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ECONOMIC OUTLOOK USA is designed to aid private and public decision makers in achieving a better understanding of the economic and social environment in which they will be operating. The analysis of this publication incorporates direct measurements of the expectations, attitudes and plans of both consumers and business firms with the economic and financial variables traditionally used in forecast models. The philosophy of this publication is that a blend of anticipatory and traditional measures provides richer insights into prospective developments, insights which will produce more consistently reliable forecasts of both economic and social change.

The opinions expressed in this publication represent those of individual authors and do not necessarily reflect the views of the Survey Research Center or The University of Michigan. The editor, as a matter of policy, makes no attempt to reconcile divergent opinions.

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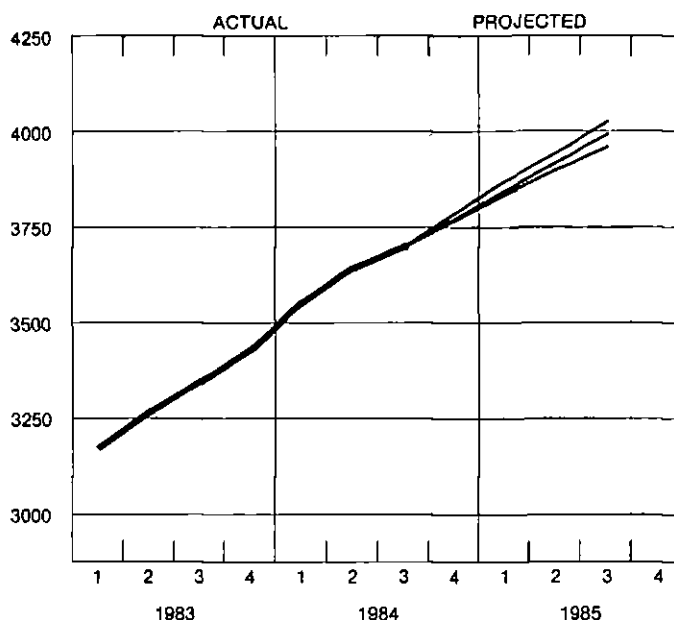
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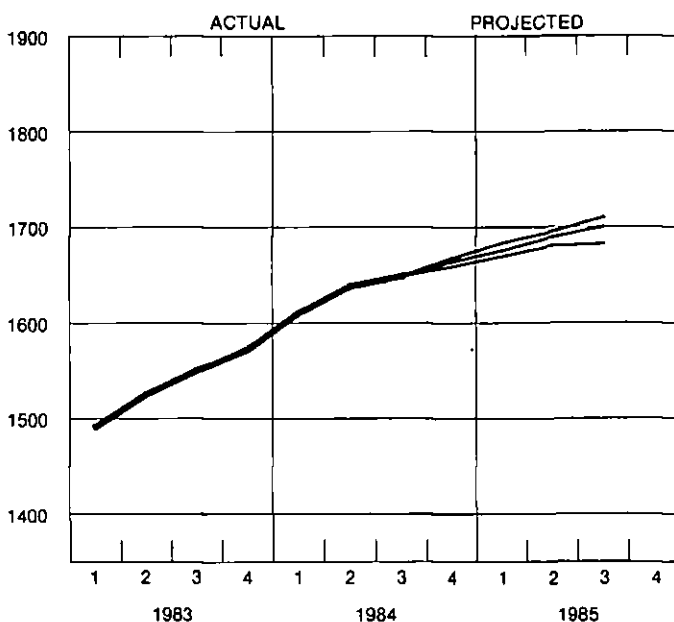
IN CURRENT DOLLARS
 Billions of Dollars



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

GROSS NATIONAL PRODUCT

IN CONSTANT 1972 DOLLARS
 Billions of Dollars



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"Fairness" and Social Policy

F. Thomas Juster
Director, Institute for Social Research
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The Liberal and Conservative Views

The recently concluded electoral campaign contained quite a bit of discussion on both sides about a subject called "fairness." On the Democratic side, Mr. Mondale charged that the social policies of the Reagan administration did not accord with principles of fairness, since they provided bigger tax breaks for the rich than for the middle class or the poor, weakened the safety net by cutting back eligibility standards for such means tested programs as food stamps and general welfare as well as for disability programs, threatened to reduce the level of future social security benefits for the elderly, and would try to cut Medicare and Medicaid programs. In general, the Mondale view of Reagan social policy is that it provides tax breaks and other advantages to the fortunate, while chipping away at the minimal public support levels provided to the less fortunate (with the chipping away process being limited only by the refusal of the Congress to go along).

The president and his supporters responded that economic opportunities reside in creating employment prospects in the private sector, not in enhancing the size of the public dole, that a program which brings vigorous economic recovery will do more for the less fortunate than any set of public programs that provide transfer payments, and that tax incentives for the rich will stimulate sufficient additional effort so that opportunities and outcomes for others will be enhanced in consequence.

The political rhetoric on both sides clearly reflects an argument about income distribution. Perhaps more importantly, it reflects very different world views about how the income distribution is generated, and the role played by incentives in creating both the distribution of income and influencing the growth rate of income. Is there anything that economists can say about these issues, other than to reflect their own values as citizens about what seems fair, equitable, and socially beneficial?

A Biblical Lesson

There are some things that economists and other social scientists know about these problems that can be put into the category of valid scientific knowledge and generalization rather than into the category of values and preferences. For example, one can talk sensibly about the degree to which income is generated by random chance, by systematically favorable or unfavorable circumstances unrelated to individual choice, or by individual effort, energy, and motivation. To take an extreme but simple case, let us examine the biblical tale of two brothers, both of whom received the same patrimony at the same "stage of career." One brother went on a revelry of wine, women and song, used up the patrimony in a couple of years, and returned penniless and clothed in rags. The other invested wisely, produced good crops, added to the original patrimony, and was a respected and productive member of the community.

Should they both be treated equally in terms of living standards? While the biblical tale is designed to show that charity should be shown to those who err, most people would probably say that the wasteful brother should suffer a penalty while the productive brother should be rewarded. After all, here we have a classic case of all other things being (roughly) equal: they both had similar genes, since they are brothers; they both had a similar upbringing, again because they are brothers; they presumably had the same education, if any; but one was consumption-oriented and the other investment-oriented, and as a result one had nothing after a couple of years and the other had more than he started with. Some would point out that everything wasn't necessarily equal — the wasteful one might have been badly and unfairly treated by the patriarch when he was young and developed a bad image of himself, thus leading to a process where continual negative feedback produces an attitude that one can do nothing right, so why try. The biblical story is silent on that possible source of difference.

Examples which fit the "other things roughly equal" illustration above do not come easily to mind, since we do not run controlled experiments in democratic societies. Nonetheless, we know quite a bit about the forces that play an important role in the distribution of income, and we also know quite a bit about the effect of various kinds of incentives on effort levels and outcomes. In none of these cases is the knowledge base perfect, in that we do not have identical individuals who differ only in some factor like motivation. But we can go some distance.

Factors Associated with Income

To begin with, it might be well to decide what factors associated with income are appropriately put into boxes like "random chance," "systematic good or bad fortune unrelated to individual choice," and "individual motivation, energy and effort." For example, what about family background? That seems a straightforward case of good or bad fortune, and certainly does not represent motivation, energy or effort. A person born into a family with high socio-economic status (reflecting income, educational attainment and occupation) and having a modest number of siblings is demonstrably better off in terms of earnings prospects than someone born into a family with low socio-economic status and a large number of siblings to compete for attention and resources. We can all find dozens if not hundreds of casual illustrations about the difference that family background makes among our own acquaintances and in our own experience.

What about educational attainment? There is an economic model that speaks of educational attainment as representing an investment of time and money (time by the student, money usually by the parent), where current income is foregone in order to enhance future earnings prospects. That current market earnings are foregone by students is not in question. But whether students have living standards that

are lower than they would otherwise be by virtue of their student status seems to me a highly questionable proposition. Going to school (certainly going to college, which is where most of the relevant differentiation occurs) is not appropriately characterized as a general condition where the student is giving up a great deal in order to get somewhat more later on. Student life is pretty pleasant for the most part, the student's parents usually help to sustain a living standard for him or her which is not dissimilar to their own, and it would be hard to make a persuasive case that people with higher educational attainment deserve more income "because they have earned it," as the saying goes. Some cases don't fit that generalization—there are young people who give up a good deal to get more schooling, by working nights and weekends, by giving up social life, and by putting in a great deal of additional effort. But the data suggest that this is not the typical case.

What about genetic endowment? That seems pretty straightforward: if you happen to be lucky enough to be born with a lot of brains, or with a lot of agility and a seven-foot height, you are quite apt to have a higher income than if you are born with an average or below average amount of brains and nothing exceptional in the form of physical attributes.

What about motivation? People certainly differ quite a lot in their striving for excellence, and in the amount of effort they put into whatever task they are currently undertaking. One might be inclined to attribute that to something about the individual—simply a desire to excel and a willingness to sacrifice in order to achieve excellence. But where does motivation come from? Probably to some extent out of the dynamics of childhood and young adult experience, and out of family values. To the extent that striving for excellence and hard work is derived from one's parents or one's circumstances, it is hard to see why that warrants individual rewards, other things being equal. And the causality between motivation and economic success may work in reverse from the Horatio Alger story, since success is certainly capable of producing motivation.

What the Data Have to Say

The general thrust of these speculations is clearly to suggest that a goodly share of success in life is not easily attributed to individual choices relating to effort, energy and motivation, but is more plausibly a consequence of factors over which the individual has little or no control. That is certainly true of random chance by definition, but appears to be true of a good many systematic forces as well.

If we turn to the data for illumination, we find some results that are helpful and others that are ambiguous. Economists have for decades estimated earnings functions for individuals, in an attempt to explain characteristics of the distribution of earnings as well as to understand the dynamics of various types of earnings trajectories that one observes. In these empirical studies, the factors that show up as being extremely important in determining individual earnings are the level of educational attainment, the socioeconomic status of the parents, ability as measured by some kind of IQ score, work effort as measured by hours worked annually, and occupation. Other factors that play a role in earnings functions are health status (especially poor health), religious preference (especially coming from a Jewish family and, to a lesser extent, a Catholic background),¹ and urbanicity (especially working and living in a large city). It is

also true that these variables explain only a part of individual differences in earnings, and there is a substantial residual left over. And the residual (the part not explained by the forces just described) is serially correlated—that is, a person with a positive residual in one year is quite apt to have a positive residual in other years as well.² Finally, the data generally suggest that strong motivation is a consequence of success, not the other way around.

Most of the systematic forces that seem to impact on earnings thus seem to me wholly or largely in the category of systematic good or bad fortune. That is certainly true of family background, ability, educational attainment, health, and religious preference. It may also be true of work hours and occupation, although it is hard to tell because that depends on whether the hours and occupation are themselves a function of opportunity and motivation growing out of family background and training, or out of something else.

An interesting issue is how to interpret the very large residual. By definition, the residual is a level of achieved earning not explained by any of the factors just discussed. It could be simply random chance—some people wind up being lucky and others unlucky because of particular chance events. But it might be unobservable and systematic forces that are controlled by individuals—some people seize on opportunities and make the most of them, while others let them go by the board because they require too much effort to pursue. No doubt there is a bit of both involved, and social science in its current state of knowledge cannot really disentangle the part of the residual due to genuine random chance and the part due to differential ability to capitalize on chance events.

Incidentally, the serially correlated properties of the residual do not really help here even though it seems that they might. Since motivation and effort are not usually well-measured, if at all, in empirical studies, it might be thought that the residual is largely individual differences in motivation and effort. But an equally plausible explanation is that pure luck or chance factors result in earnings above or below those predicted by other factors, and that future earnings and economic opportunities are importantly influenced by past earnings and opportunities. Thus if one happens to be lucky enough to land a high-paying but scarce job by luck or chance (your brother-in-law works there and puts in a good word), the likelihood of those high earnings in that same scarce job continuing to exist are substantial, and could easily account for some of the observed serial correlation in the residual. Alternatively, the unexplained residual might be due to unobservable motivation and effort factors, but motivation and effort themselves might be attributable to background variables over which the individual has little or no control.

The residual may also help to explain another important phenomenon in the data—that there is a great deal of economic mobility in the U.S., despite the fact that many of the most important forces that determine economic success are ones likely to persist across generations (parental status, educational attainment, ability, health, etc.). But there is an important component of income that is not explained by these or other systematic factors, but by some combination of forces that can vary quite a lot across generations. Hence the observed mobility.

¹Both Jewish and Catholic religious preference variables have a positive influence on earnings: so much for the Protestant Ethic!

²Positive serial correlation is the dominant case, but negative serial correlation is also observed.

The upshot is that while there is certainly some ambiguity about the relative importance of random chance, systematic good or bad fortune, and individual effort, the evidence suggests that the income distribution is dominated by factors that represent a subtle and not so subtle set of opportunities that differ widely among individuals but for which they deserve little credit. The evidence is not perfectly conclusive, and there is room for a substantial role for individual effort. But that role appears to be secondary to the role of other forces.

The Role of Incentives

Even if it were true that economic fortune was by and large due to favorable or unfavorable circumstances rather than factors under the control of individuals, it is still not necessarily the case that appropriate public policy should be designed to reward only differences in individual effort and not differences associated with accidents of birth or background. The reason is that incentives matter, regardless of whether or not rewards are justified by some set of ethical or fairness criteria. Taxing people on the basis of accidents of birth or circumstances may be justified on grounds of fairness, but if the tax is perceived as unfair and/or it diminishes people's willingness to work, it will have a negative impact on productivity and growth nonetheless. Moreover, incentives have to be considered as spanning across generations. If I invest in a college education for my children because I want them to be better off, what would taxes on my children's future income do to my incentives to invest in their education? They clearly wouldn't help.

Thus the evidence here supports earnings differential to a greater degree than what seems to me the case if one looks strictly at fairness as reflected by individually determined effort. There is some evidence that people respond to marginal tax rates in terms of work effort, although the response is relatively mild given the rhetoric about incentives and effort that sometimes dominates the discussion. (For example, there is no evidence at all that the extreme response predicted by hard-core supply-siders has any warrant in the empirical evidence about the effect of taxes on labor supply.) But there is some incentive effect, and it needs to be taken into account in designing policy.

Perhaps more importantly, there is persuasive evidence that people largely regard their own income as a reward for their own effort, and do not generally see their income status as a consequence of accidents of birth or of good luck generally. As an illustration, the widespread disaffection with the high inflation rate that characterized the decade of the 1970s is in part due to a generally held perception that large increases in money wage rates were a consequence of one's own effort and skill, while the equally large increases in prices were a consequence of the nefarious behavior of others. It was not generally perceived that both were due to the same cause, and that if inflation rates had been lower, money wage rate increases would also have been lower, and vice versa. In addition, studies of equity perceptions indicate that people are quite prepared to see individuals with more skill and training, or in jobs with greater risk, receive higher wage rates than their own, even though the greater amounts of skill or training might well have been the consequence of accidents of birth or family background. What is not perceived to be equitable will not work very well as public policy.

Income-Support Programs

An important public policy issue concerns the disincentive effects of various types of public programs designed to maintain some minimum consumption level for the poor, the elderly, and the generally disadvantaged. The common stereotype is that welfare programs of any sort beget dependency, and that not only does a welfare program tend to perpetuate itself, but that dependency is passed on from one generation of welfare recipients to the next.

There is a fair amount of evidence to assess those concerns. Surprisingly enough, it turns out that the stereotypes are basically inconsistent with the data. The great bulk of welfare recipients are on welfare only temporarily—the average is about two years, and fewer than ten percent of welfare recipients are long-term welfare dependents; most people who are on welfare also work, and the work part of their income is more important than the welfare part; and perhaps most surprising of all, there is little evidence that welfare dependency is transmitted across generations—among blacks, the odds that a black child raised in a welfare-dependent household will himself or herself be on welfare are about the same as the odds that a black child raised in a nonwelfare-dependent household will be on welfare! Interestingly enough, it is among whites that one can find some (slight) evidence that welfare dependency is transmitted from one generation to the next. Unfortunately, hardly anyone in the political arena understands these basic facts about welfare dependency, and the conventional stereotypical view tends to dominate the discussion.

Conclusions

What does all this tell us about fairness? The answer is something, although not everything. If there were an earnings function created by an Omniscient Analyst, it would then be possible to separate out random chance, good fortune, and effort, and assign appropriate weight to all three. In the absence of such a study, about all we can say is that good fortune by virtue of who your parents are and what your opportunities consist of will make a good deal of difference in how well-off you are, and it matters some whether you are energetic or lazy about pursuing opportunities. My own guess is that the great bulk of the variation in observed income is attributable either directly or indirectly to circumstances, and not much of it is attributable either directly or indirectly to genuine individual choice that is not in turn strongly influenced by circumstances. If that is so, one would come down more on the side of the liberal world view, as described above, than on the side of the conservative world view. And if it is also true that the adverse incentive effects of support programs like food stamps, general welfare, supplemental security income, disability benefits, etc. are neither large nor typically permanent, and the adverse disincentive effects of progressive income taxation (at reasonable rates) are also modest in size, that would strengthen a preference for a more charitable view of human motivation and a more supportive view of dependency programs designed to put a floor under the least advantaged part of the population. But the evidence is not unambiguously clear, and there is certainly room for at least the milder versions of conservative concern over disincentive effects as well as over the interpretation of equity and fairness.

Financial Gains Bolster Consumer Confidence

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Optimism Maintained at Record Level

In the third quarter 1984 survey, the Index of Consumer Sentiment was 98.9, just between the 96.6 recorded one quarter earlier and the cyclical peak of 99.5 recorded in the first quarter of 1984. Consumer sentiment has been more favorable thus far in 1984 than in any prior year during the past decade.

The improvement in consumer sentiment during the past few years has been substantial and widespread among major population subgroups. Since the 1980 all-time low, the Index of Consumer Sentiment has nearly doubled, rising from just over 50 to just under 100. The rapid pace of improvement recorded in late 1982 and early 1983 was based on very optimistic prospects for future economic gains. By the start of 1984, consumers' assessments of current economic conditions also reached record favorable levels. The major factor underlying both the initial improvement and the subsequent maintenance of evaluations at record levels has been sustained declines in inflation.

Prospects for the Economy: Good Times Despite Slower Growth

More families reported their awareness of an improved national economy in 1983 and 1984 than following any of the prior recessions during the past thirty years. Approximately two-thirds of all families reported in each of the quarterly surveys conducted since mid-1983 that economic conditions in the nation as a whole had improved over those which prevailed one year earlier. In the third quarter 1984 survey, 67 percent reported improved economic conditions, just below the all-time high of 71 percent recorded in the first quarter of 1984.

The rapid pace of economic growth recorded during the first half of 1984, as well as the recent slowdown in the growth rate, were not unexpected. Prospects for improvement in the aggregate economy as reported by consumers reached their most favorable level early in 1983. At that time, half of all consumers expected the national economy to improve during the year ahead. In the most recent survey, the proportion of families that expected continued economic growth fell to 33 percent. Importantly, few consumers expected the economy to actually worsen during the year ahead, rising to just 14 percent in the third quarter of 1984 from 9 percent one year earlier.

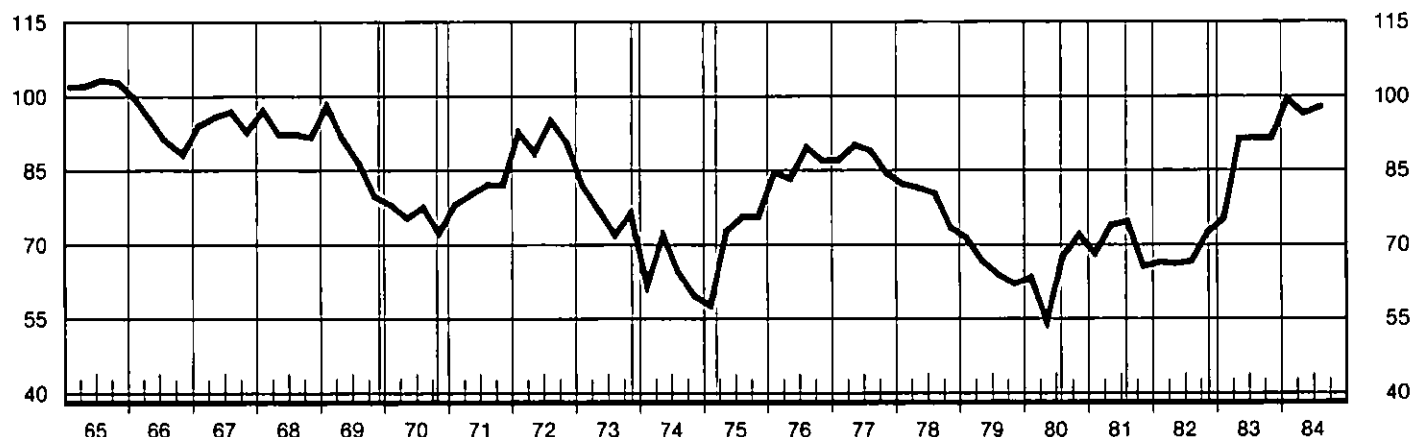
Despite a slowing rate of economic growth, good times financially in the economy as a whole were expected to prevail in both the near and longer terms. In the third quarter 1984 survey, 63 percent of all families expected good times financially in the economy as a whole during the upcoming year, just below the peak of 69 percent recorded in the first quarter of 1984. When asked about economic prospects over the next five years, 46 percent of all families expected good times financially, up from 38 percent one year earlier, and the highest level that has been recorded in more than a decade.

No Further Reductions in Unemployment Expected

The rapid improvement in assessments of the national economy recorded more than one year ago was propelled by expected declines in inflation, unemployment, and interest rates. Since that time, expectations about these three important economic factors have no longer improved in unison.

INDEX OF CONSUMER SENTIMENT

February 1966 = 100



Note: Shaded areas indicate recession periods as designated by the National Bureau of Economic Research, Inc.

Unemployment expectations reached their most favorable cyclical level in the second quarter of 1983 and have since then declined. Among all families in the third quarter 1984 survey, 25 percent expected unemployment to decline during the year ahead, down from the favorable peak of 40 percent recorded in the second quarter of 1983. The proportion of families that expected increases in the rate of unemployment rose to 21 percent in the third quarter 1984 survey, up from a low of 15 percent in the second quarter of 1983. Importantly, the majority (52 percent) now expect the unemployment rate to remain largely unchanged during the year ahead at its current level, rather than to increase.

Price expectations have declined considerably during the past several years, from a high of 11.9% at the start of 1980 to a low of 4.3% at the start of 1983. Price expectations have remained largely unchanged since then at those low levels. In the third quarter of 1984, consumers expected the annual inflation rate to average 4.4%. The cumulative four year change has been quite dramatic: in 1980, nearly three-quarters of all families expected inflation to average 5% or more; in contrast, by 1984, nearly three-quarters of all families expected inflation to average 5% or less.

Interest rate expectations reached their most favorable level earlier than inflation and unemployment expectations, in late 1982, and have since then worsened to a significant extent. In the third quarter 1984 survey, 55 percent of all families expected interest rate increases during the year ahead, compared with just 13 percent that expected interest rate declines. This represents only a small improvement over the bleak assessments recorded in the second quarter, when 66 percent expected increases.

In the third quarter 1984 survey, confidence in government economic policies to reduce inflation and unemployment reached its most favorable level during the last decade. Among all families, 33 percent favorably rated government economic policies, up from 27 percent one year earlier, and 18 percent two years earlier. Unfavorable evaluations of economic policies were given by 19 percent of all families in the third quarter of 1984, down from 22 percent one year earlier, and 33 percent two years earlier.

Personal Finances: Best in Decade

The financial situation of American families has substantially improved during the past several years. By the start of 1984, the highest proportion of families in more than a decade reported that their financial situation had improved, and since then the proportion has remained unchanged at that very favorable level. In the third quarter 1984 survey, 45 percent of all families cited recent improvement in their financial situation, nearly twice the 23 percent that reported financial reversals. These very favorable evaluations stand in sharp contrast to four years earlier, when the all-time low was recorded in the second quarter of 1980. Instead of the current favorable margin of nearly two-to-one, nearly twice as many families reported financial reversals rather than improvements at that time (25 versus 48 percent).

The substantial improvement during the past several years has been due to steady declines in inflation and, more recently, to increases in household income and employment. The proportion of families that complained about declines in the purchasing power of their income due to inflation fell steadily from its all-time peak of 46 percent at the end of 1979 to just 12 percent in the third quarter of 1984, the lowest level recorded in a decade. In contrast to the sustained de-

cline in inflation, trends in family incomes at first briefly improved, then declined sharply from renewed recession and record setting unemployment. Reports of actual income declines rose sharply in 1982, reaching a 20-year peak of 24 percent by the start of 1983. The proportion of families that reported income declines has fallen since then to just 13 percent in the most recent survey. During that same time, reports of income increases rose from 27 to 36 percent in the third quarter 1984 survey.

The recent improvement in their financial situation was widely expected in advance by consumers, as recorded in the surveys conducted during the prior year. It was in the second quarter of 1983 that personal financial expectations first reached record favorable levels, when 40 percent of all families expected an improved financial situation during the following year. Since that time, personal financial expectations have remained largely unchanged at those favorable levels. In the third quarter 1984 survey, 37 percent expected to be better off financially, compared with just 9 percent that expected their financial situation to worsen during the year ahead. In contrast, the most unfavorable outlook for personal finances ever recorded in these surveys occurred in the second quarter of 1979, when more families expected their financial situation to worsen rather than to improve (29 versus 21 percent). Since that time, personal financial prospects have improved steadily through two recessions with only small reversals in overall trend.

The sustained improvement in the outlook for personal finances has been primarily due to expected declines in inflation, not to larger expected income increases. The same proportion of families in the most recent survey as four years earlier expected to receive income increases during the following year—64 percent. Although the number of families expecting increases has remained unchanged, the size of the expected increases has not. At the 1980 lowpoint, income increases of 6% or more were expected by 44 percent, which subsequently fell to 34 percent in the most recent survey. At the same time, the proportion of families that expected smaller income increases—under 6%—rose from 14 to 25 percent. Despite the decline in the size of the expected increase, the expected declines in inflation were even sharper. For example, although 44 percent of all families expected income increases of 6% or more in 1980, at the same time 48 percent of all families also expected an annual inflation rate of 6% or higher. In contrast, in the third quarter of 1984, when 34 percent expected income increases of 6% or more, just 20 percent of all families expected prices to increase by that much. At the present time, two-thirds of all American families expect their income to keep pace with or exceed the rate of inflation during the year ahead.

The cumulative improvements recorded in their financial situation during the past few years have led consumers to view longer-term trends more favorably in 1984 than any other time during the prior decade. In the third quarter survey, 60 percent of all families reported that their financial situation had improved compared with five years earlier, the highest proportion of families to report financial progress since 1972. Prospects for an improved financial situation during the next five years were also at decade high levels in 1984. In the third quarter, 53 percent of all families expected their financial situation to improve during the next five years, unchanged from the start of 1984, and the highest proportion recorded since 1972. Just 10 percent of all families in the most recent survey expected their financial situation to worsen, on balance, during the next five years.

Buying Attitudes Remain Favorable

Attitudes toward buying conditions for large household durables have remained largely unchanged at very favorable levels since the start of 1984. Among all families in the third quarter 1984 survey, 71 percent favorably rated buying conditions for durables, just below the all-time peak of 72 percent recorded in the second quarter. The primary reason for these very positive attitudes has been favorable perceptions of market prices for household durables. In the third quarter 1984 survey, 34 percent of all families mentioned the appeal of price discounts, compared with just 10 percent that mentioned their aversion to recent price increases on household durable goods. Unfortunately, the 33 percent of all families that referred to availability of lower prices represents a decline from 40 percent at the start of 1984, which was the highest level recorded during the past two decades. Thus far, however, the shift has been limited to the decline in the availability of discounted prices, since complaints about increased prices for durables have remained relatively infrequent during the past year — at about 10 percent.

Attitudes toward buying conditions for vehicles have remained near cyclical peak levels since the second quarter of 1983. Favorable car buying attitudes were held by 60 percent of all families in the third quarter of 1984, just below the 64 percent recorded six months and one year earlier. These small declines during the past year have been due to less frequent references to price discounts and rebates, cited by 21 percent of all families in the recent survey, down from 26 percent one year earlier. Favorable references to buying-in-advance of rising vehicle prices rose to 19 percent in the third quarter 1984 survey, up from 13 percent one year earlier. In addition, fewer consumers referred to the availability of reduced interest rates on vehicle loans in the third quarter 1984 survey (19 percent) than one year earlier (33 percent).

Favorable attitudes toward buying conditions for homes reached cyclical peak levels in the second quarter of 1983, and have since declined, but on balance remain favorable. Among all families in the third quarter 1984 survey, 50 percent favorably rated buying conditions for houses, down from 59 percent one quarter earlier, and the peak of 64 percent recorded in the second quarter of 1983. The major reason for the recent decline in favorable home buying attitudes has been interest rate increases. Among all families, 22 percent referred to the availability of lower mortgage interest rates in the third quarter 1984 survey, down from 36 percent one year earlier. Reflecting the recent small improvements in rate expectations, references to buying-in-advance of rising mortgage rates fell to 13 percent in the third quarter, down from a peak of 20 percent recorded one quarter earlier. At the same time, complaints about high mortgage rates rose to 38 percent in the third quarter from 27 percent in the second quarter.

Summary Outlook

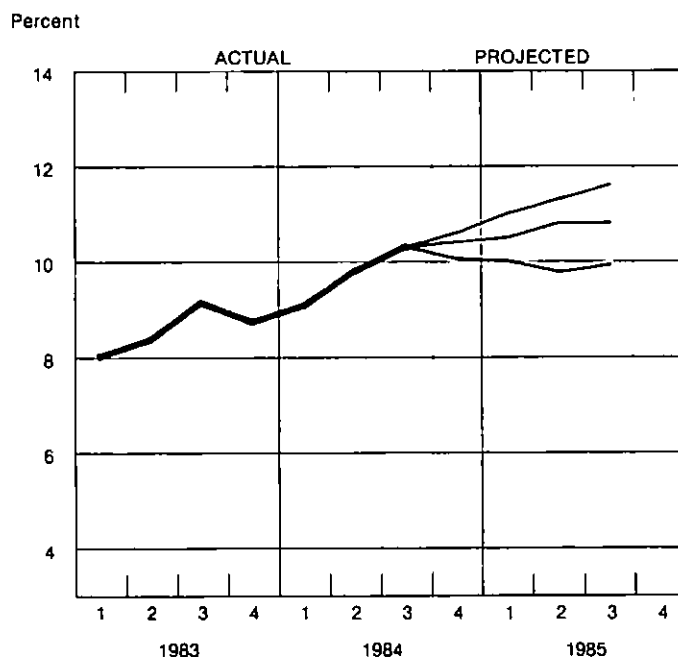
The speed, extent, and length of the current recovery in consumer attitudes and expectations have been distinctive. By the start of 1983, the dominant characteristic was the very rapid growth in favorable attitudes and expectations. By the start of 1984, the focus shifted to the extent of the recovery, as optimism reached record levels. Now, as we near the end of 1984, the prolonged length of time that sen-

timent has remained at very favorable levels has become its most distinctive aspect. These trends point toward the maintenance of consumer spending at high levels through 1984 and into 1985.

How will trends in consumer attitudes and expectations evolve during the year ahead? It would be easy to suggest that the year-long record levels of optimism cannot be long maintained; but this would be misleading. To be sure, the most recent surveys indicate that economic prospects have tilted toward a slower pace of improvement, and interest rate increases have dulled otherwise favorable buying attitudes. But no evidence has yet been recorded to indicate that the slowdown is expected to lead to a recession during the year ahead. Rather, the evidence suggests that consumers expect an extended period of slow growth, but nonetheless favorable economic conditions. Persistently high interest rates are viewed by consumers as the primary restraint on more vigorous growth.

November 1984

3-MONTH TREASURY BILL RATE



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

Business Economists Favor Reaganomics but Still Expect Recession Within 18 Months

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The tenth in the series of quarterly surveys of National Association of Business Economists (NABE) members was conducted in early September. Respondents were asked to forecast various economic series and to give their opinions about current economic policy matters. For analytical purposes, the business economists were classified according to their primary affiliation in six groups, some of which were changed from those used in prior surveys. The redefined groups are (1) manufacturing, mining, agriculture, forestry, or construction; (2) wholesale or retail trade, public utilities, transportation, or communications; (3) nonbank financial; (4) commercial banking; (5) academic or government; and (6) consulting or other not elsewhere classified.

Conditions in Company/Industry

Throughout the survey program, economists affiliated with a business firm have been asked about quarterly trends in various economic aspects of their own company or industry. The September survey focused on those economists affiliated with firms in groups 1 and 2, above; we will refer to them here as "manufacturing" and "trade/transport."

Results from the September survey are displayed in Table 1 and once again are generally consistent with the continuing economic expansion experienced during the three months preceding the survey:

- Demand had been increasing in more than half the companies and falling in only about a tenth, with the more vigorous expansion being reported by the trade/transport group.
- Employment had been stable in nearly 60 percent of firms, with rising employment having been somewhat more prevalent in the manufacturing group.
- Inventories had been increasing in 40 percent of the manufacturing firms and stable in about the same proportion, but less than 20 percent of trade/transport economists reported rising inventories, while over a third reported falling inventories.
- Real capital outlays had been rising in nearly 60 percent of the manufacturing firms and stable in more than a third; the proportions were substantially reversed for the trade/transport firms, and here 17 percent reported falling outlays.
- Profit margins had been going up in only about a quarter of the manufacturing firms and stable in about three-fifths, while nearly half of the trade/transport companies experienced rising profits.
- Prices had increased in less than a quarter of firms in both groups and had been stable in close to 60 percent, though the trade/transport group reported a bit more inflation.
- Wages and salaries had been rising in roughly 35-40 percent of both groups and stable in something like 60 percent, with virtually no one reporting falling compensation. Again, slightly more inflation in wages and

TABLE 1. Trend in Various Economic Aspects of Respondent's Company or Industry During Three Months Prior to September 1984 Interview (Percentage Distribution)

Economic Aspect	Rising	Same	Falling
Unit Volume of Demand			
Manufacturing, etc.*	53	36	11
Trade, Transport, etc.	65	23	12
Employment			
Manufacturing, etc.	30	59	11
Trade, Transport, etc.	21	59	21
Unit Volume of Inventories			
Manufacturing, etc.	40	39	21
Trade, Transport, etc.	18	47	35
Real Capital Outlays			
Manufacturing, etc.	59	37	4
Trade, Transport, etc.	37	47	17
Profit Margins			
Manufacturing, etc.	27	62	11
Trade, Transport, etc.	46	36	18
Prices Charged			
Manufacturing, etc.	14	62	24
Trade, Transport, etc.	23	56	21
Wage Rates & Salaries			
Manufacturing, etc.	34	66	0
Trade, Transport, etc.	42	55	3

*The first group consists of respondents who said their primary affiliation was with manufacturing, mining, agriculture, forestry, or construction. The second group consists of those who placed themselves in wholesale or retail trade, public utilities, transportation, or communications.

salaries was reported by respondents affiliated with trade, transport, etc.

These aggregate trends were different in some respects from those reported in the previous (May 1984) survey: prior to September, demand and employment had been increasing in a smaller proportion of firms, inventories were more likely to have been stable or falling, capital outlays were somewhat more likely to have been rising, and profit margins were less likely to have been rising. Prices charged were substantially less likely to have been rising, but prices paid to labor showed trends rather similar to those reported in May.

Economic Forecasts

Table 2 displays the median values of forecasts made in May and September for selected economic series. Real GNP was expected to increase by close to 6½ percent from 1983:4 to 1984:4 and by close to 7 percent for the full year 1984 compared with 1983; both values were substantially higher

**TABLE 2. Forecasts of Selected Economic Series,
May 1984 & September 1984**

Series	Median Value	
	May 84	Sept. 84
<i>Annualized Percent Change:</i>		
Real GNP		
1983:4-1984:4	4.92	6.40
Year 1983-Year 1984	5.73	6.87
1984:4-1985:4	—	3.12
Year 1984-Year 1985	3.41	3.60
Consumer Price Index		
1983:4-1984:4	5.19	4.18
Year 1983-Year 1984	4.97	4.07
1984:4-1985:4	—	5.36
Year 1984-Year 1985	5.99	5.02
Real Fixed Investment		
1983:4-1984:4	10.13	17.13
Year 1983-Year 1984	12.85	19.79
Year 1984-Year 1985	7.93	10.05
Corporate Profits		
Year 1984-Year 1985	—	8.12
<i>Percent:</i>		
Unemployment Rate		
1984:4	7.43	7.11
Year 1984	7.93	7.46
Year 1985	—	7.16
Prime Rate		
12/31/84	13.04	13.50
6/30/85	—	13.87
12/31/85	—	13.77
<i>Millions of Units:</i>		
New Private Housing Starts		
1984:4	1.70	1.68
Year 1984	1.80	1.80
Year 1985	1.60	1.60
Automobile Sales		
1984:4	10.11	10.57
Year 1984	10.14	10.76
Year 1985	—	10.26

Note: Dash indicates forecast not asked for in May

than the ones given in the May survey. The business economists expected GNP growth to taper off substantially in 1985, to about 3.1 percent in a fourth-quarter-to-fourth-quarter comparison and 3.6 percent in the year-over-year measure (the latter was fairly close to the analogous May forecast). Consumer prices were forecast to increase in 1984 by a bit over 4 percent fourth quarter to fourth quarter and year over year, both estimates being about a percentage point lower than the ones given in May. Price change was expected to accelerate in 1985 to about 5½ percent fourth quarter to fourth quarter and 5 percent year over year—the latter figure still about a percentage point lower than the May forecast. Real fixed investment was foreseen to increase by a bit more than 17 percent from 1983:4 to 1984:4 and by nearly 20 percent year over year—both estimates about 7 percentage points higher than the ones given in May. But

the increase in real investment was expected to moderate to the 10 percent range from 1984 to 1985, still higher than but substantially closer to the previous estimate. The 1984-85 change in corporate profits was asked for the first time in the September survey; about an 8 percent increase was forecast.

The business economists predicted that the unemployment rate would drop to about 7.1 percent by the fourth quarter of this year and would average about 7½ percent for the year as a whole; these estimates were both somewhat lower than the May ones. For 1985 the average unemployment rate was forecast to be 7.16 percent. The prime rate was expected to climb to 13½ percent by year end (about half a percentage point higher than the May prediction) and then further to about 13.9 percent by mid-1985. It then was expected to drop slightly during the second half of next year. In view of recent declines in interest rates, these projections may be somewhat high.

New private housing starts were expected to average close to 1.7 million units during the fourth quarter and 1.8 million units during the full year 1984; for the full year 1985 they were expected to decline to the 1.6 million level. These three projections were virtually identical to the analogous ones given in the May survey. Automobile sales were forecast to average about 10.6 million units in 1984:4 and about 10¾ million units for the full year 1984, both estimates 5-6 hundred thousand higher than those in May. Sales were expected to decline by about half a million units from 1984 to 1985.

Few systematic differences were apparent among the forecasts given by economists in the six affiliation groups. Typically, respondents in each group were low on some series and high on others; the only somewhat consistent pattern was within the academic/government group, which for 1985 forecast higher consumer price change, higher unemployment, lower housing starts, lower car sales, and lower corporate profit increase than all other groups.

The two regional forecast questions asked in several previous surveys were repeated in the September survey, with the business economists being asked whether the overall economic growth rate and the unemployment rate in their part of the country would be higher than, lower than, or about the same as the national rate during the next 12 months. Concerning real GNP growth, about half the respondents in the South and West expected faster-than-average change, followed by about a third in the Northeast and only about a seventh in the North Central region. Fully half in that region expected slower-than-average growth. The expectations about unemployment seemed not entirely consistent with those about GNP. While the North Central area remained clearly the region with the most pessimistic expectations—82 percent of economists there anticipated higher-than-average unemployment—more than half the respondents in the West also expected higher-than-average joblessness. Those in the Northeast and the South were rather similar in their expectations, with about 20 percent expecting relatively higher unemployment and around 60 percent expecting relatively lower unemployment.

Several new questions regarding longer-run projections of change in real GNP, productivity, and consumer prices were asked in the September survey. The business economists were asked to forecast the highest feasible, lowest feasible, and most likely change in the three series for the five-year period 1983-88. The results are displayed in Table 3.

TABLE 3. Five-Year Forecasts of Change in Real GNP, Productivity, and Consumer Prices

Series	Median Annualized Percent Change
Real GNP, 1983-88	
Highest	4.39
Lowest	1.99
Most Likely	3.34
Productivity, 1983-88	
Highest	3.35
Lowest	0.94
Most Likely	2.28
Consumer Prices, 1983-88	
Highest	7.74
Lowest	3.40
Most Likely	5.47

Highest expected real GNP growth was about 4.4 percent, lowest expected was about 2 percent, and most likely about 3½ percent. The figures for productivity growth were each about one percentage point lower than these. Highest projected consumer price change was about 7¾ percent, lowest was 3.4 percent, and most likely was about 5½ percent.

Two affiliation groups showed some consistent deviations from these aggregate median values. Economists in nonbank financial institutions gave the highest forecasts for all three productivity estimates and the lowest forecasts for two of the three consumer price change estimates. Academic and government economists gave consistently low estimates for real GNP and productivity; they also predicted the highest "high" value for consumer price change.

Fiscal and Monetary Policy

As in all previous surveys, the business economists were asked about recent fiscal and monetary policy. Trends over the past four surveys in their assessment of the appropriateness of fiscal and monetary policy are displayed in Table 4. The distribution of opinion about fiscal policy has been virtually unchanged since the February 1984 survey, with the overwhelming consensus having been that it was too

TABLE 4. Trends in Opinions about Fiscal and Monetary Policy, November 1983-September 1984 (Percentage Distribution)

Opinion	Nov. '83	Feb. '84	May '84	Sept. '84
<i>Fiscal Policy:</i>				
Too Stimulative	73	82	83	82
About Right	22	14	14	15
Too Restrictive	5	4	3	3
<i>Monetary Policy:</i>				
Too Stimulative	3	3	12	4
About Right	82	78	74	85
Too Restrictive	15	19	14	11

The questions were "What is your view about current fiscal policy—is it too stimulative, too restrictive, or about right?" and "What is your view about recent monetary policy actions—have they been too stimulative, too restrictive, or about right?"

stimulative. The proportion of business economists subscribing to that view ranged from about two-thirds in manufacturing to 97 percent in commercial banking.

Two other questions relating to fiscal policy were posed in the September survey. Respondents were asked to give an estimate of federal budget deficits for fiscal years 1984 and 1985. The aggregate prediction for FY 1984 was \$174.5 billion, ranging from a low of \$171.9 billion from the commercial banking group to a high of \$180 billion from the academic/government group. For FY 1985 the overall forecast was \$179.7 billion, with a low of \$175 billion given by the consultants and a high of \$184.8 billion given by the economists in trade, transport, etc. Both aggregate forecasts were a few billion dollars lower than the analogous ones offered in the May survey.

Another question solicited the economists' best advice for the next administration regarding fiscal policy, to be selected from a list of several items. About two-fifths advised "reduc[ing] currently-planned future government spending without raising taxes." Another fifth suggested "broaden[ing] the tax base for personal income taxes and lower[ing] marginal tax rates." Ten percent favored "introduc[ing] a value-added tax or new excise taxes." The other responses were scattered among such suggestions as "impose a surcharge on personal and corporate income taxes" and "replace the current personal income tax with consumption taxes."

Among the affiliation groups, those in commercial banking most favored reducing spending (58 percent), those in nonbank finance most supported broadening the tax base and lowering tax rates (27 percent), those in trade/transport most supported the value added or excise tax (17 percent), those in consulting most favored imposing a tax surcharge (14 percent), and those in academe or government most favored a consumption tax (11 percent).

Concerning recent monetary policy, the September survey indicated a reversion toward the opinion expressed in the November 1983 and February 1984 surveys, in which about 80 percent viewed it as about right and most of the remainder said it was too restrictive. There were no significant differences among economists in the various affiliation groups here. In the context of the four surveys displayed in Table 4, the slight shift observed in May toward the "too stimulative" position seems to have been a temporary aberration.

Duration of the Current Expansion and Other Issues

As in all 1984 surveys, the business economists were asked about the duration of the current expansion. Specifically, they were asked "in what year and quarter do you expect the current expansion to peak?" Results are displayed in Table 5, consolidated into half-year periods for ease of comprehension. Slightly over half the economists expected the peak to occur by the end of next year, down from the two-thirds holding that view in May. Looked at another way, about 54 percent expected the peak to occur in the 12 months beginning July 1, 1985. And, nearly 80 percent expected the next recession to begin by mid-1986. One-quarter or more of economists in the trade/transport and commercial banking groups expected the expansion to continue beyond mid-1986; on the other hand, academic/government economists were most pessimistic, with nearly 40 percent seeing an end by mid-1985. But the consensus was maintained that the expansion is likely to be shorter than the postwar average of 46 months.

**TABLE 5. Expected Year for Peak of Current Business Cycle
by Primary Affiliation of Business Economists, September 1984
(Percentage Distribution)**

Half-Year Period	Primary Affiliation Group						All Groups
	Manu- facturing etc.	Trade Transport etc.	Nonbank Financial	Commercial Banking	Academic and Government	Consulting and "Other"	
2nd Half 1984	11.5	11.4	9.5	3.1	11.1	2.9	8.3
1st Half 1985	13.5	20.0	9.5	12.5	27.8	23.5	17.2
2nd Half 1985	28.8	25.7	19.0	25.0	16.7	35.3	26.6
1st Half 1986	28.8	14.3	38.1	34.4	33.3	20.6	27.1
2nd Half 1986	11.5	20.0	14.3	25.0	5.6	14.7	15.6
1987 or Later	5.8	8.6	9.5	0.0	5.6	2.9	5.2

The question was "In what year and quarter do you expect the current business cycle expansion to peak?"

As in the May survey, the economists who were part of this consensus (that is, those who expected a peak before 2nd half 1986) were asked to give up to three reasons for expecting the current expansion to be shorter than the post-war average. The first reason given was overwhelmingly "high interest rates," as it was in May, with more than 79 percent giving that response, and no less than 65 percent of respondents in each affiliation group agreeing. Second responses were almost as concentrated (again just as in May), with about 71 percent specifying "large federal budget deficits," including more than half of each affiliation group. Given this concentration of responses for first and second reasons, it might be expected that the third reason given for a shorter-than-average expansion was more scattered among the several possibilities. Somewhat more than a third of all those giving a third reason specified "a continuing loss of competitiveness by U.S. industries in world markets." Another third reason mentioned by more than 10 respondents was "international default by one or more major debtor countries."

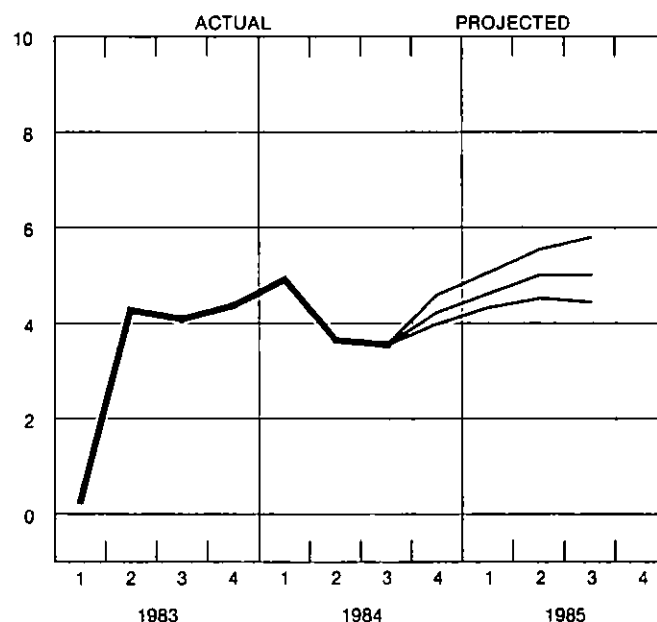
The business economists were asked one question relating directly to the political choice facing all of us in November: "Given the stated economic policies of the major party candidates for president, which one do you think has the best plan for solving our economic problems?" Since our respondents are *business* economists, it is probably not surprising that Reagan, not Mondale, was the choice of the substantial majority, by 64 to 9 percent. Still, 27 percent said neither had the best plan. Among the affiliation groups, only the academic/government economists were significantly different: they split equally between Mondale and Reagan, but the largest fraction (nearly half) opted for the "neither" choice.

Finally, the NABE members were asked to choose the type of investment expected to yield the highest return over the next 12 months. The most popular choice was treasury bills (35 percent), followed by stocks and bonds (24 percent each),

real estate (8 percent) and "other" (7 percent). Gold trailed badly, with only 2 percent favoring the perhaps not-so-precious metal.

CONSUMER PRICE INDEX

Percent Change
at Annual Rate



Sources. Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

The Changing American Family: Childbearing, In and Out of Marriage

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FERTILITY

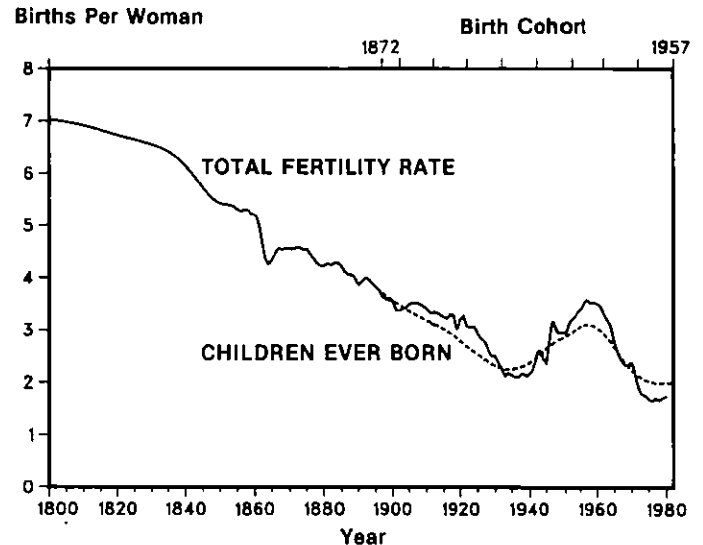
American families were large and unplanned at the start of the 19th century. White women bore, on average, about seven children, although high mortality rates resulted in a smaller number of surviving children. As the country modernized and mortality levels dropped, women began to have fewer children. In fact, fertility has decreased steadily from 1800 until the present, with the exception of a major but relatively short-lived reversal during the post-World War II baby boom from about 1947 to 1964. The result is that women are now having about two children, and almost all women are using contraception to plan both the spacing and number of their children.

Family Size and Childspacing

Chart 1 presents a broad overview of American fertility from 1800 through 1982 for white women, using two measures: the average number of children born to (or expected by) particular birth cohorts of white women and the annual total fertility rate, which indicates the average number of children each woman would have if each were to live through her childbearing lifetime (ages 15-44) bearing children at the same rate as women of those ages actually did in a specific year. Looking first at the total fertility rate, we see that fertility dropped from a high of seven children per woman in 1800 to a low of about 2.1 children during the Depression of the 1930s. Then came the postwar baby boom, bringing a sharp rise to a peak total fertility rate for white women of 3.6 births per woman in 1957, followed by an equally sharp drop to 1.7 in 1975, where the rate for white women hovered through 1982—substantially below the level of the 1930s.

Fluctuations in fertility over the last half century reflect both shifts in average family size and variation in the timing of childbearing. The actual average completed family size of cohorts of white women increased from about 2.2 for those born around 1910 to about 3.2 for those born during the 1930s who had their children during the baby boom (Chart 1). Average family size will decline to about two children for white women born during the 1950s if they have the number of children they say they expect. Among black women, average completed family size has been consistently higher, increasing from about 2.5 children for women born around 1910 to approximately four for those born in

CHART 1. Average Number of Children Ever Born to (or expected by) Birth Cohorts and Annual Total Fertility Rate, White Women



the 1930s. Expected family size for black women born during the 1950s is just over two.

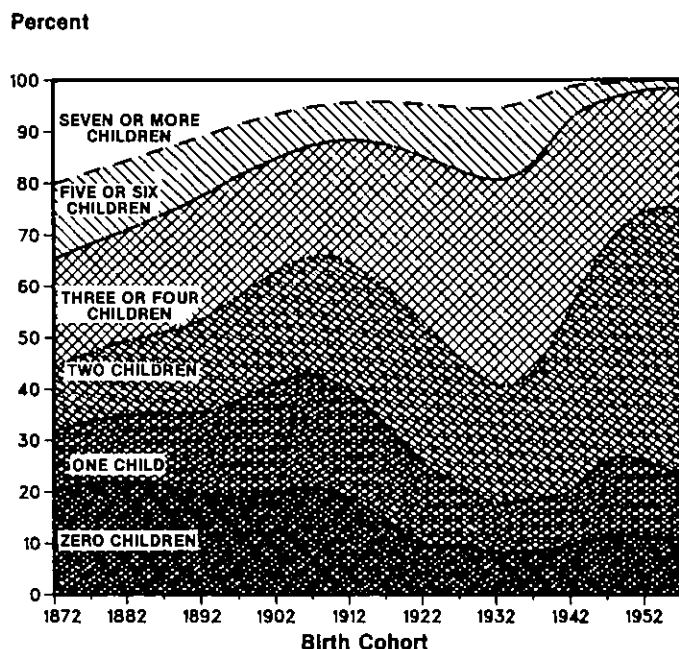
As fertility fluctuated over time, the distribution of family sizes changed markedly. Chart 2 shows that from the cohorts of the 1870s through those born around 1910, the decline in the number of children born per woman primarily resulted from a decrease in the proportion of large families and an increase in the share of small families. The percentage of white women with five or more children declined from 35 to 12 percent while the percentage with one to three children increased from about 35 to 60 percent. Meanwhile, the proportion with no children remained fairly steady at about 20 percent.

An important part of the larger average family size of the baby boom mothers, born in the 1930s, was the reduction in childlessness and one-child families; only 20 percent of them had one child or none, as compared to 42 percent among women born in 1910. The baby boom saw a large increase in the percentage of families with three or four children, but only a modest increase in families of five or six, and even less increase in very large families. The current reduction in family size, if the expectations of women born in the 1950s materialize, will result only marginally from an increase in childlessness, but rather will be due to a decrease in the percentage of families with more than two children and a substantial increase in two-child families.

The timing of childbearing also varied sharply across cohorts. Women born between 1910 and 1925 had their children at relatively older ages, as a result of postponing

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CHART 2. Percentage Distribution of the Number of Children Ever Born to Cohorts of White Women



childbearing during the 1930s Depression and the wartime years of the early 1940s and catching up during the baby boom years. Women born during the 1930s did the opposite; they had their children early and rapidly during the late 1940s and 1950s and had relatively few children during the late 1960s and 1970s, resulting in a young average age at childbearing. This shift partly reflects the change in age at marriage; women born in the 1930s married earlier in the post-war years than did women who reached adulthood during the depression and wartime years.

The overall trends in fertility have been remarkably uniform for all subgroups of the population. Thus, fertility differentials observed before the baby boom—larger families among blacks and among those with less schooling and those who marry young—appear to have persisted into the 1980s. One exception is Catholic women, whose relatively high fertility fell particularly rapidly after the baby boom and is now close to that of non-Catholic women.

Delayed Childbearing and Childlessness

Whether the cohorts of the 1950s will have the average two children that they tell surveyors they expect is open to question. The proportion who say they expect to have no children is no higher than the percentage of childless women among the prolific cohorts of the 1930s, but their actual current levels of childlessness are close to those of women at the same ages born at the turn of the century. In 1982, 63 percent of women aged 20-24 and 37 percent of women aged 25-29 were still childless—similar to the figures for cohorts born around 1900 but very different from the 50 percent and 19 percent, respectively for the 1930s cohorts at these ages. Further, the annual probabilities of having a first birth declined rather steadily from 1960 to 1979, due both to the rising age at marriage and lower first birth rates within marriage.

White women have been delaying childbearing more than black women. Some scholars project that as many as 29 percent of white women born during the 1950s may remain childless, despite their plans to the contrary, either because they find that they are unable to have children or because the same reasons that caused them to postpone childbearing lead them in the end to forego children. Thus, an important question is whether these cohorts are only delaying childbearing or will in fact end up with very small families and much childlessness.

If many of these now childless young women do have the children they expect, their average age at first birth will be relatively high by recent standards. Some of these women are beginning to worry that their delay could reduce their chances of a successful pregnancy. Recent studies show that the inability to have children does increase with age, but only modestly before age 35—from about 6 percent unable to bear children at ages 20-24 to 15 percent for women aged 30-34. After age 35, the unfavorable odds increase rapidly, from about 28 percent among women aged 35-39 to 63 percent for those aged 40-44. Many young women have delayed having children because they believe that time out for childrearing could jeopardize their career ambitions; there is little guidance on the optimal strategy for combining family and career for women who want both. Delayed childbearing also could affect the financial position of parents at retirement. Having children later in life could enable a couple to accumulate assets before they start their family, but the burden of college expenses close to parental retirement might deplete retirement savings. Delayed childbearing also could require difficult adjustments if the life style enjoyed while childless is not compatible with childrearing.

Projections of future levels of childlessness are complicated by current changes in birth control technology and attitudes, values, and norms concerning parenthood and childlessness. Modern contraception and legal abortion make it easier to implement a decision to remain childless, while social norms and values prescribing parenthood have weakened, making it easier to choose to remain childless. A 1962 study of mothers in the Detroit metropolitan area found that 84 percent believed that “almost all married couples who can ought to have children,” but 18 years later, in 1980, only 43 percent of these same women agreed with this idea. Similar attitudes were expressed by their young adult children who were also interviewed in 1980. Also, although nearly all the mothers said in 1980 that they would like their children to become parents, only one in eight said they would be bothered a great deal if this did not materialize. That Americans no longer rule out childlessness is further documented by a 1976 national study in which six of ten adults had neutral views about “couples who decide to have no children at all.” The same study also revealed a decline in positive orientations toward parenthood and an increase in negative orientations between 1957 and 1976. The age that people consider ideal to have their first child has also gone up—by about half a year, on average, between 1970 and 1975.

Although parenthood has become more optional, there is no evidence of an embracement of childlessness. Substantial portions of Americans continue to value parenthood, believe that childbearing should accompany marriage, and feel social pressure to have children. Only a very small percentage view childlessness as an advantage, regard the decision not to have children as positive, believe that the ideal family is one without children, or expect to be childless

by choice. Nevertheless, it is likely that changing values concerning parenthood, the weakening of social norms prescribing marriage and parenthood, a wider range of alternatives for women, the desire to postpone marriage and childbearing, and the availability of modern contraceptives and legal abortion will result in a higher proportion of Americans remaining childless.

The long-term shift from high to low fertility has important implications for society and for family relations. At the societal level, low fertility means both a smaller and an older population. The counterparts of these effects at the family level are fewer kin and a kinship network composed of older relatives. Parents have both fewer children to support and nourish during their childrearing years and fewer children to rely on to support them in old age. Declines in fertility also generally reduce the available number of grandchildren, nieces and nephews, aunts and uncles, and cousins. However, the reduction in numbers of kin through the long-term decline in fertility has been partially offset by reductions in mortality. Also, for the next few decades, the elderly will actually have more children and younger relatives available to help them than they do now, for these will be the parents of the baby boom families. But when the parents of today's small families reach retirement age they will have fewer available younger kin than any of the elderly before them.

Small families can mean that parents have more time and resources for activities other than childrearing. Mothers probably have more time to pursue education, enjoy leisure activities, or to work outside the home. With fewer children to support and frequently income from two earners, parents of small families should be able to provide their children more opportunities and advantages, including advanced education. However, fewer children can also mean less public support for child-oriented services.

Large swings in fertility have wide-spread social and economic repercussions as well, particularly when the changes attain the dimensions of the baby boom. As the baby boom cohort matured, the United States incurred massive expenditures for new public schools and then expanded higher education facilities, and has had difficulty accommodating the large cohorts in the labor market. As smaller cohorts of children followed the baby boom generation, communities have abandoned schools no longer needed, while declining enrollments in the universities are anticipated. An important current debate centers on how the already ailing Social Security system can be stretched to cover the baby boom generation when it reaches retirement age and funds must come from the following smaller cohorts in the working ages.

Birth Control

The steady decline in fertility from 1800 to 1940 reflects the growing acceptability and use of birth control by American married couples even long before the advent of today's sophisticated contraceptive methods and legal abortion. Sketchy information suggests that at least 40 percent of women born in the 1840s and 60 percent of women born in the 1870s practiced some sort of birth control. Contraceptive use certainly was wide-spread by the early 20th century. Over 70 percent of women born in the first decade of this century reported using contraception, and many used more than one method. Most common were condoms, the contraceptive douche, and withdrawal; also important were rhythm, the diaphragm, and jelly or cream. These methods

were effective enough to bring the birth rate to the low level of the 1930s when these women were in their prime childbearing years.

However, the "modern" contraceptive era began only during the 1960s when many American couples shifted from traditional methods to sterilization, the oral contraceptive pill, and the intrauterine device (IUD). Acceptance of the pill, first introduced in 1960, was rapid and wide-spread. Nearly one-fourth of all contracepting couples were using the pill by 1965 and 36 percent by 1973. Pill usage then dropped to about 33 percent in 1976 (the last year for which information is available)—probably due to concern about side effects. Less popular was the IUD, although 10 percent of contracepting married couples were using it by the mid-1970s.

Sterilization has become an important contraceptive method in the past two decades, particularly among older couples who have completed their families. Among all contracepting couples, the proportion reporting a contraceptive sterilization was still only 12 percent in 1965 but more than doubled to 27 percent by 1976. By that year, 40 percent of contracepting couples with the wife aged 30-44 had adopted this non-reversible method, with the operations divided nearly equally between husbands and wives.

Since its legalization nationwide by the Supreme Court in 1973, abortion has become an especially important and common form of fertility control in the United States. From close to 900,000 in 1974, the year after the Supreme Court ruling, legal abortions mounted rapidly to 1.55 million performed in 1980, although the annual increase slowed to just 1 percent between 1979 and 1980. Nearly 3 percent of all women of childbearing age had an abortion in 1980, representing about three abortions for every seven births; about one-third of these 1980 abortions were at least second abortions for the women concerned.

Although still not "perfect", modern birth control has helped reduce the incidence of unplanned and unwanted fertility, which was still considerable in the 1950s despite the widespread availability and usage of contraceptives. This in itself probably accounts for much of the overall fertility decline after 1960. Beyond that, the availability of highly effective contraceptive methods and legal abortion has probably altered orientations toward childbearing. Traditional contraceptive methods were effective in reducing overall fertility, but their substantial failure rates made it difficult for couples to plan confidently the timing and number of their children. For most women, motherhood has now become a matter of choice so that couples can rationally integrate their childbearing decisions with education and career plans, which makes possible the fuller and more effective participation of women in the labor market. As women work outside the home and gain satisfaction from it, the competing demands of children may seem costlier. Thus, the contraceptive revolution and legal abortion have probably helped reduce desired family size as well as unplanned childbearing.

SEXUAL ACTIVITY AND CHILDBEARING AMONG THE UNMARRIED

Increased sexual activity and childbearing among the unmarried have had important repercussions on both families and American society. Childbearing among unmarried women is the other reason, along with marital separation, for the growth in families headed by women on their own. It has also sparked controversy about the legitimacy of public

programs to help sexually active teenagers avoid unwanted pregnancies. Of course, premarital sexual activity and out-of-wedlock childbearing are not new in this country, as shown by limited historical data, but both are now much more prevalent and thus of growing social concern.

Sexual Activity Among Unmarried Teenagers

As Table 1 documents, premarital sexual activity among teenagers was already widespread in 1971 and increased steadily during the 1970s. Among never-married women aged 15-19 interviewed in metropolitan areas, 28 percent of the total and 46 percent of the 19-year-olds reported in 1971 that they had had sexual intercourse. By 1979, the figures were 46 percent for the 15-19-year-old never-married women as a group, 69 percent for the 19-year-olds, and 78 percent for never-married men aged 19. Most of this rise was accounted for by increased premarital sexual activity among white teenagers, although in 1979 the proportion of black never-married teenage women reporting that they had had sexual intercourse (65 percent) was still much higher than the 42 percent reported by their white counterparts.

Attitudes toward premarital sex also have become less restrictive over the last decade. The proportion of American adults agreeing that it is "always" or "almost always" wrong for a man and woman to have sexual relations before marriage dropped from 49 to 38 percent between 1972 and 1982. At the same time, however, the proportion who feel that extramarital sex—"a married person having sex with someone other than their spouse"—is always or almost always wrong remained consistently high at around 85 percent.

Contraception

From 1976 to 1979, the proportion of premaritally sexually active teenage women who said they had always used contraception rose from 29 to 34 percent, while those saying that they had never used contraception dropped from 36 to 27 percent. Teenagers also reported more use of the most effective contraceptive methods—the pill and the

IUD—between 1971 and 1976, although there was a return to less effective traditional methods, especially withdrawal, by 1979.

Despite this increase in contraceptive use during the 1970s, a large proportion of sexually active teenagers remains unprotected, particularly at first intercourse, and practice tends to be careless and sporadic among those who do use contraception. The explanation does not seem to be a dearth of services, since government-supported clinics have provided services to teenagers in most areas in recent years. Nor do most unmarried teenage women fail to use contraception because they want a child; only one in five premaritally pregnant teenagers interviewed in 1979 said they had wanted to get pregnant. Apparently many are unrealistic about the risks of getting pregnant, while some are unwilling to admit to their degree of sexual involvement and prefer to view intercourse as an unexpected, irresistible occurrence rather than an anticipated event.

Pregnancy

With the increase in sexual activity outstripping the increase in effective contraceptive practice, the proportion of all women aged 15-19 reporting that they had been premaritally pregnant doubled from 8 to 16 percent between 1971 and 1979 (Table 1). Again, this percentage in 1979 was higher for blacks (30 percent) than for whites (14 percent). However, premarital conceptions went up 141 percent for white adolescents in the 1970s, compared to an increase of only 19 percent among black teenagers.

Teenagers have changed their responses to pregnancy. Nearly one-third of the premaritally pregnant teenagers interviewed in 1971 married before their expected delivery date; by 1979, the proportion had dropped to 16 percent. At the same time, among the premaritally pregnant who chose not to marry, the percentage who terminated the pregnancy by abortion increased from 23 to 37 percent (Table 1). Nationwide, the abortion rate for teenagers increased from 27 abortions per 1,000 women under age 20 in 1974 to 43 per 1,000 in 1980; 30 percent of all abortions in 1980 were obtained by teenagers. The abortion rate for all unmarried women also rose markedly over these six years, from 33 to 55 per 1,000, compared to an increase only from 9 to 11 per 1,000 for married women. By 1980, 79 percent of all abortions were obtained by unmarried women.

Out-of-Wedlock Childbearing

As Chart 3 shows, the birth rate for unmarried women aged 15-19 rose almost uninterruptedly from 1940 through 1980, due primarily to the rise in premarital pregnancies among adolescent women and their lesser inclination to legitimize births by marriage. In 1980, the birth rate for unmarried black teenagers was still nearly six times the rate for whites, but out-of-wedlock childbearing actually declined slightly among black teenagers during the 1970s, while the rate for white teenagers went up nearly 50 percent.

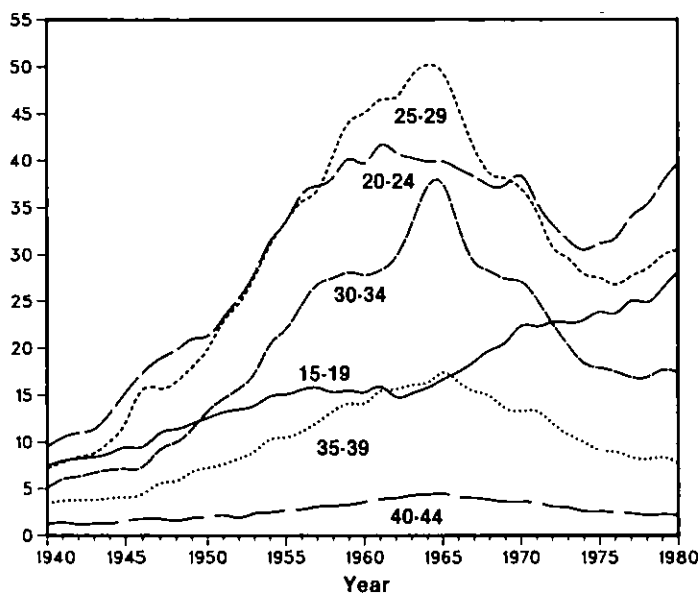
In contrast to the trend in out-of-wedlock childbearing, the birth rate for the *total* group of teenage women—the married plus the unmarried—has declined since the peak of the baby boom in the late 1950s. The reasons for these discrepant trends are that many fewer teenagers are married today, which lowers overall fertility, and the fertility of married teenagers has fallen in concert with the decline in the marital fertility of older women. In fact, the decline

TABLE 1. Sexual Activity and Premarital Pregnancy and its Resolution among Metropolitan Area Women Aged 15-19: 1971, 1976, 1979
(Numbers in percent)

Characteristics	1971	1976	1979
Never-married women who ever had intercourse	28	39	46
All women who were ever pregnant before marriage	8	13	16
Premaritally pregnant women who married before resolution of pregnancy	33	23	16
Premaritally pregnant women who terminated pregnancy by abortion while still unmarried	23	32	37

CHART 3. Age Specific Birth Rates for Unmarried Women

Births Per 1000 Women



in *overall* teenage fertility has been significant enough that the percentage of all children born to teenage women declined from 19 to 16 percent between 1974 and 1980.

Fertility rates also increased markedly for older unmarried women between 1940 and the early 1960s but then turned down, paralleling the trend in marital fertility (Chart 3). The downturn continued through 1980 for unmarried women aged 30 and over, but there was an increase in the late 1970s for women in their twenties. The share of all out-of-wedlock births occurring to women aged 20 and over rose from 47 to 59 percent between 1974 and 1980 because of the increase in fertility among unmarried women in their twenties, the rise in age at marriage, and the "aging" of the baby boom cohort into their twenties, which both increased the number of women in their twenties and decreased the number of teenagers. The birth rate for the total group of unmarried women has risen fairly steadily since 1940 because of the steady rise in the rate for teenagers, who are the preponderant group of unmarried women.

There is little to document the trend in sexual activity among older unmarried women, either those who have still never married or the separated, divorced, or widowed. Chart 3, however, shows that the childbearing rates of unmarried women in their twenties exceed the rate for teenagers. Studies have shown that the fertility rate for previously married women is not insignificant, though well below that of continuously married women. In 1976, a substantial 54 percent of previously married women reported that they were using contraception or had been sterilized, and contraceptive use had risen more for these women than for currently married women between 1973 and 1976. It is also known that previously married women are more likely than never-married women to cohabit without marriage.

The increase in both the percentage of women who are unmarried and their rate of childbearing, coupled with the downturn in the fertility rate of married women, has sharply increased the percentage of all American births occurring

out of wedlock in the past two decades (Chart 4). Between 1940 and 1960, the proportion of babies born to unmarried mothers fluctuated at 4 to 5 percent, but by 1980 the share had more than tripled to 18 percent. In 1980, out-of-wedlock births made up nearly half (48 percent) of total births to non-white women (of whom more than 90 percent are black), while the comparable figures for whites was 11 percent. Among teenage women in 1980, the proportion of out-of-wedlock births was 85 percent for blacks and 33 percent for whites.

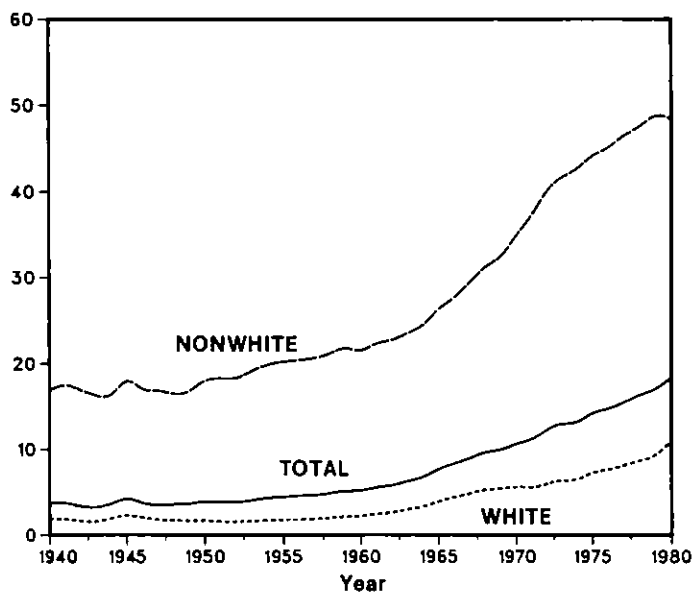
The trend in nonmarital fertility among teenagers is especially troubling because many of the significant health risks and social and economic disadvantages associated with teenage childbearing are particularly serious for unmarried teenagers. Mortality risks are higher for both baby and mother when the mother is a teenager than they are when the mother is in her twenties. Though government-mandated programs now keep more pregnant teenagers in school, adolescent mothers still receive less education than other adolescents. This, along with child-care problems in often fatherless homes, can impede their search for and commitment to a job, which in turn increases the chances that they will find themselves on welfare. The difficulties often multiply because women who start childbearing in their teens tend to have more births subsequently than women who delay childbearing until their twenties.

Adoption

Adoption can provide children of unmarried mothers the advantages of a home with two better educated parents and a higher standard of living. Scarce data indicate that adoptions increased in the 1950s and 1960s but declined during the early 1970s, despite the continuing sizable number of children born out of wedlock and sharp increase in their proportion of all births. Apparently unmarried women now more often opt to raise their children on their own. This

CHART 4. Percentage of Children Born out of Wedlock

Percent



has reduced the number of children available for adoption—a shortage that could intensify if many of the women who are now delaying childbearing discover that they cannot bear a child and attempt to adopt. Recent cases of the use of “surrogate” mothers to bear a child for an adopting couple are a new response to this shortage. Though still rare, this practice is apparently growing and has raised concern in several states because of its ethical and legal ramifications.

Sexually Transmitted Disease

The incidence of sexually transmitted diseases has grown in recent years, reflecting largely the growth in numbers of unmarried adults and their increased sexual activity. Modern medicine and serious control efforts have successfully combatted some venereal diseases; the incidence of syphilis dropped to all-time lows in the late 1970s, although the early 1980s brought some signs of an upturn. Reported cases of gonorrhea, however, rose dramatically during the 1960s and early 1970s; and, although the number then leveled off and even declined somewhat, the 1980 rate was still three times the rate in 1960. Other such diseases, such as genital herpes, also appear to have increased rapidly during the 1970s. Certainly, sexually transmitted diseases continue to be a serious health problem and affect the way Americans approach the formation of relationships.

Public Policy

Considerable public controversy has centered on abortion and the provision of contraceptive services to unmarried teenagers. Following court decisions of the the 1960s and early 1970s that lifted historical restrictions on abortion and the dissemination of contraceptives, the federal government has provided support for freely available contraceptive services. Several groups view provision of these services to teenagers as government intrusion on the rights of parents to supervise the behavior of their minor children. For them, the solution for adolescent pregnancy lies in familial control and parental guidance to restrict teenagers' sexual activity, which, they feel, is encouraged by freely available contraceptive services. Others doubt that adolescent sexual activity can be substantially decreased, despite parental efforts, particularly given growing sexual activity and cohabitation among older unmarried people. In their view, restricting contraceptive services for teenagers would increase teenage childbearing with all its negative implications.

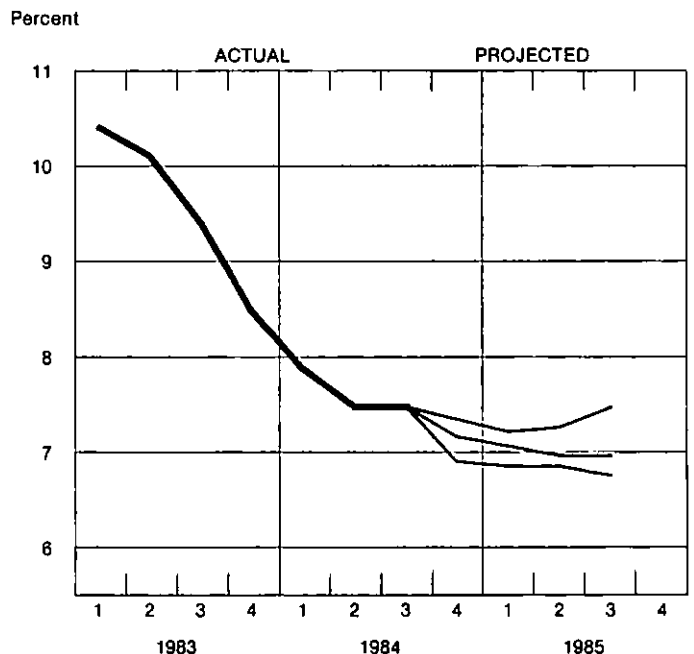
Sex education in public schools provokes similar arguments. Some groups feel that sex education in schools encourages sexual activity and is best left to parents. However, more than two out of three Americans support sex education in schools, and some of them, noting young people's lack of sexual knowledge, argue that additional information would allow adolescents to deal more wisely with their sexuality. One recent study suggests that sex education in public schools does not lead to more sexual experience.

Public issues regarding abortion are not limited to adolescents. The right of all women to obtain an abortion, established by the 1973 Supreme Court decision, has been under attack by groups who champion the rights of the unborn. Supporters of the 1973 decision contend that the ability to control fertility is a fundamental right for every woman and that the elimination of the abortion option would result in more unwanted births and more recourse to illegal and

potentially dangerous abortion, especially among unmarried teenagers.

The complexity of the abortion issue is reflected in the attitudes of individual Americans. In 1982, the overwhelming majority approved of legal abortion if the woman's health is seriously endangered by the pregnancy (92 percent), if she became pregnant as a result of rape (87 percent), or if there is a strong chance of serious defect in the baby (84 percent). But only about half approved of abortion if the family has a very low income and cannot afford more children, if the woman is unmarried and does not want to marry the man, or if she is married and wants no more children. Just over 40 percent of Americans approve of all six of these reasons for abortion, while only some 7 percent disapprove of all six—a substantial change from 1965 when only 11 percent approved of all six reasons and 22 percent disapproved all six. The increase in approval, however, occurred primarily between 1965 and 1973, and there has been little change since then.

UNEMPLOYMENT RATE



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

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Actual and Projected Economic Indicators

seasonally adjusted

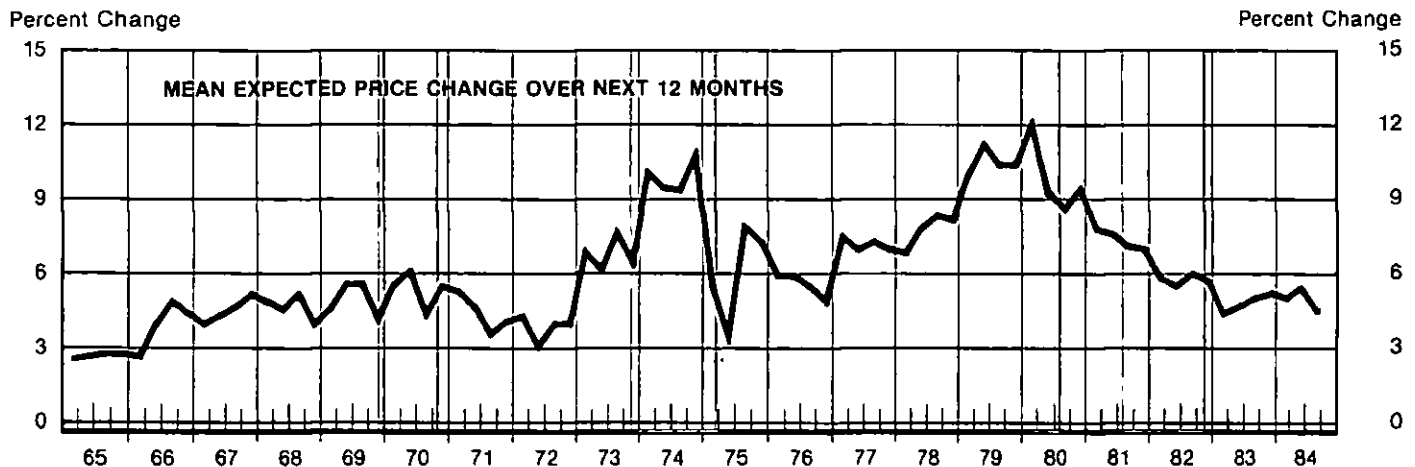
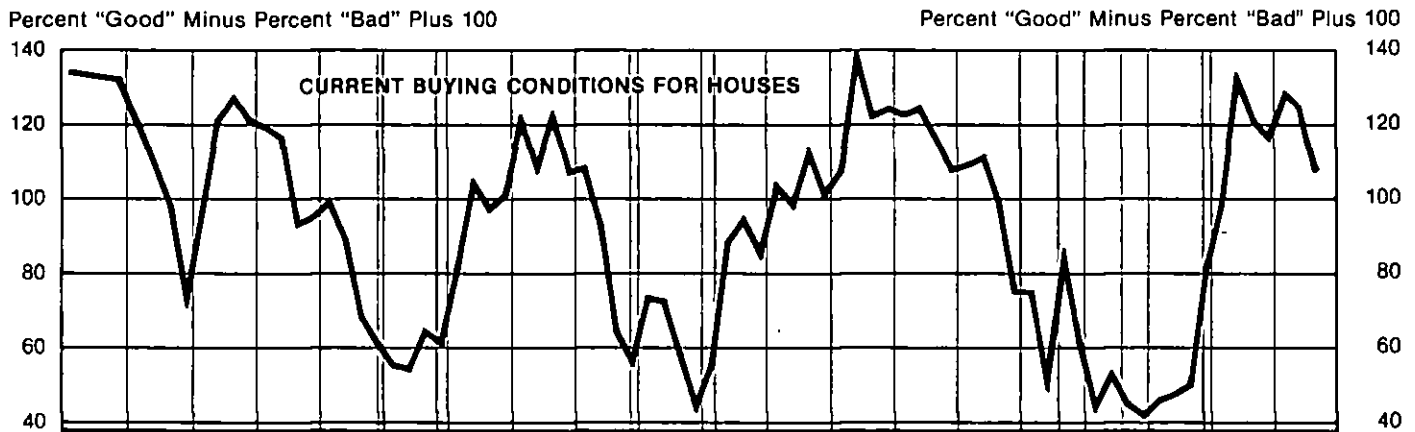
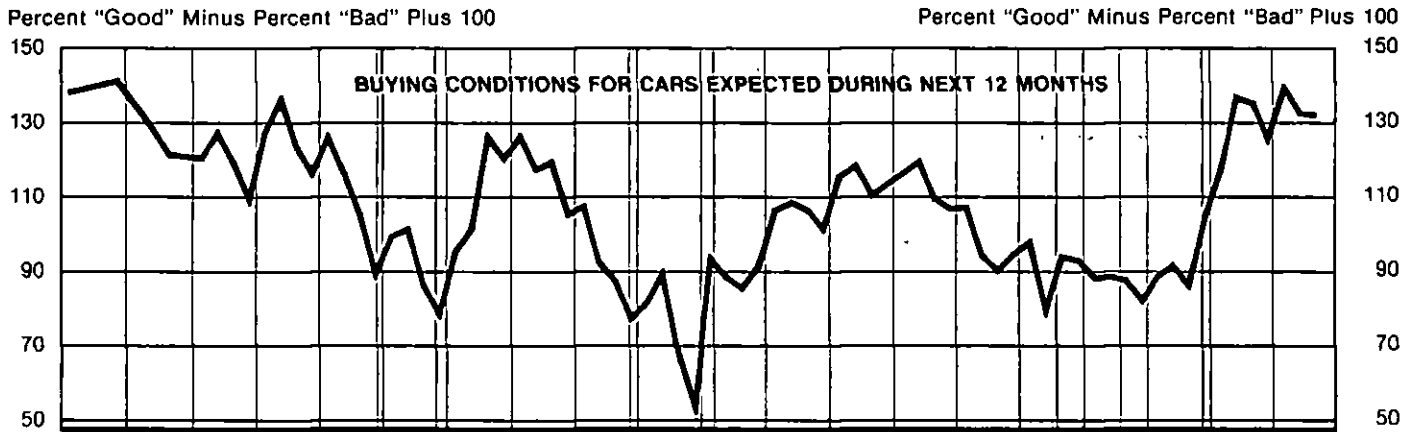
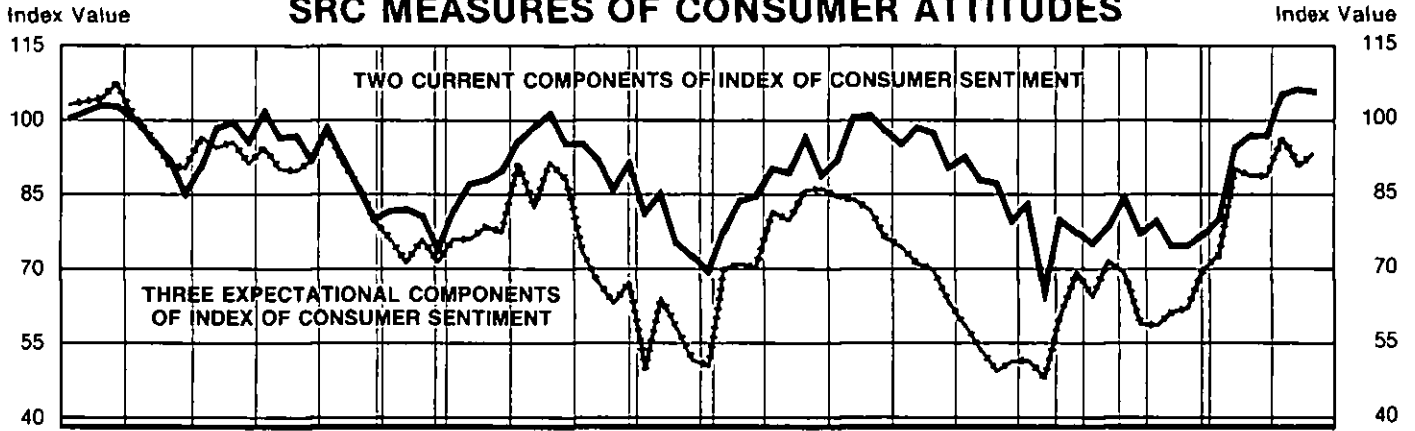
SERIES FORECAST BY THE ASA-NBER PANEL															
ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	Actual						Projected						Act'l.	Projected	Projected
	1983:1	1983:2	1983:3	1983:4	1984:1	1984:2	1984:3	1984:3	1984:4	1985:1	1985:2	1985:3	1983	1984	1985
GROSS NATIONAL PRODUCT	3,174	3,267	3,347	3,432	3,553	3,645	3,695	3,723	3,796	3,872	3,945	4,021	3,305	3,680	3,981
GNP IMPLICIT PRICE DEFLATOR (index, 1972 = 100)	212.9	214.3	215.9	218.2	220.6	222.4	224.4	224.4	226.6	229.3	232.0	235.0	215.3	223.5	233.6
CORPORATE PROFITS AFTER TAXES	102.6	123.4	142.6	141.1	150.6	150.2	139.3	157.0	160.0	162.0	164.1	166.5	127.4	155.0	165.0
UNEMPLOYMENT RATE (percent)	10.37	10.10	9.40	8.47	7.87	7.47	7.47	7.30	7.00	6.90	6.80	6.80	9.58	7.40	6.80
INDUSTRIAL PRODUCTION (index, 1967 = 100)	138.5	144.5	151.8	155.5	159.8	163.1	165.7	166.0	168.0	169.3	171.0	172.0	147.6	164.0	172.0
NEW PRIVATE HOUSING UNITS STARTED (millions)	1.643	1.690	1.782	1.699	1.968	1.895	1.662	1.750	1.700	1.650	1.600	1.600	1.704	1.820	1.630
CONSUMER PRICE INDEX (% change from prior quarter or year)	0.3	4.3	4.2	4.4	5.0	3.7	3.6	3.7	4.4	4.8	5.2	5.2	3.2	4.3	4.7
3-MONTH TREASURY BILL RATE (%)	8.08	8.42	9.19	8.79	9.13	9.84	10.34	10.30	10.40	10.50	10.80	10.80	8.62	9.90	10.90
NEW HIGH-GRADE CORPORATE BOND YIELD (percent)	11.99	11.57	12.68	12.76	12.94	14.18	13.62	13.85	13.90	13.90	14.00	14.05	12.25	13.70	13.98
GNP IN 1972 DOLLARS	1,491	1,525	1,550	1,573	1,611	1,639	1,647	1,660	1,675	1,687	1,701	1,712	1,535	1,647	1,704
PERSONAL CONSUMPTION EXPENDITURES (1972 \$)	982	1,006	1,016	1,032	1,044	1,064	1,066	1,074	1,085	1,093	1,102	1,109	1,009	1,066	1,106
NONRESIDENTIAL FIXED INVESTMENT (1972 \$)	161.6	165.3	172.6	184.5	193.3	202.9	210.5	210.0	216.0	220.0	223.0	226.0	171.0	206.0	224.0
RESIDENTIAL FIXED INVESTMENT (1972 \$)	46.2	53.4	57.2	57.8	60.6	60.8	60.1	61.0	59.0	58.0	58.0	58.0	53.7	60.3	57.5
CHANGE IN BUSINESS INVENTORIES (1972 \$)	-16.5	-6.1	0.9	7.2	31.6	20.3	30.0	18.0	18.0	17.0	17.0	15.7	-3.6	22.0	15.5
NET EXPORTS (1972 \$)	22.9	13.6	11.9	2.0	-8.3	-11.4	-26.6	-11.0	-12.0	-12.0	-12.0	-10.0	12.6	-10.0	-11.0
FEDERAL GOVERNMENT PURCHASES (1972 \$)	119.0	117.2	115.6	113.0	112.2	123.2	125.4	126.0	127.0	129.0	130.0	132.0	116.2	122.0	133.0
STATE AND LOCAL GOVERNMENT PURCHASES (1972 \$)	175.3	175.2	176.4	175.8	177.3	178.9	181.4	180.0	181.0	182.0	183.0	184.0	175.7	179.0	184.0
SERIES FROM THE CURRENT-DOLLAR GNP ACCOUNTS															
ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	1981:4	1982:1	1982:2	1982:3	1982:4	1983:1	1983:2	1983:3	1983:4	1984:1	1984:2	1984:3	1981	1982	1983
GROSS NATIONAL PRODUCT	3,028	3,026	3,061	3,080	3,110	3,174	3,267	3,347	3,432	3,553	3,645	3,695	2,958	3,069	3,305
PERSONAL CONSUMPTION EXPENDITURES	1,892	1,931	1,961	2,001	2,046	2,070	2,142	2,181	2,230	2,277	2,333	2,361	1,849	1,985	2,156
GROSS PRIVATE DOMESTIC INVESTMENT	481.7	436.2	431.2	415.9	376.2	405.0	449.6	491.9	540.0	623.8	627.0	662.3	484.2	414.9	471.6
NET EXPORTS	31.7	27.7	35.5	6.6	6.3	19.6	-6.5	-16.4	-29.8	-51.5	-58.7	-89.9	28.0	19.0	-8.3
GOVERNMENT PURCHASES	622.7	630.9	633.7	656.3	681.0	678.8	682.2	689.8	691.4	704.4	743.7	762.0	596.5	650.5	685.5
DISPOSABLE PERSONAL INCOME	2,110	2,132	2,157	2,196	2,238	2,261	2,303	2,367	2,429	2,502	2,554	2,606	2,042	2,181	2,340
PERSONAL SAVING RATE (% of disposable income)	7.6	6.7	6.3	6.1	5.8	5.7	4.2	5.0	5.3	6.1	5.7	6.3	6.7	6.2	5.0

Note: (1) All data are at annual rates and in billions of current dollars unless otherwise indicated. (2) To facilitate comparison and evaluation of forecasts, both actual data, released in late November, and projected data, released by ASA-NBER in September, are displayed for third quarter 1984.

Sources: Projections: American Statistical Association—National Bureau of Economic Research panel of forecasters.
Actual Data: U.S. Departments of Commerce and Labor, Board of Governors of the Federal Reserve System.

*Substantial revision of the data for variables marked with an asterisk has occurred since the last printing.

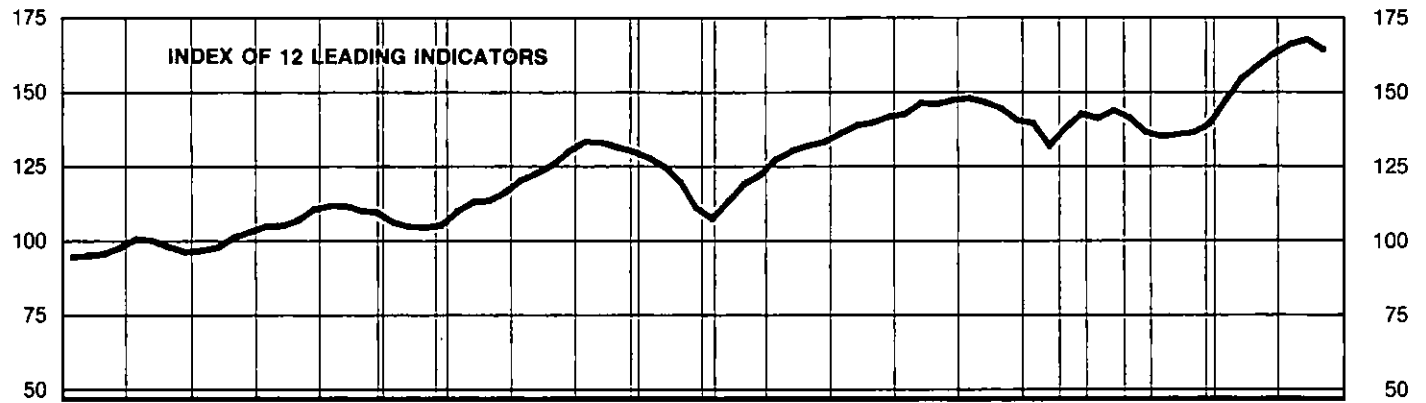
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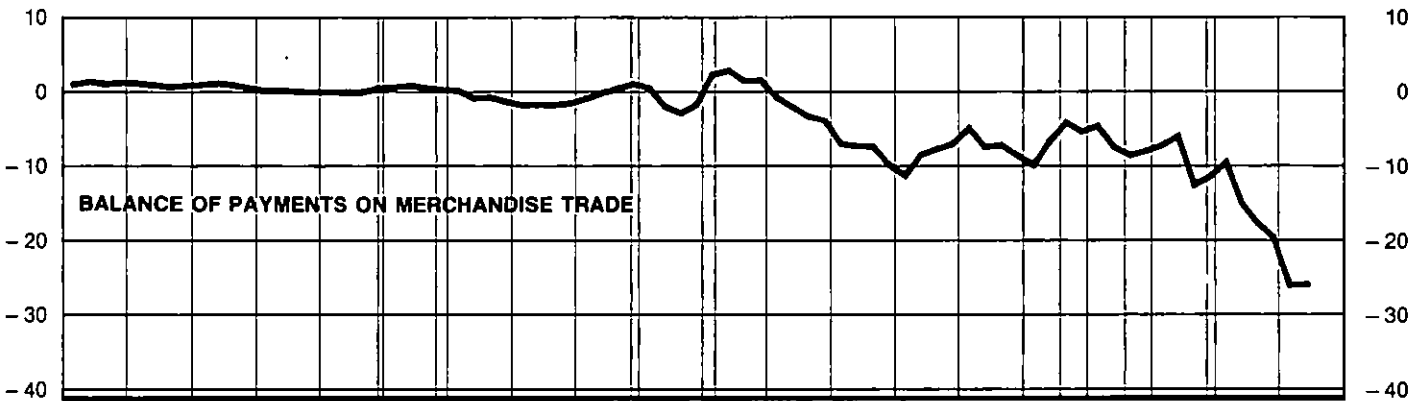
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MEASURES OF NATIONAL ECONOMIC ACTIVITY

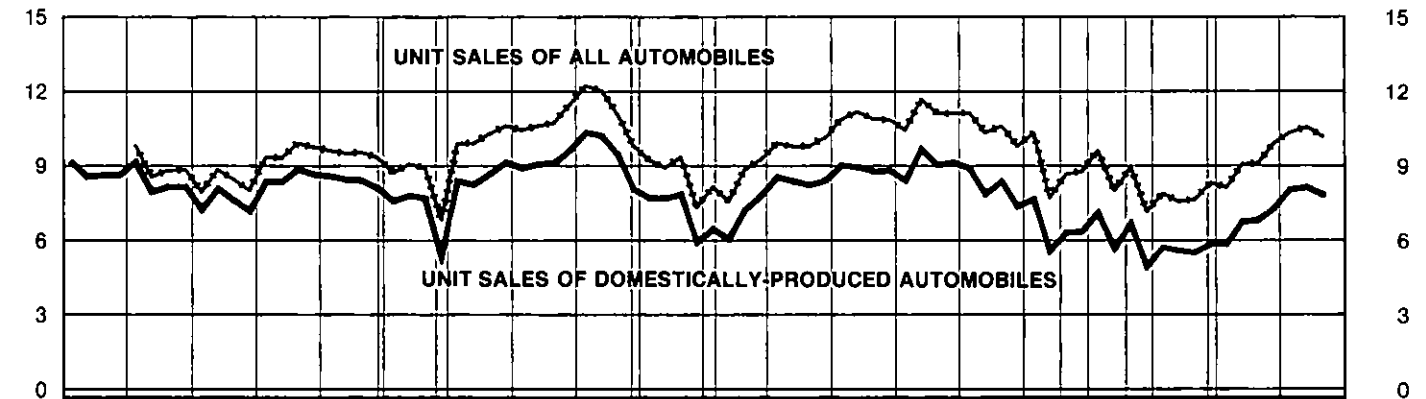
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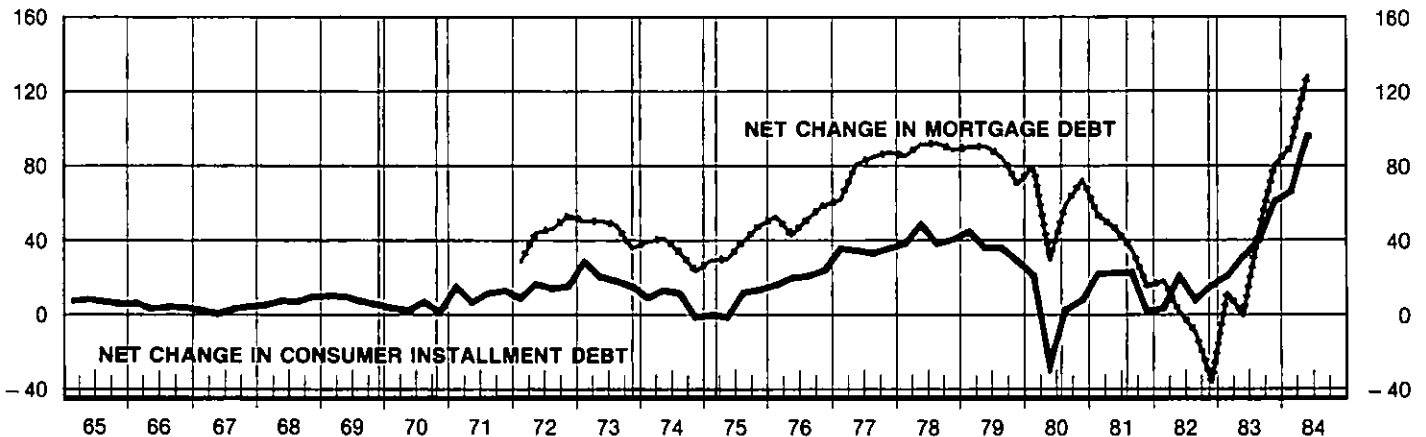
Billions of Dollars



Millions of Units

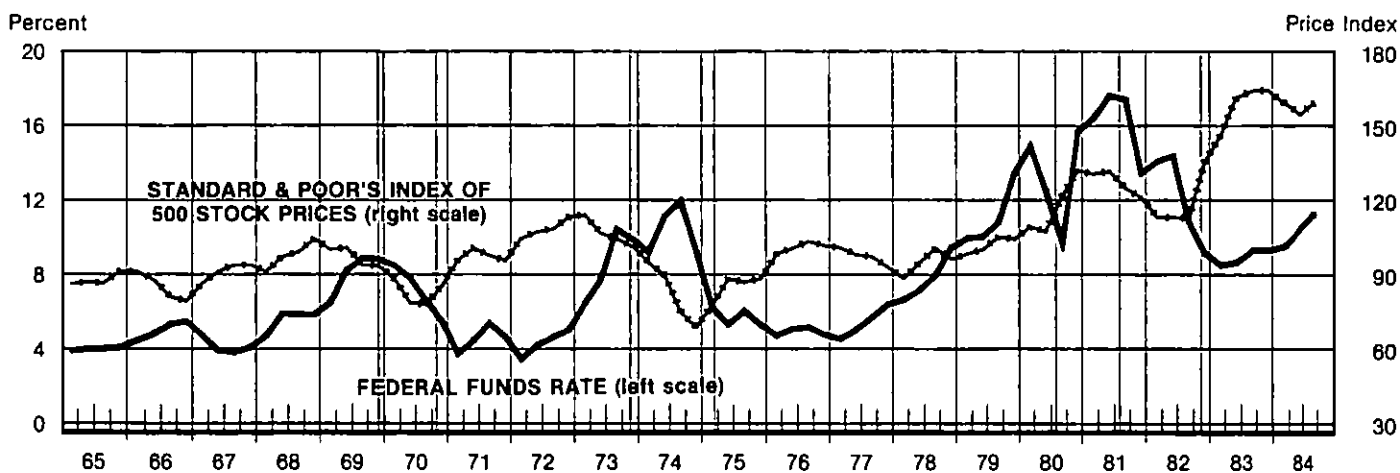
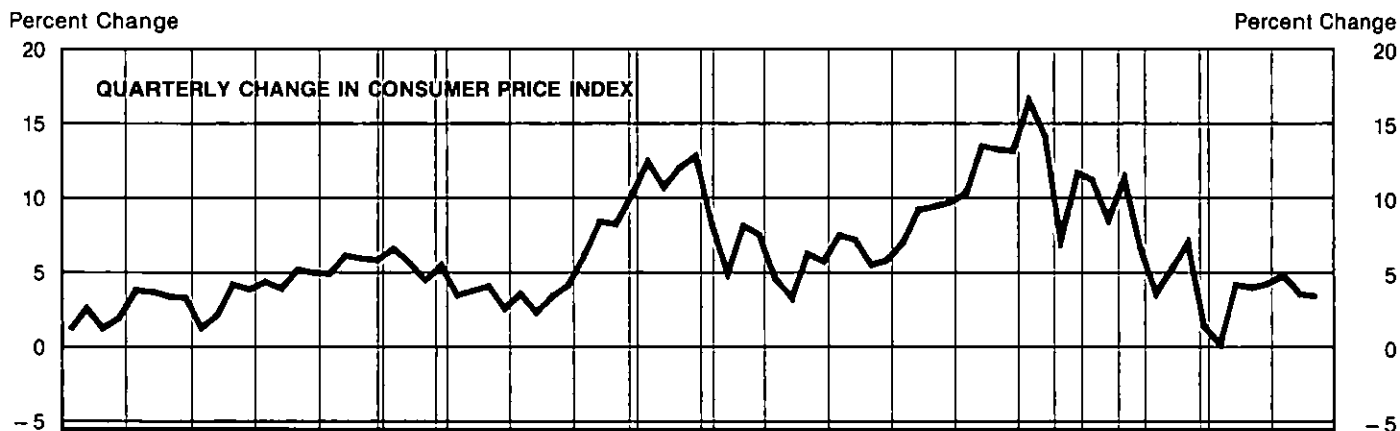
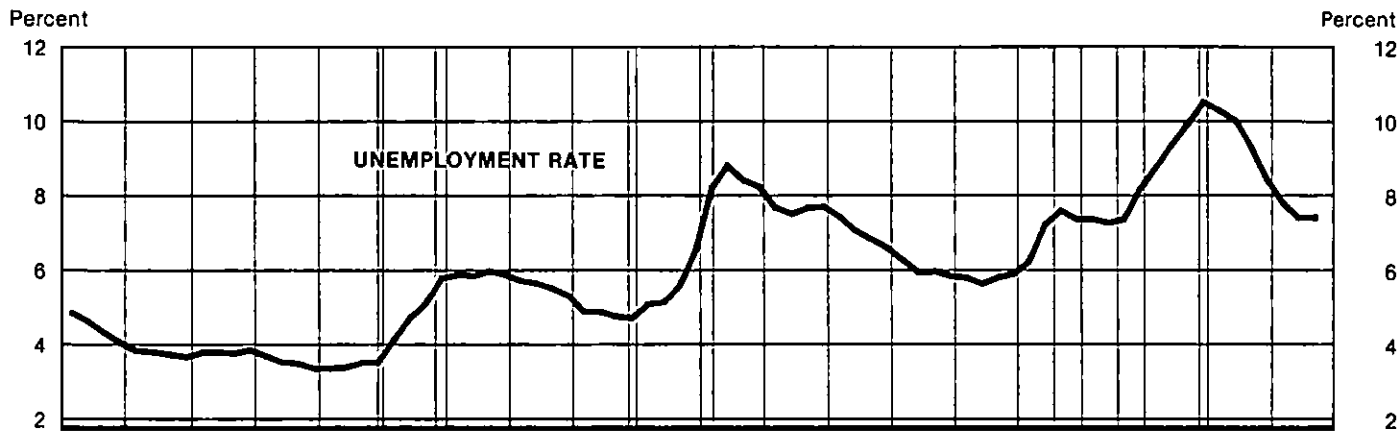
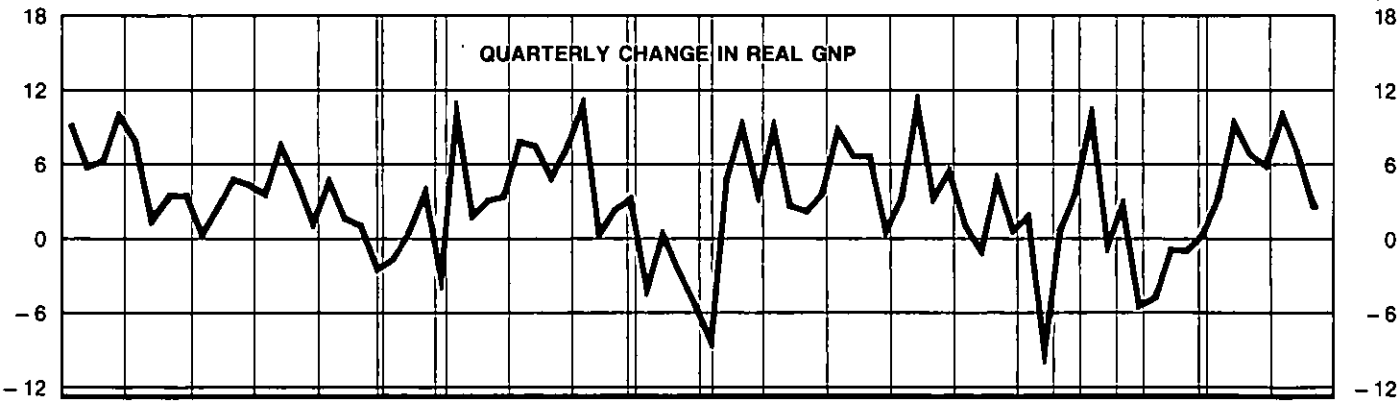


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MEASURES OF NATIONAL ECONOMIC ACTIVITY



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The Impact of Work Schedules on the Family

by Graham L. Staines and Joseph H. Pleck
with a foreword by Urie Bronfenbrenner

This new volume presents the findings from the first systematic study of the effects of work schedules on family stress. Authors Graham L. Staines and Joseph H. Pleck investigate the nature and characteristics of contemporary patterns of work schedules for married couples (with and without children) and for single-parent families and describe the effects of these work patterns on family life.

This study is the first to give specific attention to the way husbands' and wives' work schedules interact and influence family life for each of them. The volume offers new knowledge about the psychological effects of some of the major changes taking place in American society, including the influx of women into the paid work force and the concomitant rise in the number of dual-earner couples. It offers critical insight into what may be one of the most salient social issues of the future.

The authors look at the relationship of people's work schedules to the amount of time spent in specific family roles (taking care of children or doing housework, for example), perceptions of interference between work and family roles, and levels of family adjustment and conflict.

The findings are based on the survey responses from a large national sample (2,850 American house-

holds) and reflect the actual distribution of different types of work schedules among the population.

This innovative research includes a close examination of four aspects of the work schedule: patterns of days worked each week, patterns of hours worked each day, number of hours worked each week, and schedule flexibility. It gives careful attention to both the separate and combined effects of these variables on specific aspects of family life.

The authors reach important conclusions about many areas within the domains of work and family, particularly about the critical relationships between people's sense of flexibility and control over their own work schedules and the resulting levels of stress or satisfaction within their families.

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