example, in 1979, wives' earnings led to a more equal distribution of income, since without wives' earnings the lowest fifth would have had a 6.7% share of total income instead of the 7.5% share it had with wives' earnings. Overall in 1979, wives' earnings increased the income shares of the bottom four-fifths and decreased the share of income of the top fifth by 2.3 percentage points. In 1989, wives' earnings had an even larger effect on raising the income shares of the lowest 80% of families and on lessening the income share of the top fifth, which fell by 2.9 points (2.2 points in the top 5%). This pattern continued in 1996, as the size of wives' contributions to the income shares of the bottom 80% continued to grow while that of the top fifth fell further.

The bottom panel reveals that between 1979 and 1989 the income shares of the bottom 60% of prime-age, married-couple families fell, with the largest declines among the bottom fifth. In the absence of wives' earnings, however, income shares would have been 0.2 points lower in the second fifth and 0.3 points lower in the middle fifth. Conversely, they would have been 0.6 points higher in the top fifth, mostly due to the effect seen in the top 5%. This pattern shows that the shifts in wives' hours and wages were equalizing over the 1979-89 period.

In the latter period — 1989-96 — only the top 20% gained income share, with fairly uniform losses among the bottom 80% of families. Note, however, that wives' earnings had no effect in the bottom two fifths and were equalizing in the middle and fourth fifth. Thus, the slowdown in wives' earnings and hours, particularly among lower-income families, had little impact on inequality in the 1990s. Only among the top 5% is there evidence that the pattern of wives earnings dampened the growth of income share, from an increase of 2.4 points without wives' earnings to an actual increase of 1.9 points. The last panel shows the equalizing effects of wives' contributions to family income over the 1979-96 period.

The growth in work hours in the 1979-89 period took place in all families

TABLE 1.20 Effect of wives' earnings on income shares of prime-age,* married-couple families

	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	80-95%	Top 5%
Family income shares							
1979							
Actual	7.5%	13.6%	17.8%	22.8%	38.3%	23.6%	14.7%
Without wives' earnings	6.7	12.9	17.3	22.6	40.6	24.1	16.5
Effect of wives' earnings	0.8	0.7	0.5	0.2	-2.3	-0.5	-1.8
1989							
Actual	6.5%	12.7%	17.3%	23.0%	40.6%	24.7%	15.9%
Without wives' earnings	5.6	11.7	16.4	22.8	43.4	25.3	18.1
Effect of wives' earnings	0.8	1.0	0.8	0.2	-2.9	-0.6	-2.2
1996							
Actual	6.1%	12.0%	16.8%	22.5%	42.6%	24.8%	17.8%
Without wives' earnings	5.2	11.0	15.7	22.1	45.9	25.4	20.5
Effect of wives' earnings	0.9	1.0	1.1	0.4	-3.4	-0.6	-2.8
Change in Income Shares							
1979-89							
Actual	-1.1	-0.9	-0.6	0.3	2.3	1.1	1.2
Without wives' earnings	-1.1	-1.2	-0.9	0.3	2.8	1.2	1.7
Effect of wives' earnings	0.0	0.2	0.3	0.0	-0.6	-0.1	-0.5
1989-96							
Actual	-0.3	-0.6	-0.5	-0.6	2.0	0.1	1.9
Without wives' earnings	-0.4	-0.7	-0.7	-0.7	2.5	0.1	2.4
Effect of wives' earnings	0.0	0.0	0.2	0.2	-0.5	0.0	-0.5
1979-96							
Actual	-1.4	-1.5	-1.0	-0.3	4.3	1.2	3.0
Without wives' earnings	-1.5	-1.8	-1.6	-0.5	5.4	1.3	4.1
Effect of wives' earnings	0.1	0.3	0.6	0.2	-1.1	0.0	-1.0

* Families where the family head is 25-54.

Source: Authors' analysis of March CPS data.

and not just in prime-age, married-couple families (to whom all of the data previously presented applied). In **Table 1.21**, we pool the hours of family work effort across the family and take the average for each fifth. For the three family types in the table, family work effort increased for each income group over the 1980s, with the largest increases among the bottom 80%. Among all families, for example, those in the second fifth worked an average of 182 hours more in 1989 than in 1979, a 8.0% increase. The increase for the top group was 1.7%, though

TABLE 1.21 Changes in family hours worked by family type, 1979-96

	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Average
All families*						
1979	1,126	2,267	3,020	3,556	4,426	2,969
1989	1,185	2,449	3,206	3,792	4,502	3,093
1996	1,175	2,413	3,287	3,974	4,447	3,117
Percent change						
1979-89	5.3%	8.0%	6.2%	6.6%	1.7%	4.2%
1989-96	-0.9	-1.5	2.5	4.8	-1.2	0.8
1979-96	4.4	6.4	8.8	11.8	0.5	5.0
Married couples with children						
1979	2,190	2,950	3,236	3,711	4,301	3,278
1989	2,400	3,279	3,604	3,914	4,293	3,498
1996	2,333	3,412	3,851	4,131	4,294	3,604
Percent change						
1979-89	9.6%	11.2%	11.4%	5.5%	-0.2%	6.7%
1989-96	-2.8	4.1	6.9	5.6	0.0	3.1
1979-96	6.5	15.7	19.0	11.3	-0.2	10.0
Unrelated individuals						
1979	649	1,387	1,822	2,034	2,170	1,612
1989	759	1,603	1,944	2,091	2,246	1,729
1996	685	1,595	1,940	2,111	2,262	1,719
Percent change						
1979-89	17.0%	15.6%	6.7%	2.8%	3.5%	7.2%
1989-96	-9.8	-0.5	-0.2	0.9	0.7	-0.6
1979-96	5.6	15.0	6.5	3.8	4.2	6.6

* Excludes one-person families.

Source: Authors' analysis of March CPS data.

the potential increase among these families was constrained by their very high levels of work. Note also the large increase in hours worked by middle-class married couples with children (middle panel), as hours among these families in the second and middle fifth increased by 11.2% and 11.4%, respectively. Even unrelated individuals, who by definition cannot increase family work hours by sending more workers into the labor force, saw relatively large increases in their labor supply from 1979 to 1989.

Hours of work were stagnant, on average, for most families in the 1989-96 period; the average for all families rose by 0.8%. Of the family types we examine, only married couples with children were able to increase their average labor supply, and these increases took place only among the middle three-fifths of families. For example, among married-couple families with children in the middle fifth, hours of work grew 6.9%, or 247 hours since 1989. Since 1979, these middle-class families added 615 hours, more than 15 weeks of full-time work to their schedules. While these added hours have surely helped to raise middle-class income, they also leave significantly less time for nonmarket activities.

In sum, the results from this section have both positive and negative implications. On the plus side, there is clear evidence of increased economic progress for female workers. Since 1979, wives have increased their hours of market work; for most wives, wages have also risen. To a large extent, these increases have offset widespread decline in their husbands' earnings. Furthermore, the pattern of these changes in wives' contributions to family income have been equalizing, i.e., the income distribution for prime-age, married-couple families would have been more skewed toward the wealthy in the absence of wives increased contributions.

On the negative side, the evidence also shows that families have been working longer for less. Particularly in the 1980s, family work hours needed to increase quite sharply to compensate for negative male wage trends, explored in detail in Chapter 3. But this is a self-limiting strategy; families cannot indefinitely increase their work hours. In fact, in the 1990s the growth in wives' hours slowed considerably, lowering their ability to offset other factors, such as continued male wage decline, that placed downward pressure on income growth. Finally, the sharp increase in work hours of all families has cut into their time for nonmarket activities.

Falling behind the earlier generations

Until this point we have exclusively focused on cross-section analyses, such as comparing the incomes of high-income, older, or married-couple families in one year to those of another. Although these comparisons accurately portray changes in various dimensions of the income distribution over time, they do not trace the incomes of particular families or individuals. For instance, consider comparisons of income growth by income fifth over a 10-year period. A person or family may be in the middle fifth in the first year but in a higher or lower fifth 10 years later. Thus, a comparison of middle-income families over time actually compares one set of families in the first year to a different set of families in the later year.

It is especially important to note that the incomes of individuals and families generally follow a life-cycle pattern. Typically, a person, after completing schooling, starts earning income in a relatively low-paying entry-level job, sees fast income growth as job changes, accumulated experience, and seniority occur over the next two decades, and obtains slower income growth in his or her later working years. As **Figure 1J** shows, young families (headed by a person in his or her twenties) in 1996 had much lower incomes than families headed by a middle-aged person (in his or her forties or fifties). It also shows that incomes grow relatively rapidly as the household head proceeds through his or her thirties and forties, and that income growth slackens and then declines as the household head approaches retirement years.

Viewed this way, the income growth of families as a whole over a 10-year period depends both on how high incomes are for young families when they start out and on how fast incomes grow as families progress through their life-cycle pattern. In fact, the slow growth of median family incomes in recent years is most accurately portrayed as young families starting off with lower incomes than their predecessors while older families proceed to higher incomes at a historically slow pace.

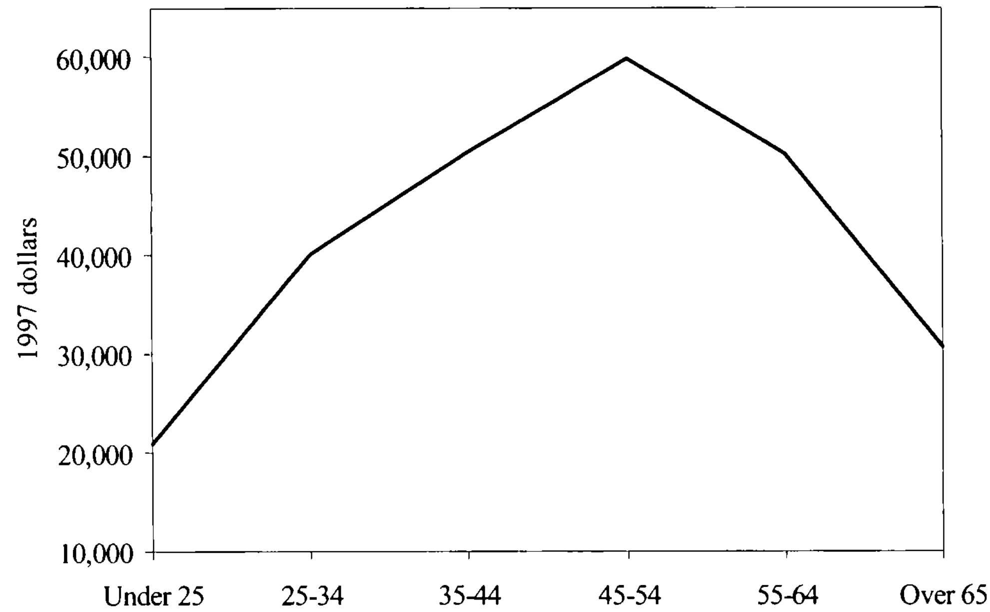
One way to examine income growth over the life-cycle is to examine the income trajectories of "birth cohorts" (a group of people born in the same years) over time, as in **Table 1.22**. The first column shows the median income, in 1996 dollars, of males age 25-34 in the years 1956 through 1996. The second column tracks the median income of 35- to 44-year-olds over these periods. We focus exclusively on males' median incomes, since trends in female income are confounded by large changes in labor supply over this period.

This type of table allows two related types of analyses. By comparing the income levels down each column, we can compare levels across cohorts, such as the different income levels experienced by 25- to 34-year-olds, at different points in time. Thus, reading down column 1 shows that the median income of young males age 25-34 was about 19% lower in 1996 than in 1976. We can also track a particular cohort's progress through time by reading along the diagonal (more on this approach below).

We saw earlier (Table 1.3) that young persons have been starting out from lower income levels in recent years. Table 1.22 corroborates this, as we see that 25- to 34-year-old males have started out with successively lower incomes in 10-year intervals since 1976 (note that this analysis does not follow the usual peak-to-peak comparisons employed throughout this book). Similarly, the median incomes of males age 35-54 also fell over the past 20 years.

In this context, however, we are most interested in changes that occurred within cohorts (along the diagonal). This table tracks three cohorts over 20 years:

FIGURE 1J Median family income by age of householder, 1997



Source: U.S. Bureau of the Census.

TABLE 1.22 Median income by male 10-year birth cohorts, 1956-96

Year	Ages 25-34	Ages 35-44	Ages 45-54
1956	$22,321	$24,251	$22,851
1966	29,004	32,561	30,836
1976	30,949	37,841	37,228
1986	27,432	37,467	39,735
1996	25,179	32,167	36,232
Percent change			
1956-66	29.9%	34.3%	34.9%
1966-76	6.7	16.2	20.7
1976-86	-11.4	-1.0	6.7
1986-96	-8.2	-14.1	-8.8

Source: U.S. Bureau of the Census, Income Website.

the first cohort moves from 1956, when its members were 25-34, with median income of $22,321 (1996 dollars), to 1976, when they were 45-54, with median income of $37,228. Similarly, the second cohort can be tracked from 1966 (median income $29,004) to 1986 (median income $39,735). While each of these cohorts started out higher than the previous one, their incomes grew successively more slowly. For example, the median income of the first cohort grew 67%, that of the second cohort grew 37%, and that of the third cohort grew 17% (from $30,949 to $36,232). In fact, for this third cohort, as it moved from ages 35-44 in 1986 to 45-54 in 1996, its median actually fell, from $37,467 to $36,232, a 3% decline.

In sum, we find that, while each cohort continues to experience some measure of the expected age-income profile revealed in Figure 1J, over the last 20 years each successive cohort has been worse off than the preceding cohort at the same age. This break in upward income mobility across cohorts raises the issue of whether the most recent cohorts (those age 25-34 in 1986 and 1996) will ever achieve incomes in their "prime age" equal to those of the earlier postwar cohorts. Given continued slow income growth and falling real wages, it is possible that the recent (and some future) cohorts will have lifetime incomes inferior to those of their parents' generations.

Income mobility

This section examines a related aspect of the dynamic changes in economic well-being: how much income mobility exists in the economy? If a family is in the lowest fifth in one period, how likely is it to move up to a higher fifth over time? Is this likelihood fixed, or does it tend to fluctuate? These are the questions addressed below.

In order to address these mobility issues we use longitudinal data, or data that follow the same persons over time. Each person is assigned to an income fifth at the beginning and end of the relevant periods of observation based on his or her family's income. Different income cutoffs are used for each period, meaning that the 20th percentile upper limit in, for example, 1979 will be different than that of 1989. This approach to income mobility examines a family's *relative*, as opposed to absolute, position in the income distribution.

In this sense, the analysis tracks how families are doing relative to others they started out with in the same age cohort and income class. If each family's income grew by the same amount (in percentage terms), there would be no change in mobility, i.e., no changes in the relative positions of families in the income distribution. If, however, a family that starts out in the bottom fifth experiences

TABLE 1.23 Income mobility, 1969-94

	1994 Income group					
1969 Income group	First fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Total
First fifth	**41.0%**	24.9%	16.2%	12.1%	5.8%	100.0%
Second fifth	22.4	**24.7**	23.9	16.1	13.0	100.0
Middle fifth	16.9	21.0	**23.5**	22.8	15.9	100.0
Fourth fifth	11.3	18.5	19.7	**24.2**	26.3	100.0
Top fifth	9.5	10.6	16.6	24.5	**38.8**	100.0

Source: Unpublished tabulations of the PSID by Peter Gottschalk.

faster income growth than other low-income families, it may move into a higher fifth , i.e., this family will experience upward mobility.

Table 1.23 presents a "transition matrix" for the period 1969-94. Going across each row in the table, the numbers reveal the percent of persons who either stayed in the same fifth or "transitioned" to a higher or lower one. For example, the first entry shows that 41.0% of persons in the bottom fifth in 1969 were also in the bottom fifth in 1994. At the other end of the income scale, 38.8% of those who started in the top fifth stayed there. The percent of "stayers" (those who did not move out of the fifth they started out in) are shown in bold.

Note that large transitions are uncommon. For example, only 5.8% of those who began the period in the first fifth ended up in the top fifth, while only 9.5% fell from the top fifth to the lowest fifth. Those transitions that do occur are most likely to be a move up or down to the neighboring fifth. For example, among the middle three-fifths, slightly less than two-thirds of the transitions were to neighboring fifths.

Though Table 1.23 does not reveal a great deal of income mobility, the data do show that mobility exists and that families can and do move up and down as their relative fortunes change. How does this fact comport with the historically large increases in cross-sectional inequality that we focused on throughout this chapter? In fact, if cross-sectional income inequality is higher in 1996 than in 1979, as we have shown, then, unless mobility has increased, families will grow further apart as time progresses. That is, the increase in cross-sectional inequality means that, at any point in time, a family at the bottom of the income scale is further (in terms of the difference in their incomes) from the family at the top of the scale. But if the chances of moving from the bottom to the top — the rate of income mobility — were to increase, the low-income family would at least have

TABLE 1.24 Income mobility over the 1970s and 1980s*

	1979 Income group					
1969 Income group	First fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Total
First Fifth	**61.5%**	24.0%	8.7%	4.4%	1.5%	100.0%
Second Fifth	22.7	**31.3**	27.5	12.9	5.6	100.0
Middle Fifth	9.6	22.5	**29.6**	26.1	12.2	100.0
Fourth Fifth	3.3	17.3	22.4	**31.6**	25.4	100.0
Top Fifth	2.9	5.0	11.9	25.1	**55.2**	100.0
	1989 Income group					
1979 Income group	First fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Total
First fifth	**61.0%**	23.8%	9.5%	4.6%	1.1%	100.0%
Second fifth	22.9	**33.2**	27.7	13.5	2.7	100.0
Middle fifth	8.3	25.2	**29.5**	25.7	11.4	100.0
Fourth fifth	4.6	13.0	23.0	**33.2**	26.2	100.0
Top fifth	2.7	4.9	10.8	22.8	**58.8**	100.0

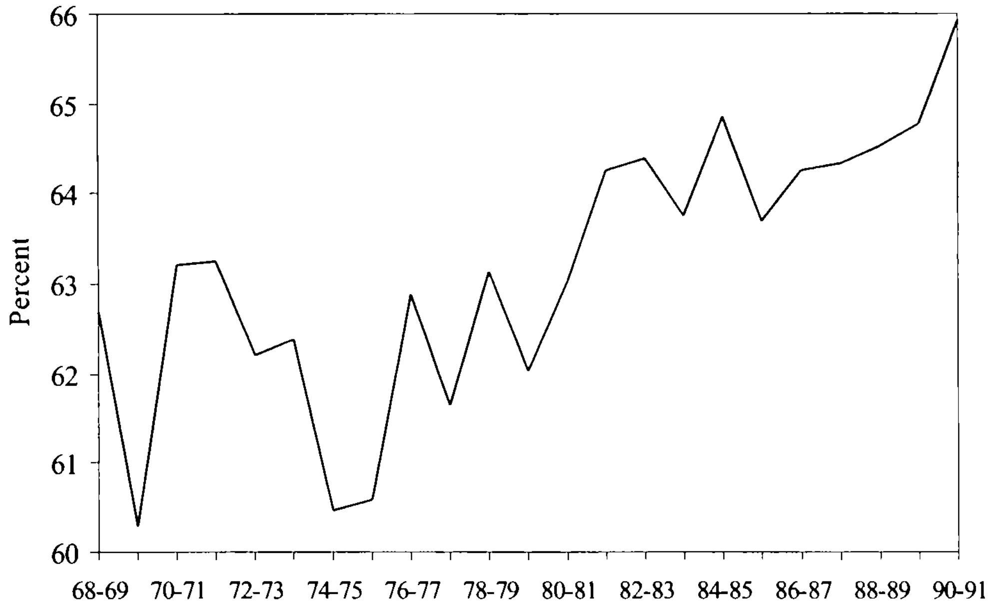
* Unlike the previous table, this table averages family income over three years in order to "smooth out" temporary transitions.

Source: Unpublished tabulations of the PSID by Peter Gottschalk.

a better chance of climbing closer to its distant, more wealthy counterpart (of course, mobility works both ways: increased mobility also means the wealthy family has a greater chance of falling from its privileged heights). If, instead, the rate of mobility is either unchanged or diminished over time, increasing point-in-time inequality will not be offset by changes in mobility. In order to determine whether the rate of mobility has changed, we must compare two transition matrices covering periods of equal length.

Table 1.24 provides such a comparison. It presents two transition matrices, one for the 1970s and the other for the 1980s. (Unlike the previous table, this table uses three years of family income data for each year, e.g., a family's 1969 income is actually the average of its 1968-70 data. This approach is preferred in mobility analysis since it "smooths out" temporary transitions. However, due to data constraints, we were unable to use this approach in Table 1.23.) These tables again show relative stability (the largest shares of persons are "stayers," located along or close to the diagonal). For example, both 10-year periods re-

FIGURE 1K Percent staying in same fifth in each pair of years, 1968-69–1990-91



Source: Gottschalk and Danziger (1998).

veal that about 85% of persons in families stayed in the first or second fifths. But more important in this context is the fact that mobility has not increased. The shares of both "stayers" and those who made transitions are very similar in both periods. For example, 61.5% remained in the lowest fifth over the 1970s, and 61.0% remained there in the 1980s. The shares who remained in the middle were also very close (29.6% versus 29.5%), and only a slightly larger share remained in the top fifth in the 1980s. There is no evidence here of an increase in mobility to offset increased inequality.

In fact, as **Figure 1K** shows, the rate of mobility appears to have declined since the late 1960s. This figure uses the same longitudinal data source as above to plot the percent of persons who stayed in the same fifth, one year to the next. Thus, an upward trend suggests declining mobility rates, as persons are less likely over time to make the transition across income classes. For example, in 1969, 62.7% of persons ended up in the same quintile they started in one year earlier, in 1968. At the end of the period, between 1990 and 1991, 65.9% failed to move to either a lower or higher income group. The fact that the graph drifts upward over the period under analysis implies that rate of mobility, as measured by the probability of moving to a different income fifth in an adjacent year, has fallen.

Conclusion

The most important development regarding contemporary income trends is the slow and unequal growth that continues unabated. Over the 1979-89 period, rapid income growth among upper-income families and stagnant or falling incomes for the bottom 60% of families led to sharp increases in inequality. At the same time, the income of the median family grew more slowly (0.4% per year) than over any other postwar business cycle.

Since 1989, median family income growth has been stagnant for most family types, and the 1997 median is just $285 (in 1997 dollars) above its 1989 level. In prior recoveries, the income of the median family had far surpassed its prerecession level by this point in the business cycle. In fact, our analysis of an important source of family income growth in the 1980s — the contributions of working wives — shows that this source was insufficient to counteract the negative hours and earnings trends in the 1990s that beset the bottom 40% of prime-age, married-couple families. Finally, younger families starting out in the 1980s or 1990s have done so from lower income levels than earlier generations, and their likelihood of pulling ahead in later years has fallen.

In the Introduction, we note that the 1997-98 respite from the labor-market problems that characterized the last few decades has the potential to lift family incomes in the latter part of the decade (barring, of course, an economic downturn). Nevertheless, should unemployment begin to rise and the labor market become less "tight," there is, in our view, nothing to prevent a return to the pattern of slow and unequal family income growth that has been the norm since the late 1970s.

The remainder of the book elaborates on the themes established in this chapter. The next chapter focuses on changes in the level and distribution of taxes in order to examine the extent to which the U.S. tax system has exacerbated or ameliorated the slow and unequal income growth of the 1980s and 1990s. The third and fourth chapters examine the labor market trends (wages and employment) that are at the heart of the rise in inequality and sluggish income growth. Chapters 5 and 6 broaden the income analysis by examining trends in wealth and poverty. Chapter 7 examines the impact of wage and income trends from a regional perspective, and Chapter 8 compares trends in the United States to those in other advanced countries.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Janet Anderson (CN=Janet Anderson/OU=WHCCTF/O=EOP [WHCCTF])

CREATION DATE/TIME:19-MAR-1999 13:19:24.00

SUBJECT: weekly

TO: Todd Stern (CN=Todd Stern/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

CC: Dirk Forrister (CN=Dirk Forrister/OU=WHCCTF/O=EOP@EOP [WHCCTF])
READ:UNKNOWN

CC: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: Meagan M. Earley (CN=Meagan M. Earley/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TEXT:
Briefed (with Rich Glick - DOE and Bill Samuel - DOL) AFL-CIO and their interested members on the Administration's soon-to-be-released electricity restructuring bill. Several provisions were added to this year's version as a result of outreach to labor on restructuring:
Inclusion of worker transition issues in the definition of stranded costs, and
Development of a model code on worker training/staffing/competencies for states' consideration.

They were also interested in increased FERC authority to oversee transmission reliability, consumer disclosure rules that would simplify comparisons of offers, and the level and functioning of the renewable portfolio standard. We received a generally favorable reaction.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jeffrey L. Farrow (CN=Jeffrey L. Farrow/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:19-MAR-1999 12:41:59.00

SUBJECT: Puerto Rico Teachers Asso.

TO: Mickey Ibarra (CN=Mickey Ibarra/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Maria E. Soto (CN=Maria E. Soto/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Fred DuVal (CN=Fred DuVal/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
As you probably know, the Puerto Rico Teachers' Association is affiliated with the NEA. I understand it and an AFT affiliate, the Puerto Rico Teachers' Federation, are vying for representation under the islands' new unionization law.

The law was championed by the AFL-CIO, especially AFSCME, and Gov. Rossello over the objections of the Commonwealth party and some local workers groups.

Teachers are to vote on organization in May and between the groups in the Fall. Collective bargaining will follow.

The PRTA, which is an older group, doesn't like the law limiting the representation to teachers since the PRTA includes supervisory personnel such as principals. The PRTF is only teachers. PR's Education Secretary says different unions typically represent teachers and supervisors. He says the PRTA is led by Commonwealthers. The PRTF is led by independence advocates. Another union has been formed by statehooders but is still small.

Any thoughts as we prepare to meet with the PRTA?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Nicole R. Rabner (CN=Nicole R. Rabner/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:13-APR-1999 09:16:19.00

SUBJECT: insert for briefing

TO: Brenda B. Costello (CN=Brenda B. Costello/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

Neera Tanden (CN=Neera Tanden/OU=WHO/O=EOP [WHO])
READ:UNKNOWN

TEXT:
Please insert the following into the briefing for tomorrow's Chicago roundtable:

Equal Pay Action in Illinois
On March 18, the Illunios General Assembly pased the Equal Pay Act of 1999 by a huge, bipartisan margin (115-0). The Bill is now being considered by the state Senate. The Illinois legislation includes many of the components of the pending federal legislation (The Paycheck Fairness Act) on equal pay that the President has endorsed, such as better enforcement mechanisms and increased penalties for equal pay violations. The AFL-CIO has been a strong advocate for the Illinois action.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:15-APR-1999 11:28:16.00

SUBJECT: Not to be a pest, but

TO: Charles F. Ruff (CN=Charles F. Ruff/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
One thing I did not mention this morning, and I was reminded by Gerry Shea from the AFL-CIO, is the issue they(labor) care most about is that we not end up w/ a 1 to 1 situation. In your consideration of this matter, would you please factor in whether you believe if cleared the individual can actually get reconfirmed. Not knowing the facts --and I do not want to know -- I have no opinion regarding this issue. I know two things, first, if we end up not being able to get the individual confirmed we will be in an extremely difficult position with our friends and, second, that the candidate we have in vetting has a very good possibility of getting confirmed.

Thank you for your consideration.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Paul A. Tuchmann (CN=Paul A. Tuchmann/O=OVP [UNKNOWN])

CREATION DATE/TIME:16-APR-1999 12:14:27.00

SUBJECT: Letter from VP for Georgine to read at conference - any changes

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

CC: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TEXT:
April 19, 1999

President Robert Georgine
AFL- CIO Building & Construction Trades Department
1155 15th Street, NW 4th Floor
Washington DC 20005

Dear Bob:

Thank you for your kind invitation to the President and me to address this year ,s Building and Construction Trades National Conference. I had a wonderful time speaking to all of your members last year, and I am sorry that the crisis in Kosovo and commitments at the White House kept us from attending this year ,s conference. I look forward to visiting with you again in the future.

I ,d appreciate it if you could remind the people attending the conference where the President and I stand on some important issues -- the President and I stand with you against any attempt to weaken OSHA) our budget increases its funding. We stand with you in support of Project Labor Agreements. We stand with you against the TEAM Act and company unions. We stand with you against any attempt to weaken Davis-Bacon. And we stand with you in support of the right to organize.

Our agenda supports American working people, just as our thriving economy supports them. But we also recognize that our economy could not thrive without the hard work that your members do every day to build America ,s homes, bridges, offices, roads, and so many other things. Please give them my thanks for the fantastic job they do.

And finally, thank you for your wise and forceful leadership, Bob. You and the fifteen building trades International Presidents do an excellent job advocating for your members. Please accept my best wishes for a successful conference.

Sincerely,

Al Gore

AG/pt