How U.S. living standards were cut by 18 percent

In testimony before Congress on Oct. 8, 1979, U.S. Federal Reserve Board Chairman Paul Volcker solemnly pledged, "The standard of living of the average American has to decline." This is one promise Volcker has kept.

From the time he took office in August 1979 until September 1981, the American living standard plunged 15 to 18 percent, the lion's share of the 20 to 23 percent decline in living standards since Jimmy Carter's inaugural year of 1977.

The two principal measurable elements in this fall in living standards: the collapse of worker income and the collapse of food consumption. Three additional areas are critical to showing the decline in living standards—housing, private transportation, and the government estimates of poverty—although it is difficult to put a price tag on the collapse.

Income

According to the Census Bureau of the U.S. Department of Commerce, the average of all family income, adjusted for inflation, fell 6 percent from 1978 to 1980. The median family income, the level at which 50 percent of families earn more and 50 percent less, fell by 5.5 percent from 1979 to 1980 alone. But these figures grossly understate the income loss to the average American, who has suffered income loss from his shrinking, inflation-riddled paycheck that he has not been able to recover in money market funds or coupon-clipping.

A far more accurate measure is therefore the inflation-adjusted, after-tax (spendable) income of a non-agricultural worker with three additional dependents. This would assume, in most cases, a worker who has a wife and two children.

In 1977, this average, non-agricultural worker earned $169.93 in real spendable income per week. In 1979 this had fallen to $162.49 and by September 1981, to only $144.60. This means that under G. William Miller, Volcker's predecessor as head of the Federal Reserve System, real spendable income fell 4.3 percent between 1977 and 1979; then from 1979 to September 1981, real spendable income fell another 11 percent. From 1977 to September 1981, spendable income fell a total of 15 percent. This is our starting point for determining the plunge in living standards.

Food consumption

The fall in food consumption is epitomized in the fall of meat consumption (carcass weight), and in particular beef consumption, per person per year. According to U.S. Department of Agriculture statistics, in 1976 each American consumed 192.1 pounds of meat per year; in 1978 only 185.0 pounds, and in 1980 only 180.1 pounds—a total drop of 12 pounds, over 6 percent.

The drop in the consumption of beef, the meat highest in protein content, fell even more precipitously. From 1976, when beef consumption was 129.3 pounds per person per year, it fell to 120.0 pounds in 1978 and to 103.4 pounds in 1979, a 20 percent drop in just four years.

That still underestimates the decline in the American diet. With the price of hamburger now almost the price of steak four years ago, beef consumption is shifting toward inferior chopped meat for most families. And only half the drop in beef consumption was made up by the consumption of inferior but less expensive pork or other meat products, such as frankfurters; the rest was uncompensated for by the consumption of other meat.

The drop in U.S. beef consumption is sharper than the four year fall-off in meat consumption in Third World countries. U.S. workers have suffered a major nutritional loss, which will start showing up in increased disease, and lowered work performance.

But the Bureau of Labor Statistics, which measures consumption levels to determine an average market basket by which to measure the inflation rate, does not record the drop. Admits the BLS, "If people substitute one food for another, or even other foods for meat, we can't tell. We have no way of qualitatively measuring a person's market basket."

Since beef consumption fell by 20 percent between 1976 and 1980, and since food consumption accounts for about 21 percent of the average family's household expenditures, the decline in the standard of living accountable to the drop in beef consumption is approximately 3 to 4 percent in the 1976-80 period, a decline not measured in the government's real spendable income statistics showing an overall 15 percent decline in the standard of living.

Figure 1

Affordability of housing

(based on a 30-year-term, $60,000 mortgage)

Interest rate (percent)	Payment	Expense*	Annual income needed to afford**	Percent of families who can afford
9	$483	$215	$33,504	20.6
10	527	215	35,616	18.4
13	664	215	42,192	11.8
18	904	215	53,712	3.2

* insurance, utilities, taxes.

** assumes 25% of income goes toward total housing payment.

Source: NAHB Economics Division

Housing

America has reached "the post-shelter age," says housing expert George Sternlieb of Rutgers University. The trend in housing units is toward smaller sizes, three times more costly today than a decade ago. There is now a scarcity of homes or apartments at any price or size.

According to data compiled by the U.S. Department of Housing and Urban Development (HUD), in 1970 no fewer than 81 percent of all new private one-family homes had a price tag of $35,000 or less and the average price of a new home was $26,500. In 1979, the situation was totally reversed. Only 5 percent of new private one-family homes had a price tag of less than $35,000 and the average price of a new home was $79,400, a nearly three-fold price increase.

It is the land speculators and Paul Volcker who have done most to drive up housing costs. The cost of land as a percentage of the total cost of a new home has risen from 11 percent in 1949 to 23 percent in 1980. In the same period, the cost of financing has zoomed from 5 percent to 12 percent of the total cost.

The notion that labor costs have been responsible for increased housing costs is pure fabrication. The on-site labor-cost percentage of the total cost of a new home actually fell from 33 percent to 16 percent during that period.

But recently, Volcker's interest rates have played a major role. In the 1960s, the average interest rate on a 30-year mortgage was 5 to 7 percent. In September 1981 it was over 17 percent. Figure 1 shows how much increasing interest rates raise the cost of a home mortage, and how this prices families out of the housing market.

Volcker's policy is also aimed at cutting off funds for homebuilders. In April 1980 Volcker told a group of 200 irate savings and loan officials, who make 85 percent of their loans to housing, "The 1980s is not going to be a decade for homebuilding." Home starts are currently below the 1 million per year rate, the lowest since the end of World War II.

Apartment and home space is becoming smaller. According to federal statistics, the average volume of space for the average of homes and apartment units combined was 1,527 square feet in 1978, but by 1980 down to 1,464 and falling. Anthony Downs of the Brookings Institution claims that "in the 1980s we will see the housing market gravitate toward two extremes. One extreme will be luxury homes with the normal amount of physical space, and all the comforts of a home, costing $150,000. On the other side, there will be the home or apartment with 450 square feet of physical space, that will have furniture that folds into the wall, a minimum amount of appliances, and so forth. This will be cheaper." Downs's projected 450 square feet is only one-quarter of the normal living space that a family currently enjoys.

Investment banks, real estate firms, and other landlords are now routinely putting severe restrictions on the number of children their family tenants can have, or excluding families altogether. In the city of Baltimore, for example, according to press reports nearly half the city's apartments have restrictions against renting to couples with children. According to HUD, which conducted a nationwide survey in August 1980, 27 percent of all rental units in apartment buildings or complexes in the entire nation had policy restrictions against renting to couples with childen. Another 50.4 percent had limitations on the number of children a couple could have, based on the age or sex of the child, or the location of the apartment. The HUD survey reported that 71.5 percent of all rental units of all types had restrictions or limitations on renting to families with children.

This has devastating implications for family formation. It has been projected that there will be 17 million new families formed in the 1980s needing housing. Replacing only 1/50th of the nation's housing stock of approximately 80 million homes for each year of the decade of the 1980s, adds the need for the construction of 16 million additional units. The total of new homes needed is thus 33 million, or 3.3 million per year. Assuming some of the new families choose apartments, put the need at 3 million per year. The chief researcher at the Urban Land Institute, a think tank for Olympia and York and other real estate giants, estimates that only 1.5 million new homes will be built each year during the 1980s, and if the average of 1980 and 1981 is taken, only 1.24 million units will be built.

"Obviously the demographers reporting how many new families will be formed will be wrong," says Brookings' Anthony Downs. "Either people will live longer at home with their parents, or they will find alternative means of housing, but not get a home. Many of the families will have to be postponed."

Unable to find decent, affordable housing, Americans have begun to adopt less desirable alternatives. In 1980, 15 percent of all new homes sold were trailers. Garden homes—a euphemism for housing complexes in which the homeowner shares his front porch, walkway, etc. with others—are one of the fastest growing shares of the home market. In order to cut costs, homeowners are converting upper floors or basements into extra units to be rented out. Lofts, former warehouses, and other non-residential space are also rapidly being converted into rental units. Total conversion units, which totaled 2.9 million in 1975, had risen to 4.4 million by 1980, an increase of over 50 percent in five years.

Volcker's policy is opening the way for the wilder depopulation fantasies of the futurists. In 1981 the Worldwatch Institute, a frankly zero-growth think tank in Washington, D.C., released a study on housing, "Global Housing Prospects: The Resource Constraints." The study argues that the next great "advance" in U.S. housing is "unrelated individuals known as 'mingles' living together in houses with two or more . . . bedrooms but common kitchen and living areas. These new designs might also present a practical means for the elderly and couples whose children are no longer at home to avoid the isolation of impersonal apartment complexes or institutional care," as the Oct. 4, 1981 *Baltimore Sun* described the study.

Anyone who has seen New York City recently knows what the "mingles" trend means: the growth of homosexual paired relationships or childless unmarrieds postponing family creation indefinitely.

Figure 2

Costs of an American car

Year	Total purchase cost*	Interest on finance charges**	Production labor cost***
1970	$ 4,055	$ 325	$ 791
1972	4,325	515	984
1974	5,085	785	1,084
1976	6,429	1,000	1,227
1978	7,936	1,460	1,625
1980	9,669	1,993	1,775
1981	11,596	2,576	2,022

* includes interest on finance charges.

** based on estimated contract price, or sticker price less down payment.

*** based on estimate of 140 hours labor/car, 1970-73; 130 hours labor/car, 1974-79; 120 hours labor/car, 1979-81. Labor hours decreased with size of cars produced.

Personal transportation

Automobiles are an indispensable part of American life and will remain so as long as good public transportation remains the exception. A car provides Americans with mobility. It means wage-earners can get to work if they take a job 10 to 40 miles away from their home—a frequent occurrence. It means a vehicle for grocery shopping and other essential purchases, for carrying supplies, for taking the children on outings. Without a family car, freedom of movement is nonexistent for most Americans.

Volcker's high interest rates have cut auto production to 65 percent of 1978 levels, after a decade in which oil price increases, environmental restrictions, and spiraling insurance costs have sent the cost of owning and operating a motor vehicle skyward. The average selling price of a new car, according to the National Automobile Dealers Association, has more than doubled, from $3,730 in 1971 to $8,900 in 1981, about $1,000 above the 1980 price (Figure 2). The automotive share of personal expenditures rose from 11.9 percent in 1970 to 13.8 percent in 1977, and continued at 13.2 percent for the first half of 1981, despite depressed car sales.

Cars have gotten much smaller—an indirect assault on family formation and personal safety. In 1972, 62 percent of all cars driven in the United States were medium- or large-sized vehicles capable of transporting a family in relative comfort. By 1979, this proportion was down to 36 percent. Marina von Neumann Whitman, chief economist of General Motors and a board member of the New York Council on Foreign Relations, argued in an article in the May-June 1981 issue of the magazine *Challenge* that the trend toward so-called economy cars is a direct and proper result of lowering living standards.

Americans are driving older cars, and driving them less. In 1970, the average age of a passenger car was 5.5 years; in 1975 it rose to 6.0 years, and by 1980, it was 6.6 years. At the same time, the steady increase in mileage driven per year per car peaked and began to decline. The average number of miles driven per car fell from 10,184 in 1972 to 9,400 in 1980.

Unemployment

The family that has a major breadwinner unemployed—and female unemployment is increasingly important because most families cannot make it on the income of one person alone—will stop planning to have children, and cannot clothe or feed existing children properly. Prolonged joblessness breaks up the moral strength of the individual and the family.

What is the real U. S. unemployment rate?

Bureau of Labor Statistics data are notoriously unreliable and even fraudulent on this point. Official unemployment in the construction industry, for example, is reported by the BLS as 18.2 percent. Most construction workers, who work perhaps one week out of three and are counted as "employed," could tell you that the unemployment rate, especially in cities, is closer to 50 percent.

But the official figures are shocking enough. In August 1979 as Volcker took office, official unemployment was 6.06 million. By August it was up to 7.94 million, an increase of 31 percent. By September 1981 it was 8.50 million and in December 1981 it reached 9.44 million, an increase of 50 percent since Volcker took office.

During the months of August and September 1981 alone, the number of part-time workers who would prefer to be working full-time has risen from 4.16 million to 5 million. Most of these workers had been full-time, but found their hours sharply reduced because of Volcker's depression, although they were not counted as unemployed.

The BLS classifies another group as "too discouraged to work" and drops them from the labor force altogether. These actually unemployed workers total 1.12 million. Another 1.74 million workers in August 1981 were part-time for reasons of illness.

Adding up these three areas alone, there are an additional 7.92 million workers actually unemployed. Adding the official 9.44 million unemployed in December 1981 to this figure, the total number of unemployed rises to 17.36 million.

At the same time, thanks to the Reagan administration's David Stockman and the Office of Management and Budget, job training programs are being cut from $8.1 billion in the 1980 fiscal year budget to $1.0 billion in fiscal 1982, while unemployment benefits, food stamps, and other such programs are cut as well. Those who become unemployed will pay dearly for that privilege.

Poverty

The Census Bureau considers those living at a level 40 percent or more below that of the median family income for any one year to be living on the poverty level. The number of those Americans jumped dramatically after Volcker took office.

In 1979, 25.35 million Americans were living below the poverty level. In 1980 that figure rose to 29.27 million—an increase of 15 percent in one year.

Poverty is not, as is often falsely asserted, a phenomenon primarily linked to blacks and Hispanics. In 1980, 19.7 million Americans classified as below the poverty level were white—67 percent of those so classified.

Among those below the poverty level are 3.87 million senior citizens, 65 years or over. Parents and grandparents have been thrown on a human scrap heap.

A full 6.2 million families lived below the poverty level in 1980. One out of 10 American families is grinding up its offspring, living at only 40 percent of an average American family income, which is itself increasingly too low to support a family.

Can the U.S. support the next generation?

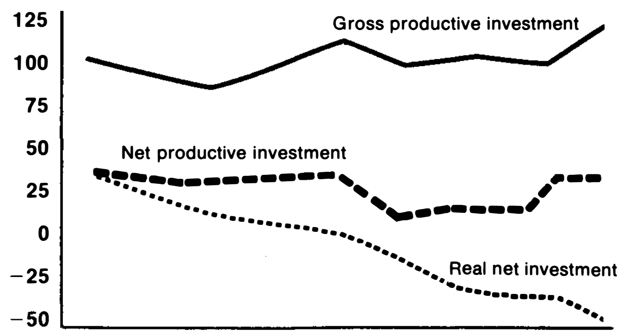
Three destructive trends in the U.S. economy—the shift of the labor force out of productive employment, the increasing technological obsolescence in industry, and the cancerous expansion of debt and paper claims held against productive output—have each been accelerated by Paul Volcker's high-interest-rate regime. Unless they are reversed, the next generation of Americans will be unable to reproduce itself.

The entirety of the labor force began deteriorating in the 1950s, as the economy moved away from an emphasis on goods production. This can be measured by looking at the sharply declining percentage of goods-producing workers in the overall composition of the labor force—that is, employed operatives in manufacturing, mining, construction, transportation, and agriculture, who materially alter nature in such a way as to produce goods for consumption by households or by the productive process itself. It is this sector of the workforce that produces the output that feeds, clothes,

Figure 1

Productive fixed investment

(in billion 1972 dollars)



The trend of gross investment is taken from the Bureau of Economic Analysis estimates adjusted for unproductive investment (like office buildings). Net investment is derived by adjusting for BEA capital consumption allowance. Real net investment is the gross adjusted by the *EIR*'s capital consumption allowance.

Source: *EIR*