LONG TERM TRENDS IN THE LEVY INSTITUTE MEASURE OF ECONOMIC WELL-BEING (LIMEW), UNITED STATES, 1960-2004

Edward N. Wolff, Ajit Zacharias, and Thomas Masterson*

June 2007

Abstract for the 2008 IARIW Conference, Slovenia

The picture of economic well-being is crucially dependent on the yardstick used to measure it. The LIMEW is different in scope from the official US Census Bureau measure of gross money income (MI) in that our measure includes public consumption, income from wealth, and household production (see Table 1 for a summary). The differences in scope and method lead to substantially different findings regarding economic well-being.

In previous work, Wolff and Zacharias (2007) found that the median U.S. household was much better off in 2001 relative to 1989 according to LIMEW in comparison to MI. This difference largely reflects the fact that the LIMEW employs a different concept of income from wealth (rather than standard property income) and that it includes elements not included in conventional measures at all—public consumption and household production. The determinants of the disparities among population subgroups are also different. The racial gap appears widened according to LIMEW, while MI suggests a mild improvement. On the other hand, the hump-shaped relationship between age and economic well-being is not found when the LIMEW is used as the yardstick, due to the higher relative well-being of the elderly. Measured inequality is lower according to LIMEW than gross money income but the increase between 1989 and 2001 is higher for the LIMEW and the contributions made by the various components (earnings, income from wealth etc.) to inequality are notably different across measures.

In the proposed study, we extend the LIMEW both forward in time to 2004 and backward to 1960. Our main interest is also to compare trends in LIMEW with those of MI. There are three comparisons of interest. First, MI shows a rapid growth in median well-being from 1960 to 1973 and then a very slow increase from 1973 to the present. Second, MI shows very little change in inequality from 1960 to 1973 and then a rapid ascent thereafter. Third, the racial gap according to MI narrows between 1960 and 1975 and then remains stable thereafter. Will LIMEW show the same time patterns?

* Edward N. Wolff
New York University, Department of Economics
19 West 4th Street, 6th floor
New York, NY 10012 USA
edward.wolff@nyu.edu Phone: 212-998-8917 Fax: 212-995-4186

Ajit Zacharias and Thomas Masterson
The Levy Economics Institute of Bard College
P.O. Box 5000

Annandale-on-Hudson, NY 12504 USA
zacharia@levy.org masterso@levy.org
Phone: 845-758-7734 Fax: 845-758-1149
References

Edward N. Wolff and Ajit Zacharias, “The Levy Institute Measure of Economic Well-Being, United States, 1989-2001,” *Eastern Economics Journal*, forthcoming, 2007.

Table 1: The Components of LIMEW

LIMEW
Money income (MI)
Less: Property income and Government cash transfers
Plus: In-kind compensation from work
Employer contributions for health insurance
Equals: Base income
Plus: Income from wealth
Annuity from nonhome wealth
Imputed rent on owner-occupied housing
Less: Taxes
Income taxes [1]
Payroll taxes [1]
Property taxes [1]
Consumption taxes
Plus: Cash transfers [1]
Plus: Noncash transfers [1, 2]
Plus: Public consumption
Plus: Household production
Equals: LIMEW

Note: (1) The amounts estimated by the Census Bureau and used in EI are modified to make the aggregates consistent with the NIPA estimates. (2) The government-cost approach is used: the Census Bureau uses the fungible value method for valuing Medicare and Medicaid in EI. The main difference between the two methods is that, while the fungible value method assigns an income value for a benefit according to the recipient’s level of income, the government-cost approach assigns an income value for a benefit irrespective of the recipient’s income.