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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.

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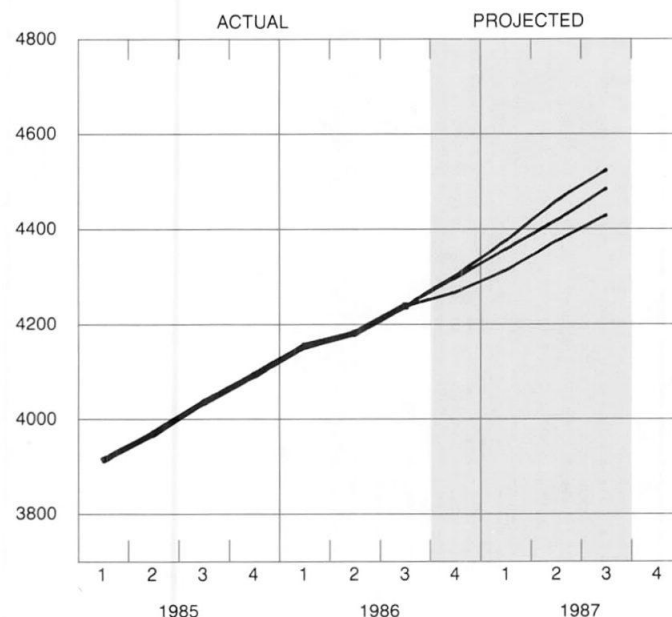
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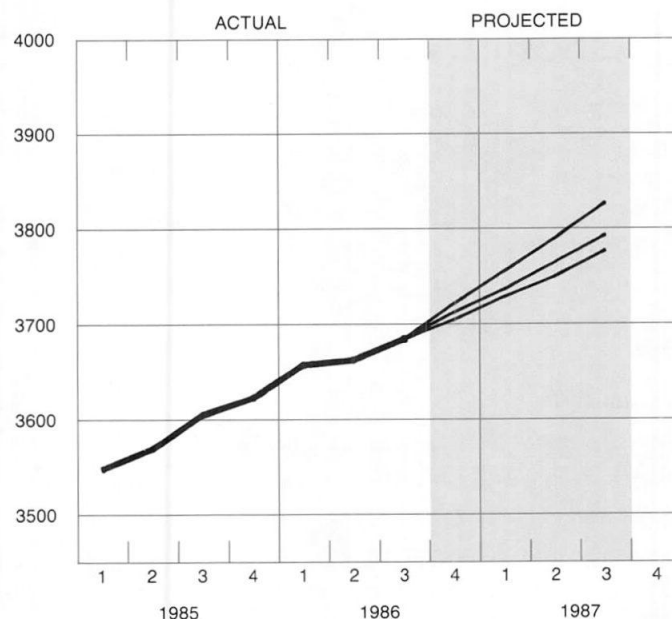
IN CURRENT DOLLARS
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The Political Economy Scoreboard

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Introduction

Every U.S. election brings with it a spate of assertions about economic performance—if you are defending the record, it is asserted to be good, while if you are attacking, it is asserted to be poor. During presidential election years, issues related to economic performance will often dominate political campaigns, and even during off-year contests such as the present one, the perceived success or failure of economic policy provides a backdrop of issues that have a significant influence on the election results.

Economic performance can be examined from several perspectives. If economists had sufficiently good macroeconomic models, different economic policy scenarios could be simulated and rated according to the mix of outcomes that they produced. The models would have to account for different “initial conditions”—the situation inherited by a policy-maker—as well as exogenous shocks (good or bad) that could not reasonably be debited (or credited) to policy. If everyone were in agreement on the weights that should be assigned to a set of outcomes (real growth rates, inflation rates, unemployment rates, etc.), the models could unambiguously score existing policy against the alternatives, and voters would either reward a good score or penalize a bad one.

While there are a number of quite reasonable macroeconomic models, none appears able to meet these quite rigorous demands for evaluating actual policy against alternatives. And even if they did, there is no reason to believe that voters agree on the weights to be accorded to different outcome mixes. As a substitute, we can pose two types of

questions. First, forgetting about the influence on outcomes of either initial conditions (the situation inherited from the past) or luck (exogenous shocks), how do different postwar administrations compare on results? Who did best? Worst? Second, what policy outcomes do consumers (voters) appear to consider most important? And, of course, an interesting subsidiary question is whether the scoreboard on results shows the same pattern as the apparent preferences of voters.

Measurement of Results

Tables 1 and 2 display various outcomes associated with the six postwar administrations (those of Presidents Truman, Eisenhower, Kennedy-Johnson, Nixon-Ford, Carter, and Reagan). With the exception of the first and the last of these (Truman and Reagan), the measures cover the complete span of each administration. The readily available data do not extend far enough back to provide a complete record for Truman, so we consider only the 1949-53 term; and the Reagan record is still incomplete—lacking the 10 quarters still remaining in his second term.

Table 1 essentially answers the question: Ignoring initial conditions or external shocks, how well did each of these administrations do in terms of results? The top half of the table contains the measures that are naturally computed as growth rates over the time period during which each administration was in office. These are largely real growth measures—GNP, GNP per capita, etc.—except for the Consumer Price Index. The bottom half contains the measures that are best calculated as average levels over the relevant spans of time—the unemployment rate and the interest rate.

TABLE 1. Patterns of Overall Economic Outcomes Associated with Six Postwar Administrations

Indicator	Truman	Eisenhower	Kennedy-Johnson	Nixon-Ford	Carter	Reagan
Annual Growth Rates (percent change)						
Real GNP	5.7	2.0	4.7	2.3	2.9	2.5
Real GNP per Capita	4.0	0.3	3.3	1.2	1.8	1.5
Employment	2.5	0.9	1.9	1.9	2.6	1.7
Productivity ¹	3.3	1.9	3.0	1.2	0.2	1.1
Industrial Production	7.0	2.2	6.7	2.4	3.7	2.2
Consumer Price Index	2.5	1.4	2.2	6.4	10.2	4.5
Levels (average over administrations)						
Corporate AA Bond Rate (percent)	2.9	4.0	5.1	8.5	10.0	13.1
Real Interest Rate ² (percent)	0.0	1.9	2.2	0.0	-1.6	7.0
Unemployment Rate (percent)	4.4	4.9	4.8	5.8	6.5	8.2
Index of Consumer Sentiment (points)	NA ³	91	96	79	74	84

¹Calculated from the series output per worker, nonfarm business sector.

²Calculated as the difference between the average long-term government bond rate and the annualized inflation rate (change in consumer prices) during the administration.

³The quarterly Index of Consumer Sentiment series began in November 1952.

**TABLE 2. Patterns of Economic Outcomes Relating to Change
Associated with Six Postwar Administrations**

Indicator	Truman	Eisenhower	Kennedy-Johnson	Nixon-Ford	Carter	Reagan
Change from Beginning to End of Span (last 4 quarters compared to last 4 quarters of prior administration)						
Unemployment rate (percentage points)	-0.7	2.5	-2.0	4.1	-0.5	-0.1
Inflation Rate (percentage points)	-3.0	-0.2	3.3	0.4	7.5	-10.9
Corporate AA Bond Rate (basis points)	19	172	192	175	418	-244
Real Long-term Interest Rate (basis points)	320	149	-203	109	-346	947
Index of Consumer Sentiment (points)	NA	8	-1	-7	-22	30
Change during Last 4 Quarters						
Real GNP (percent)	3.7	0.7	3.6	3.8	-0.1	2.6
Unemployment Rate (percentage points)	-0.5	0.7	-0.5	-0.5	1.4	-0.1
Consumer Prices (percent)	1.5	1.4	4.6	5.1	12.6	1.7
Corporate AA Bond Rate (basis points)	-14	-42	28	-143	255	-281
Index of Consumer Sentiment (points)	NA	-4	-1	11	10	2

Table 2 contains many of the same measures, but focuses on estimates of change rather than average performance, since these might be more salient to voters. In the top half of the table, we calculate the difference between the last year of any given administration's record and the last year of the prior administration's record. For example, Table 2 shows that the unemployment rate was a bit lower at the end of the Truman administration's term than the unemployment rate inherited as an initial condition. A similar calculation of difference shows that the unemployment rate rose substantially under Eisenhower, dropped substantially under Kennedy-Johnson, rose even more substantially under Nixon-Ford, dropped slightly under Carter, and has been virtually unchanged under Reagan. This is a different perspective from that shown by the unemployment data in Table 1, where unemployment was about the same, on average, under Truman, Eisenhower, and Kennedy-Johnson, was a point or so higher under Nixon-Ford, higher still under Carter, and has been by far the highest under Reagan.

The bottom half of Table 2 is designed to focus on changes in economic outcomes that are quite close to election dates. The measures are changes during the last four quarters of each administration, and are the type of outcome measures that political scientists have tended to find useful in explaining voting behavior (see the article by Michael Traugott on page 7 of this issue). These different measures of outcomes (averages in Table 1 and several types of differences in Table 2) are displayed in Chart 1 for three of the key variables—the unemployment rate, the interest rate, and the rate of price inflation.

What Do the Measures Show?

The data in Table 1—average performance over the full span of each administration, ignoring initial conditions and good or bad luck—provide some reasonably clear generalizations but will doubtless be interpreted quite differently by partisans of the two parties. The generalization that would be most likely to find broad agreement among economists is that the 1950s and 1960s were easier periods for economic policymakers than the 1970s and the 1980s. Virtually all of the

measures in Table 1 show a tendency for economic performance to deteriorate in the last three administrations (Nixon-Ford, Carter, and Reagan) compared to the first three (Truman, Eisenhower, and Kennedy-Johnson).

All the real output measures show that tendency (real GNP, real GNP per capita, productivity, and industrial production), as do prices, interest rates, and unemployment. Employment growth does not—it has no general pattern over time. Most economists would attribute this broad pattern of difference, at least in part, to adverse exogenous shocks—no one seriously believes that the productivity slowdown was induced by U.S. policy, and that plus the two oil shocks of the 1970s account for a fair part of the overall deterioration in performance.

Second, differences in average results are clearly influenced by the frequency and depth of recession periods. That is most evident in comparisons of the Eisenhower and Kennedy-Johnson records. The Eisenhower administration included two full recessions, and a third was in process in 1960 as Eisenhower's second term was ending. Kennedy-Johnson, in contrast, experienced only the end of the 1960-61 recession plus the mini-recession of 1966-67 during their term of office. Overall, the Eisenhower record shows the most recession periods of any postwar administration while Kennedy-Johnson has the fewest, and that difference shows up quite visibly in the comparisons of real growth records.

Third, there is grist for partisan mills in the performance data of Table 1. Ignoring problems of causation and interpretation, the clear winners of the scorecard displayed in Table 1 are the Truman and Kennedy-Johnson administrations. There is no clear loser among the also-rans: Eisenhower is worse than the others on output and employment growth, but better on productivity, prices, interest rates, and unemployment. Carter is better on output and employment growth, but worse on productivity, prices, and interest rates. Reagan is better than Eisenhower and Nixon-Ford on output growth but worse on productivity and unemployment, better than Carter on productivity and much better on prices but worse on output growth and employment growth. Overall, Democratic administrations do better on real growth than Republican administrations.

The records on inflation and nominal interest rates show a bit of the opposite tendency, if one takes account of the strong trends in both series and of the controls on both prices and interest rates that ended in the early 1950s. The Eisenhower record here is best, the Nixon-Ford record in reacting to the first OPEC price rise was better than the Carter record in reacting to the second OPEC episode, and the Reagan record is quite good on prices and nominal interest rates. On the other hand, the Truman and Kennedy-Johnson records are not only very strong on real growth but are also among the best, on average, for prices and interest rates.

Finally, one has to look long and hard to find any evidence of a supply-side miracle. The Reagan administration ranks fourth (out of six) on growth in real GNP and real GNP per capita, fifth on employment growth and productivity growth, is tied for sixth on industrial production growth, is fourth on inflation, and last on interest rates, real interest rates (assuming high is bad), and unemployment. To be fair, the Reagan administration inherited very high inflation rates and interest rates, and as the data in Table 2 show, ranks best on *reducing* inflation rates and (nominal) interest rates. But that can better be explained by monetary policy than by supply-side policy. And of course this does not even count the budget deficit or the trade deficit.

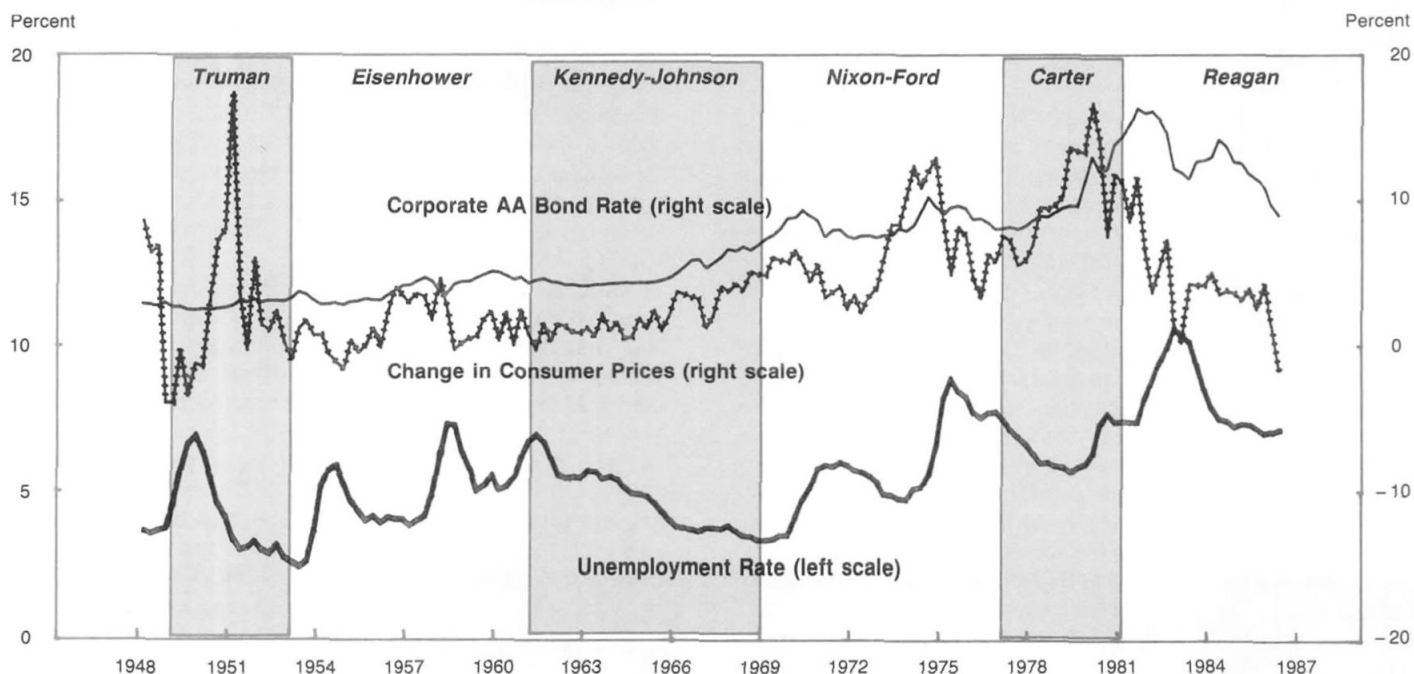
Although scorecards like Table 1 are relevant to an assessment of policy, they need to be carefully interpreted. For example, the Eisenhower administration's record does not fare too well in these data. But they bequeathed a roughly 1 percent inflation rate to the Kennedy-Johnson administration, along with a mild recession. Kennedy-Johnson produced an excellent record during the 1960s, but left a substantially higher and escalating inflation rate to Nixon-Ford (largely coming out of the Vietnam War and Johnson's refusal to finance that unpopular conflict with a tax increase). In turn, Nixon-Ford left Carter with the aftermath of the first OPEC oil shock and the severe 1974-75 recession, and Carter in turn left Reagan with very high interest rates and price inflation rates, both stemming partially from the second OPEC oil shock. And so on.

Consumer and Voter Perceptions

The data in Table 2 are designed to provide a view of policy outcomes that is focused more on performance close to an election, on the grounds that voter perceptions may be more closely related to recent outcomes than to either more distant or average outcomes. The top part of the table is responsive to the question: How have you done compared to where you started? The bottom part is responsive to the question: What have you done for me lately? The measures in this table are ones that tend to enter into public discussion of economic policy issues—"We had an inflation (growth, productivity) rate of X percent when we started, and now it's down to (up to) Y percent." Table 2 does not provide measures that compare one administration's overall score on a particular measure with the scores of prior administrations, although that comparison can easily be made by differencing the data in Table 1. No doubt voters make these types of comparisons as well, but they are not as readily calculable as the ones shown in Table 2.

The main feature of Table 2 is that it often (although not always) conveys a quite different impression of best and worst performance than the data in Table 1. For example, while the Reagan record is fourth best on the inflation rate during span of office, and worst on interest rates, it is best on *reduction* in inflation and (nominal) interest rates. And the table shows very clearly the problem that President Carter faced in the 1980 election. Not only was the inflation rate 7 percentage points higher than when he started and long-term interest rates over 400 basis points higher, but during the year prior to the election his administration was associated with a negative real growth rate, an increase of more than a point in the unemployment rate, an inflation rate of over 12 percent, and an increase in interest rates of more than 200 basis points. Other elections that clearly seemed to have turned on economic forces were those in 1960 and 1976. Economic events seemed to have been less important in 1952 and 1968.

CHART 1. Trends in Employment, Inflation, and Interest Rates, 1948-86



What Do Voters Weigh Most Heavily?

As argued elsewhere in this publication, voter perceptions of economic policy are likely to have a significant influence on the congressional election this year. What criteria do voters appear to be using in their assessment of policy?

The evidence suggests that the public is more apt to look at changes like those shown in Table 2 than at average results like those in Table 1, and that they are quite apt to evaluate economic changes in nominal terms rather than in real terms, i.e., that there is a sort of money illusion in public perceptions of policy.

The best way to show the money illusion point is to note public perceptions of interest rates. In the most recent Survey of Consumer Attitudes (summarized in the article by Richard Curtin), consumers are asked about buying conditions for houses, cars, and durable goods. Some 82 percent of consumers report that this is a good time to buy a house (close to an all-time high), and fully 78 percent say that the reason is that financing conditions are very favorable—interest rates are low and money is plentiful. In 1980, the same kind of data show exactly the opposite perception—that period was seen as a bad time to buy a house because interest rates were high and money was scarce.

The data in Table 2 (and in Chart 1) indicate the basis for these perceptions. Compared to rates prevailing when the Carter administration left office, the corporate AA bond rate was over 200 basis points lower during the past four quarters, and it has fallen by almost 300 basis points during the last year. Similar calculations for the prime rate would show even larger differences in the same direction.

But Table 2 also shows (along with Table 1) that *real* interest rates (estimated as the nominal long-term government bond rate less the inflation rate) have not declined at all but have risen to all-time highs during the last several years. Thus consumers (and voters) clearly assess the combination of a 16 percent mortgage interest rate and a 14 percent inflation rate as a high interest rate environment, while the mixture of a 10 percent mortgage rate and a 2 percent inflation rate is seen as a low interest rate environment. Yet one computes to a 2 percent real interest rate, the other to an 8 percent real interest rate. But what clearly matters to consumers is that nominal rates have declined from 16 percent to 10 percent, not that the real rate calculation shows a rise from 2 percent to 8 percent.

Other data provide additional evidence that inflation rates and interest rates enter strongly into consumer and voter preference functions, quite independently of whatever is happening to other economic outcomes. Responses to an economic policy question (In terms of policies to combat inflation and recession, is the administration doing a good job, a fair job, a poor job, or what?) show relatively high ratings for current administration policy, and that judgment must be based on the current mix of low inflation rates, low growth rates, low (in comparison to the early 1980s) nominal interest rates, and high real interest rates. And throughout the 1970s, changes in the rate of price inflation dominated consumer perceptions of economic conditions, often independently of the movement of real variables. The best summary measure of this phenomenon is the change in the Index of Consumer Sentiment during the Carter and Reagan administrations—

high and rising rates of price inflation and nominal interest rates showed up as a 22 point drop in the ICS during the Carter years, while declining inflation rates and nominal interest rates showed up as a 30 point rise in the ICS under Reagan.

As a broad generalization, the data are consistent with the notion that when financial variables (prices and interest rates) are relatively well behaved and show only moderate swings, real variables (output growth, employment and unemployment) determine consumer and voter perceptions of policy success or failure. But when monetary variables (inflation rates, nominal interest rates) show wide swings, their movements will tend to dominate judgments about policy success or failure.

Moreover, the data support the inference that consumers have a strong preference for a low inflation rate and low nominal interest rate environment, given the same real environment; that is, consumers strongly prefer the combination of 2 percent money income growth and zero inflation to 12 percent money income growth and 10 percent inflation, even though both provide 2 percent real income growth; and consumers would very likely prefer the combination of zero money income growth and zero inflation, thus no real growth, to combinations of high money income growth and high inflation rates that yield positive real growth rates.

What accounts for this preference pattern? Probably three factors. First, consumers have always seen nominal changes in money income as related to their own efforts as workers—a 10 percent pay increase is a reward for hard work—while seeing price inflation as an injury done to them by others. Thus the combination of 10 percent money income increase and 8 percent inflation is seen as an unfair erosion of the gains from hard work, and is judged negatively.

Second, high inflation rates create a good deal of uncertainty. While the *average* consumer gains if *average* income growth rates are 10 percent and *average* price increases are 8 percent, quite a few consumers will lose, and many more will be fearful that they might lose. The distribution of real income change probably has more variability when it comes from a (+10, +8) combination of income change and price change than when it comes from a (+2, 0) combination. In short, consumers don't like uncertainty.

Third, consumers tend to judge high rates of price inflation, and high nominal interest rates, as a forecast of future economic difficulties—as indeed they should given the U.S. economic policy-making process. In addition, consumers seem to characterize a high interest rate/high inflation environment as one in which policy-makers have lost control, and are unable to manage the system effectively.

Are these preferences for well-behaved nominal values a stable feature of the economic landscape? Probably but not necessarily. The aversion to high inflation rates and high nominal interest rates may be a simple consequence of the fact that these environments have been associated with the poor real economic performance of the 1970s and the early 1980s. If low inflation and low nominal interest rates do not produce better performance during the rest of the 1980s, those judgments could change. After all, history does not always support the inference that low inflation rates and nominal interest rates are a winning combination—the depression of the 1930s was characterized by precisely that combination!

October 1986

Changes in the Makeup of the 100th Congress

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The early betting is that the Democrats will increase their margin of control in the U.S. House of Representatives this November, but by a historically few seats. The control of the Senate is in doubt and may stay with the Republicans. For each chamber, however, the results will depend heavily upon popular evaluations of President Ronald Reagan and the performance of the national economy in recent months.

The analysis of midterm congressional elections has received a great deal of attention from political scientists. Several models have been developed to predict the aggregate number of House seats that would be gained or lost by the two parties, based on the president's popularity and the performance of the national economy. Such models have been reasonably successful, even though they ignore explicit measures of candidate characteristics, campaign spending, and the like. But races for the U.S. Senate are much more individualized events, subject to more substantial candidate-related effects and the influences of increasingly heavy campaign expenditures. That is why we can speak with some confidence of probable gains and losses in the lower chamber, but assessing Senate outcomes is much more risky and needs to be done almost on a case-by-case basis.

The Basics of Congressional Elections

In order to appreciate the difference between predicting the outcomes of House and Senate elections, it is important to keep in mind the fundamental differences in the seats which are at stake. The term of a U.S. Representative is two years, and every one of the 435 members is elected at the same time. Each state has two Senators who serve a six-year term, and only one-third of the chamber is elected every two years.

While every congressional district is of essentially equal size—or something very close to it immediately after the redistricting which occurs following a decennial census—the range in the size of Senate constituencies is as great as the population of the states themselves. For the House this means about 500,000 people in a district, but for the Senate the range is from about 502,000 citizens in Alaska to 25,622,000 in California. For any given election, the 33 or 34 Senate seats at stake have widely different political characteristics and varied candidate pairings, campaign strategies, and resources.

Finally, House incumbents have substantially greater probabilities of being reelected than Senate incumbents. This is in part due to the difficulty faced by House challengers in developing name recognition in their districts. In Senate races, intensive media use can create extensive recognition among the public of a challenger's name, record, and stance on public issues. That costs money, of course, but a challenger with reasonable prospects of winning can often raise the necessary funds. In House races, on the other hand, narrow geographic boundaries make intensive media use uneconomical, the relevant constituency is moderately small in size, and the constituents have been kept informed of the incumbent's activities and record by the free distribution of information during the incumbent's term. In any event, the record is clear. In excess of 90 percent of House incumbents typically will

win if they seek reelection, while Senate incumbents have a much more checkered record of success.

Campaign expenditures are an important ingredient of congressional races and have become increasingly important during recent years. Detailed data on campaign receipts and expenditures have only been available since 1974, when candidates for federal office were required to disclose most of their receipts and expenditures. As the data in Table 1 show, the average cost of a congressional campaign increased about fourfold between 1974 and 1984; even allowing for inflation, the cost more than doubled. The average cost of a winning House campaign in the 1983-84 cycle was more than \$200,000, and the amount increased in relation to the closeness of the vote.

The biggest spender in the 1984 House election was Andrew Stein, a challenger in New York's Fifteenth District, who reported \$1,779,281 in expenses. Candidates in open races spent more on average than incumbents. Spending by losing challengers was consistently lower, and expenditures decreased sharply as competition did. These levels of campaign spending in House races can be explained by the candidates' perceptions of their chances as well as their status. Incumbents can raise as much money as they need, in response to the seriousness of the challenge they face. Challengers can raise money if it is widely perceived that they have a chance to win; otherwise their fund-raising prospects are dim. And candidates in open races—where no incumbent is running—will generally expend the largest sums (Goldenberg and Traugott, 1984).

Across the same thirty-year period, the success rate of Senate incumbents seeking reelection dropped steadily, bottoming out in 1980 at 55 percent. In that election, a relatively large class of freshmen Republicans was elected on Ronald Reagan's coattails; and they are the cohort standing for reelection this year. The net Republican gain of 12 seats in that election was achieved with the defeat of nine Democratic incumbents and the capture of all three open seats.

Since 1980, the reelection success rate for Senate incumbents has jumped back up to levels associated with the House. This has been as much a function of the specific candidates seeking reelection as of their campaign strategies. And ever greater amounts of money are being spent by opposing candidates in these races.

These statewide races are more expensive to run because television becomes more cost-effective, staffs are larger and more professional, and travel increases. A typical Senate race involves a budget of more than one million dollars, and in large states the cost is considerably greater. Phil Gramm ran in an open contest in Texas in 1984, and he spent more than \$9.5 million dollars; his Democratic opponent Lloyd Doggett spent \$5.9 million. The leading spenders last time, however, were in the North Carolina race where incumbent Republican Jesse Helms spent almost \$16.5 million, and his Democratic opponent Jim Hunt trailed with \$9.5 million.

The relative value of these dollars can be linked to levels of candidate recognition in each of these types of races and then to success at the ballot box. In House races, where ex-

TABLE 1. Expenditures in U.S. House Campaigns, 1974-1984

Candidate Classification	1974	1976	1978	1980	1982	1984
All Candidates						
Total Expenditures	\$44,051,125	\$60,046,006	\$86,129,169	\$115,222,222	\$174,921,844	\$177,411,116
Mean Expenditures	53,384 n = 810	73,316 n = 819	109,440 n = 787	153,221 n = 752	228,060 n = 767	217,416 n = 816
Mean, Democrats	53,993 n = 434	74,563 n = 429	108,986 n = 416	143,277 n = 396	213,369 n = 411	219,575 n = 434
Mean, Republicans	54,835 n = 376	71,945 n = 390	109,995 n = 371	164,282 n = 356	245,020 n = 356	214,962 n = 382
Incumbents						
Mean, all incumbents	56,539 n = 382	79,398 n = 382	111,159 n = 377	165,081 n = 391	265,001 n = 383	276,851 n = 412
Mean, Democrats	38,743 n = 218	73,322 n = 254	103,519 n = 249	158,010 n = 248	247,573 n = 216	275,698 n = 258
Mean, Republicans	80,339 n = 163	91,456 n = 128	126,022 n = 128	177,345 n = 143	287,543 n = 167	278,781 n = 154
Challengers						
Mean, all challengers	40,015 n = 323	50,795 n = 335	74,802 n = 299	121,751 n = 277	151,717 n = 270	126,671 n = 356
Mean, Democrats	59,266 n = 162	46,330 n = 122	70,948 n = 109	93,313 n = 105	141,390 n = 137	102,230 n = 152
Mean, Republicans	20,644 n = 161	53,352 n = 213	77,012 n = 190	139,111 n = 172	162,354 n = 133	144,882 n = 204
Open Seats						
Mean, all open-seat candidates	90,426 n = 106	124,506 n = 102	201,049 n = 111	201,790 n = 84	284,476 n = 114	380,285 n = 48
Mean, Democrats	99,743 n = 54	145,497 n = 53	211,871 n = 58	180,312 n = 43	256,004 n = 58	359,439 n = 24
Mean, Republicans	80,751 n = 52	101,802 n = 49	189,205 n = 53	224,116 n = 41	314,547 n = 56	401,130 n = 24

penditures are generally lower, the candidates are less visible, especially the challengers. As a result, voting tends to be much more along party lines with the clear preponderance of defections going to the incumbent.

Most of the additional expenditures in statewide senatorial races goes to television advertising and other kinds of mediated contact with voters. By the end of the campaign both of the candidates are generally well known, and the voters can make relative evaluations of them. This process makes party voting less stable, and the defections do not necessarily favor an incumbent seeking reelection.

Models of Midterm House Election Outcomes

Because every House seat is at stake during each election, the research emphasis has been upon forecasting these outcomes rather than those in Senate races. And the effort has concentrated upon explaining the almost inevitable loss of seats by the incumbent president's party. In these 31 so-called "midterm" elections since the Civil War, the president's party has lost House seats in all but two. One instance was during the Depression (1934), and the other was something of an anomaly involving redistricting after the 1900 census when the number of representatives was increased. In only four

other elections have the House losses been in the single digits, and they reached 116 in the election of 1894¹ (see Chart 1).

The models of seat losses generally employ a concept of aggregated behavior or response which is only partially supported by studies of individual voters conducted at the Center for Political Studies. The basic underlying concept is that of a referendum on the incumbent president, and the magnitude of the loss is linked to general evaluations of the president's performance in office and the voters' satisfaction with their economic well being—or changes in it—in the intervening two years since the president was elected.

The basic characterization of the individual forces at work comes from Angus Campbell's analysis of the "surge and decline" in participation levels from on-year to off-year elections. There are fundamental differences in the electorate that participates when the stimulus of a presidential campaign highlights an election and when it does not. Of particular significance is the fact that turnout declines substantially in the off year, and there is an associated decline in the vote share received by the president's party for its House candidates.

¹In contrast, the president's party lost Senate seats in 18 of these midterm elections and gained them in 13, an inherently more difficult phenomenon to deal with, especially taking the variations in constituencies into account.

This is due primarily to the loss of marginal participants—or peripheral voters—from the on year to the off. The result is that partisanship has a more significant role to play in the absence of coattails, which disproportionately affect those who are weakly identified with one of the parties or call themselves “independents,” and because those who persist in voting are likely to be stronger partisans to begin with.

This model is based upon an underlying assumption of the strength and stability of partisanship, and this can explain the direction of the losses. But the models which have been developed from this set of observations incorporate additional conceptual elements to explain the magnitude of the losses. In the original work by Tufte (1975), a measure of national evaluations of the president—his approval rating in the Gallup Poll at the time of the election—was used in conjunction with an indicator of the performance of the national economy. At that time, the empirically-determined indicator selected was the change in real disposable income per capita in the year preceding the election. In the Tufte model, a simple formula is used to estimate the vote loss for the president's party, which is then translated into a seat loss. Because the model incorporates a survey measure, it could only be applied to post-World War Two elections, when such data became available.

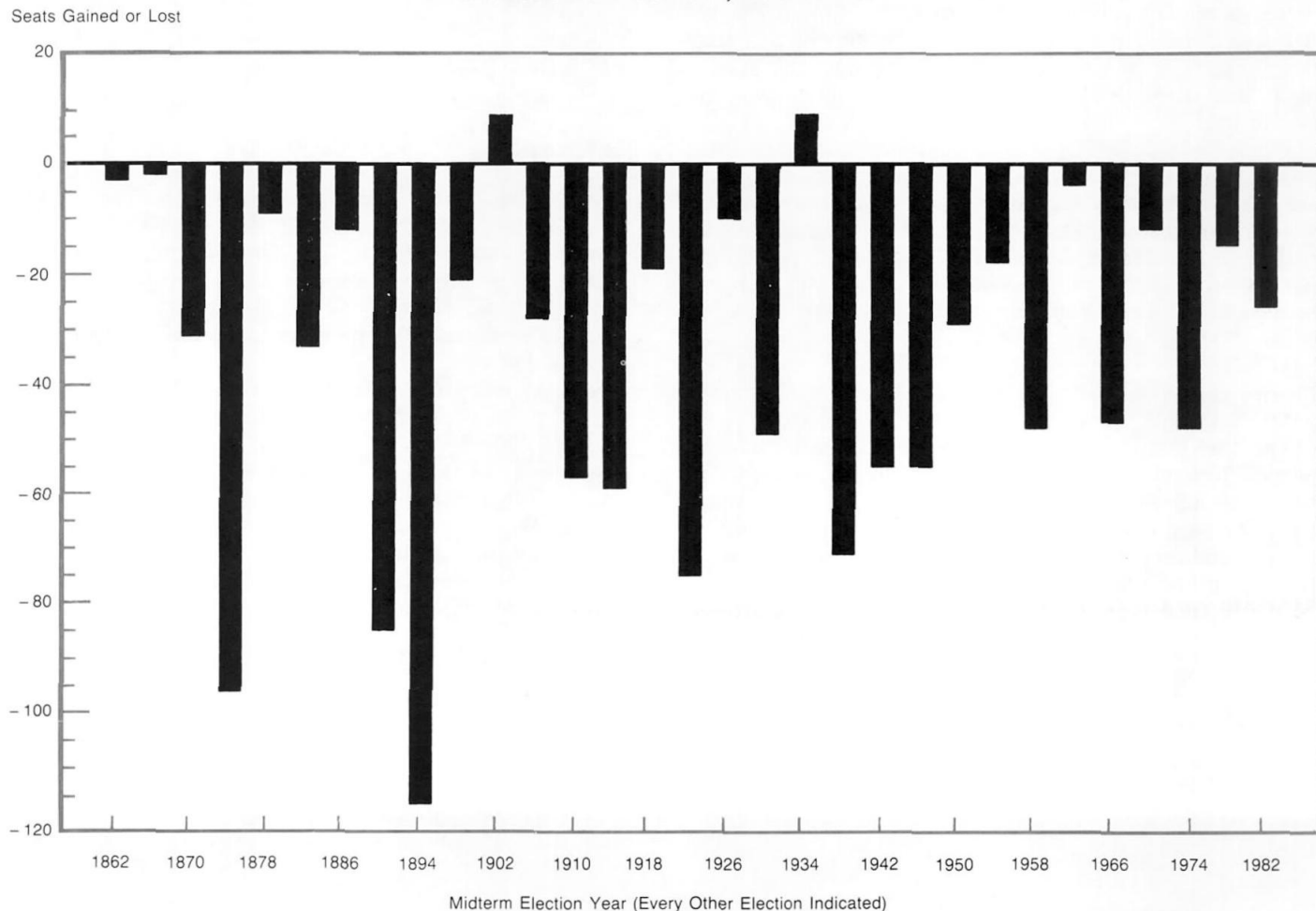
This basic model has since been modified on a number of counts. One conceptual shift has been in the direction of ad-

ding elements which incorporate the strategic behavior of political elites such as candidates, party activists, and contributors (Jacobson and Kernell, 1982). This model suggests that some classes of candidates may be stronger than others because of perceptions that the president and his party are vulnerable. This will result in stronger candidates running in opposition with more money being made available to them, and it may have an effect on inducing older or more vulnerable incumbents from the president's party to retire. While this may reflect the real world of campaign politics more accurately, these elements have resisted easy quantification.

A second set of changes have been directed toward finding measures which are available sufficiently in advance of the election to permit forecasting rather than *ex post facto* estimation. Lewis-Beck and Rice have substituted the quarterly growth rate in real GNP per capita and the presidential popularity rating measured six months before the election, and they use their equation to predict the outcome of on-year congressional elections as well. Their median absolute error in the 17 congressional elections between 1950 and 1982 was about 5 seats (a mean of 7.9 seats), and their model has been very successful in predicting whether the losses for the president's party would be substantial or not.

The Lewis-Beck and Rice model suggests that in 1986 the Republican party will suffer a much smaller than average

CHART 1. The President's Party's Gains and Losses of House Seats in Midterm Elections, 1862-1982



midterm loss of only six seats. As the data in Chart 2 show, this would be the second lowest total since World War II, rivaled only by a four seat loss suffered by the Democrats under John Kennedy in 1962.

By the underlying theory and the statistical parameters of the model, this would be attributable to the historically high level of approval which Ronald Reagan is enjoying as a president in his sixth year of service. In the May Gallup Poll (six months prior to the election) it stood at 68 percent. It has increased more recently to as high as 73 percent.

Predicting the Outcomes of the Senatorial Races

Predictions are much more difficult to make for the net outcome of the Senate races because of higher levels of competition between more equally matched opponents. There is an unusually large number of Republican-held seats at stake, 22 out of the 34 being contested. Many analysts feel that the Republicans face unusual vulnerability due to this factor alone. There are 18 seats in which a Republican is seeking reelection, but only nine involving a Democrat, and there are seven open seats.

In these races it will eventually be possible to predict winners of individual races with some confidence as election day nears. While it would then be possible to add up the individual estimates to an aggregate seat gain or loss, at this writing it is too early to make all of these picks with confidence.

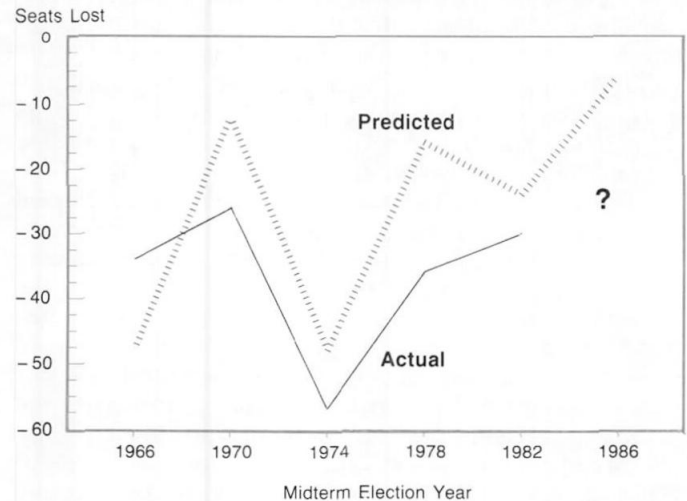
In one published analysis (Boyd, 1986), the races have been divided into 17 "safe" contests and an equal number which are in doubt. Among the safe races, the Republicans are expected to win 10 and the Democrats seven. Among the 17 "contested" races, the guessing is that the Republicans and Democrats will each win six. Of the remaining five races, three are currently held by Republicans and two by Democrats.

When all of these projected outcomes are combined with a Democratic advantage of 35 to 31 among the seats which are *not* at stake, they suggest that the 100th Senate will be divided equally among Democratic and Republican members. If that turns out to be the case, then Vice-president George Bush will lose a lot of campaigning time in the next two years because he will be in Washington ready to cast tie-breaking votes.

Conclusion

The 1986 election is an important one for both political parties. Ronald Reagan has been campaigning actively on behalf of Republican candidates for months. These visits serve two purposes: they help Republican candidates to raise money, and they provide an opportunity to link them to a popular president. This should serve the party well in November and keep its losses to historically low levels.

CHART 2. Actual and Expected Seat Losses in Midterm Elections Predicted by Lewis-Beck and Rice, 1966 to 1986



There are larger issues at stake in this election, however. The Republican Party is trying to institutionalize Reagan's personal appeal by 1988; and in this last midterm election over which he will preside in office, they are trying to make permanent converts of as many independents and weak Democrats as possible. Their goal is to secure the electoral safety of future generations of Republican candidates who would benefit from such a political realignment.

October 1986

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A Discount that Consumers Couldn't Refuse

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Confidence Maintained Amid Offsetting Trends

In the third quarter 1986 survey, the Index of Consumer Sentiment was 94.8, insignificantly different from the 96.8 recorded one quarter earlier and the 94.3 recorded one year earlier. Since the spring of 1983, the Index has remained in the relatively narrow range of 91.1 to 99.5, and has averaged 94.6—a level nearly identical with the current reading. This represents the longest sustained period of consumer confidence recorded since the mid-1960s. In sharp contrast, during the prior three year period, from 1980 to 1983, the Index averaged just 68.3. Over the past quarter century, the Index has averaged 85.0, ranging from a high of 103.4 (1966) to a low of 54.4 (1980).

The continued maintenance of sentiment at high levels, however, has been due to offsetting trends. As the expansion period has lengthened, expectations for improvement in the economy have dwindled, but have been offset by continued gains in personal finances and buying conditions. While future income and employment prospects have dimmed, the recent declines in inflation and interest rates have brightened evaluations of current economic conditions. From the start of 1986 to the end of June, the net change in the CPI was nearly zero, and through the first nine months of 1986, price increases have remained under 1%. This virtual absence of inflation has had an important impact on the personal financial situation of families. More importantly, sharply discounted interest rates have promoted very favorable buying attitudes.

Interest Rate Reductions Attract Buyers

Vehicles. Favorable attitudes toward buying conditions for vehicles were held by more families in the third quarter of

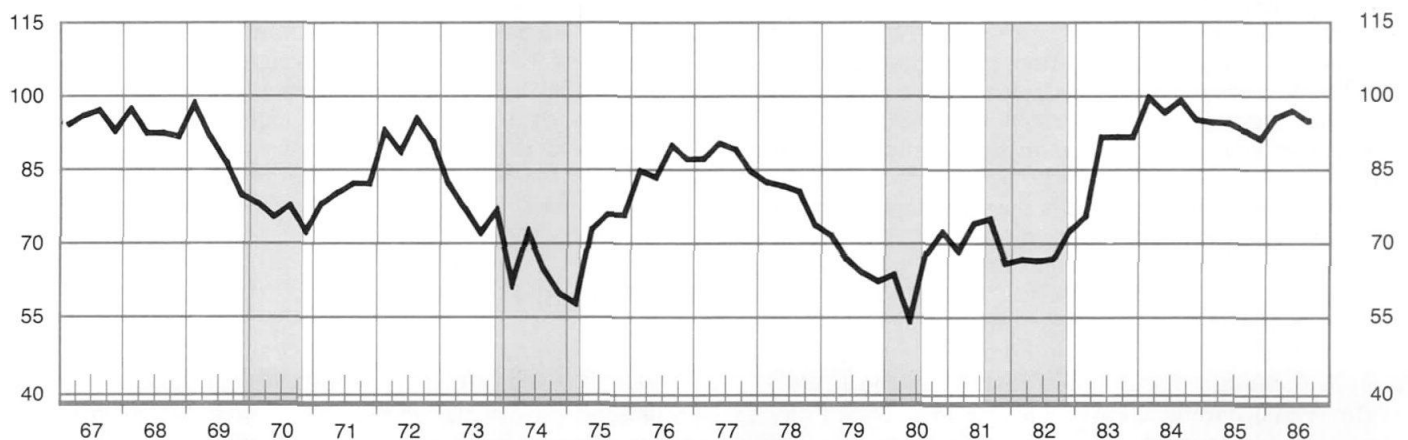
1986 than at any other time in the history of these surveys—by 76 percent of all families. Each of the three quarterly surveys conducted thus far in 1986 has, in turn, set new record levels; the total increase over prior peaks, however, has been small—just 4 percentage points. The most frequently cited reason for these very favorable attitudes has been the interest rate reductions offered by vehicle manufacturers. In the third quarter 1986 survey, 59 percent of all families cited reduced interest rates, up from 39 percent one year earlier. In addition, consumers continue to hold positive views of market prices for new vehicles. Twice as many consumers reported the availability of price discounts than complained about high prices (24 versus 12 percent) in both the second and third quarter 1986 surveys. While reports of the availability of price discounts have been more frequent in the recent past, not since the mid-1960s have complaints about high prices been as low.

The appeal of interest rate discounts has been amply demonstrated in recent months. Sales of new cars and light trucks in the third quarter of 1986 reached a seasonally adjusted annual rate of just over 18 million units, the highest quarterly sales rate on record (see Table 1). This selling rate was significantly higher than the prior peak of 17.0 million units recorded in the third quarter of 1985, which was also prompted by interest rate discounts. But like last year, when the discount programs end, sales can be expected to decline sharply. At annual rates, vehicle sales declined by 2 million units from the third to the fourth quarter of 1985. This decline in sales was countered by the introduction of new incentive programs by year-end 1985. And the renewal of incentive programs can again be expected during the year ahead.

Each new round of incentive programs has been based on progressively lower interest rates—falling from 12% to under 3% over the length of the current economic expansion. This progression toward lower interest rates has now been largely exhausted, although longer maturity loans at these lower in-

INDEX OF CONSUMER SENTIMENT

February 1966 = 100



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

TABLE 1. Vehicle and Home Sales, Changes in Personal Consumption and Disposable Income, and Personal Saving Rate

Year	Vehicles ¹			Homes ¹			Change in Personal Consumption ²	Change in Personal Disposable Income ²	Personal Saving Rate
	Cars	Trucks	Total	New	Existing	Total			
1971	10.2	1.8	12.0	0.7	2.0	2.7	3.1	3.6	8.5%
1972	10.9	2.2	13.1	0.7	2.3	3.0	5.4	4.0	7.3
1973	11.4	2.7	14.1	0.6	2.4	3.0	4.2	6.6	9.4
1974	8.8	2.3	11.1	0.5	2.3	2.8	-0.9	-1.0	9.3
1975	8.5	2.2	10.7	0.5	2.5	3.0	2.3	1.9	9.2
1976	10.0	2.9	12.9	0.7	3.0	3.7	5.4	3.6	7.7
1977	11.1	3.3	14.4	0.8	3.7	4.5	4.4	3.3	6.6
1978	11.2	3.7	14.9	0.8	4.0	4.8	4.1	4.9	7.1
1979	10.6	3.1	13.7	0.7	3.8	4.5	2.2	2.1	6.8
1980	9.0	2.2	11.2	0.5	3.0	3.5	-0.2	0.1	7.1
1981	8.5	2.1	10.6	0.5	2.4	2.9	1.2	1.6	7.5
1982	8.0	2.4	10.4	0.4	2.0	2.4	1.3	0.6	6.8
1983	9.2	2.9	12.1	0.6	2.7	3.3	4.7	3.1	5.4
1984	10.4	3.8	14.2	0.6	2.9	3.5	4.7	6.0	6.3
1985	11.0	4.4	15.4	0.7	3.2	3.9	3.5	2.3	5.1
1986:1	10.7	4.1	14.8	0.8	3.3	4.1	3.6	6.5	5.0
1986:2	11.2	4.5	15.7	0.8	3.5	4.3	6.2	7.1	5.1
1986:3	13.2	5.2	18.3	0.6 ³	3.6 ³	4.2 ³	7.2	-2.2	2.9

¹Millions of units sold.

²Percentage changes, 1982 dollars.

³Includes data for July and August only.

terest rates could further stimulate sales. Even though these incentive programs have proved to be an expensive means to promote sales, consumer reactions are likely to insure their continued availability. Consumers have now come to expect sellers to offer discounts, and to time their purchases to their availability. The withdrawal of discount programs is now met with sharp declines in sales, both because consumers have sped up purchases to take advantage of discounts, and because consumers are more willing to postpone purchases as they expect renewed discounting in the future.

Homes. Favorable attitudes toward buying conditions for homes were held by 82 percent of all families in the third quarter 1986 survey, just below the all-time record of 85 percent recorded one quarter earlier. The very small recent decline was due to fewer mentions of reduced mortgage interest rates—falling to 78 from 82 percent. Nonetheless, perceptions of mortgage interest rates remain much more favorable than one or two years earlier, and are the dominant factor behind favorable home buying attitudes. Although perceptions of home prices remained on balance favorable in the most recent survey, they were not as favorable as one year earlier. Among families with incomes of \$30,000 or more, favorable references to current home prices fell from 30 to 24 percent during the past year.

These very favorable home buying attitudes have been reflected in sales. Single family homes were purchased at an annual rate of 4.3 million units in the second quarter of 1986, up from 3.7 million units in the comparable period one year earlier. Most of the improvement during the past year has been in purchases of existing homes, rather than those newly built. Although the current sales rate is well below the peak year of 1978—when 4.8 million homes were purchased—it represents the best performance thus far in the 1980s.

Household durables. Favorable attitudes toward buying conditions for household durables remained at the all-time record level in the third quarter 1986 survey. In each of the

last three quarterly surveys, 77 percent of all families held favorable views of buying conditions for large household durables. These very favorable buying attitudes were based more frequently on the availability of price discounts (37 percent) than on lower interest rates (27 percent). Although fewer consumers mentioned price discounts in the third quarter 1986 survey than a year earlier, many more mentioned lower interest rates on these purchases. Among families with incomes of \$30,000 or more, the shift was particularly sharp: from the start of 1985 to the third quarter of 1986, reports of price discounts fell from 50 to 37 percent, while reports of lower interest rates rose from 14 to 35 percent. Although favorable attitudes toward buying conditions for household durables were propelled toward record levels by price discounts, the maintenance of these favorable attitudes at record levels has become increasingly dependent on reductions in interest rates.

Total consumption spending has risen significantly since the start of 1986. In the third quarter, total consumption spending increased by 7.2%, twice the quarterly growth rate recorded at the start of the year. Thus far in 1986 growth in spending has averaged 5.7%, substantially above the 1985 increase of 3.5% (see Table 1). Because income has not grown as fast as consumption, the rate of saving has fallen significantly. Thus far in 1986 the quarterly growth rate in personal disposable income has averaged 3.8%, compared with a 5.7% average growth rate in spending. As a result, the saving rate in the third quarter of 1986 reached the record low level of 2.9% (Table 1).

Personal Finances

The financial situation of American families has remained largely unchanged, at favorable levels, throughout the past three years. More families reported that their personal financial situation had improved in the third quarter 1986 survey than at anytime since the early 1970s. Among all families,

47 percent reported that their financial situation had improved, compared with 24 percent that reported that their financial situation had worsened during the past year. This represents a modest improvement over the year earlier, but is only marginally above the two year earlier reading (45 versus 23 percent). The recent increase in favorable evaluations was based on more frequent income increases and, more importantly, on lower rates of inflation. Among all families in the third quarter 1986 survey, 35 percent reported increases in family income during the past year, above the 32 percent recorded one year earlier. Complaints about the erosion of purchasing power due to inflation were reported by just 11 percent of all families, the lowest proportion recorded since the mid-1960s.

An improved financial situation during the year ahead was expected by 38 percent of all families in the third quarter 1986 survey, just above the 35 percent recorded one year earlier and the 37 percent recorded two years earlier. Nearly half (49 percent) of all families in the third quarter survey expected their financial situation to remain unchanged during the year ahead, as has been true for most of the past two years. Importantly, just 10 percent of all families in the third quarter survey expected their financial situation to worsen, again largely unchanged during the past two years.

Although families somewhat more frequently expected income increases in the third quarter of 1986 than one year earlier (62 versus 56 percent), the size of the expected annual increase has declined. Among all families, the median income increase expected was 3.5%, barely above the median expected annual rate of inflation of 3.0%. Given that consumers expected only a 0.5% improvement in real income, it is no surprise that so many thought that their overall financial situation would remain unchanged during the year ahead. This cautious outlook for personal finances, while not negative and thus a reason for retrenchment of spending plans, does place greater emphasis on the affordability of purchases, and thus on the availability of discounts on prices and interest rates.

Slow Economic Growth Expected to Persist

Fewer families reported hearing of recent favorable developments in the economy in the third quarter 1986 survey than at mid-year (33, down from 46 percent). The proportion of families that thought the economy in general had improved during the past year fell to 49 percent in the third quarter from 58 percent one quarter earlier. Unemployment continued to be the major concern voiced by consumers. Among all families in the third quarter 1986 survey, just 13 percent expected declines in the national unemployment rate during the year ahead, the most bleak outlook in more than three years. Although few consumers expected any further reductions in the unemployment rate, rather than increase, the majority expected the national unemployment rate to re-

main unchanged at its current level during the year ahead (55 percent in the third quarter 1986 survey).

Favorable prospects for economic growth reached peak levels in mid-1983, and subsequently declined at a rapid pace through mid-1985. Since mid-1985, however, only minor further declines have been recorded. In each of the last five quarterly surveys, 57 percent of all families expected the performance of the national economy to remain similar to the prior year's. Many fewer consumers expected business conditions to either improve (24 percent) or worsen (16 percent) during the year ahead. Even though only slow economic growth was expected, prospects for the national economy during the year ahead were nonetheless viewed favorably. Among all families in the third quarter 1986 survey, 55 percent expected good times financially in the economy as a whole, unchanged from one year earlier.

While consumers do not expect the onset of a recession during the year ahead, they do expect that a recession will occur sometime during the next five years or so. When asked in the third quarter survey about prospects for the economy as a whole during the next five years, more families expected a recession than a continuous expansion by the margin of 46 to 37 percent.

Summary Outlook

Price and interest rate reductions have been responsible for the current extended period of consumer confidence. The response of consumers to the recent interest rate discounts on new vehicle purchases not only attests to their continued willingness to make major purchases, but also to their willingness to commit future income to the repayment of debt. This sense of confidence, however, is limited to the maintenance of the status quo, rather than the expectation of better times to come. Few consumers expect the economic situation to improve during the year ahead, either for themselves or for the country as a whole. Neither do they expect the economic situation to worsen. Most consumers expect an unchanged overall economic situation during the year ahead. And given the length of the current expansion, most consumers have judged this to mean the continuation of good times financially.

Given these prospects, and the record debt levels needed to finance the surge in third quarter sales, consumers will be more cautious in their spending plans, but without an overall retrenchment. With debt-burdened family budgets, judgments about the affordability of purchases will increasingly focus attention on the availability and size of discounts on prices and interest rates. And consumers' willingness to time their purchases according to the available discounts will continue to shape aggregate trends. Consumers now expect both the repeated use of discounts by sellers to stimulate sluggish sales, and an economic environment where such slowdowns in sales can be expected.

October 1986.

Assessing Black Progress: Employment, Occupation, Earnings, Income, Poverty*

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Trends in Employment, Occupations, and Earnings

We would expect that racial differences in economic indicators would contract in the post-World War II years. First, blacks moved to the North where there was less prejudice and where wage rates were higher. Second, the educational attainment of blacks increased, presumably allowing more blacks to compete for good jobs. Third, the activities of civil rights groups and changing employer attitudes opened opportunities for blacks. Finally, the 1965 law banned discrimination in all aspects of employment. The actual trends are mixed, with clear gains on some indicators but no improvements on others.

Unemployment and Labor Force Participation. The monthly unemployment rate—that is, the percent of labor force participants who look for work but cannot find it²³—is the most widely cited gauge of economic status. This rate, of course, varies inversely with the rate of economic growth. Among adult black men it fell to a low of 3 percent during the late 1960s and reached a post-Depression high of 13 percent at the start of the 1980s. Thirty years ago the unemployment rate of black men first attained a level twice that of white men, and there has been little change in that ratio since then.²⁴ The upper panel of Chart 2 shows the proportion of male labor force participants 25 to 54 who were employed.

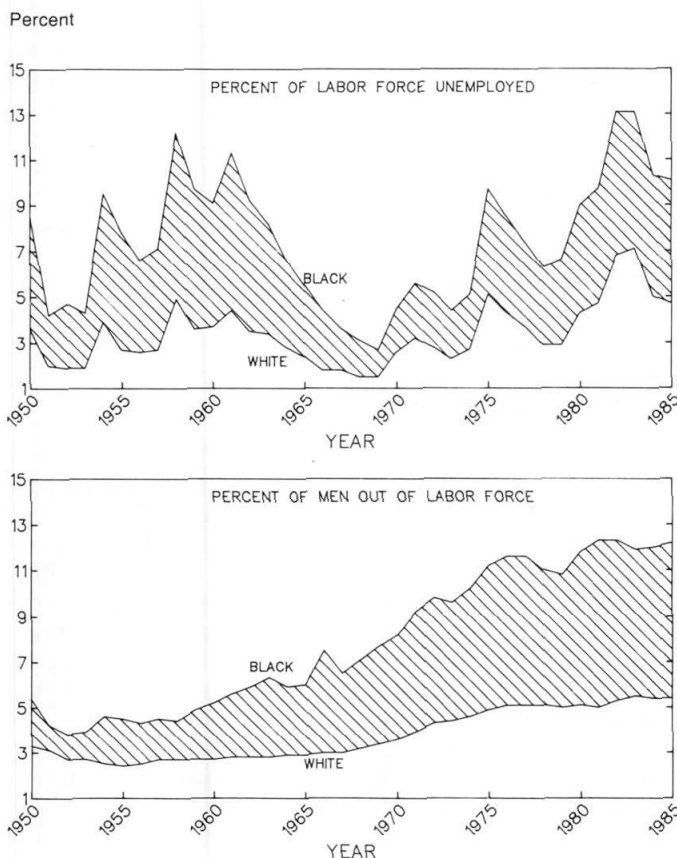
The lower panel of Chart 2 reports the proportion of adult black and white men, 25 to 54, who were neither at work nor looking for a job; that is, they were not participating in the labor force. At these ages, only a small fraction are out of the labor force because they are full-time students or retirees. Among black men there has been a persistent rise in non-participation since 1960, a trend hardly influenced by year-to-year changes in economic conditions. By the early 1980s, one black man out of eight had dropped out of the labor force; among whites, about one in twenty.

Some explanations for this phenomenon contend that many black men lack the skills to be employed or have personal habits and criminal records which make them unacceptable to employers.²⁵ Others believe that the expansion of federal welfare programs offers attractive alternatives to men who have limited earnings potential.²⁶ Another view stresses that blacks are concentrated within cities, while the growth of employment is occurring in suburbs, often in areas far from central city ghettos.²⁷

However, there is no single convincing explanation for the sharp increase in the proportion of black men who are neither working nor looking for employment. High unemployment rates and low rates of labor force participation are not restricted to young black men, to those in central cities, or to those who dropped out of school. Table 2 is based upon

data from the Census Bureau's March 1985 Current Population Survey and classifies men by age, residence, and educational attainment. It indicates the unemployment rate, the proportion out of the labor force, and the proportion of men who did not work at all in 1984. For almost all groups—including those in the suburbs and those with five years of college—the unemployment rate for blacks was double that of comparable white men, and the proportion who were out of the labor force in 1985 or who did not work during 1984 was much higher.

CHART 2. Percent of Labor Force Unemployed and Percent of Total Population Out of Labor Force for Men 25 to 54, 1950 to 1985*



*These data are the annual averages which are developed from the monthly estimates. They have been standardized for age to remove the confounding effects of changes in age structure. Data refer to whites and nonwhites in all years.

Sources: U.S. Bureau of Labor Statistics, *Handbook of Labor Statistics: 1978*, Bulletin 2000 (January, 1979), Table 4; *Handbook of Labor Statistics*, Bulletin 2217 (June, 1985), Table 5; *Labor Force Statistics Derived from the Current Population Survey: A Databook* (September, 1982), Vol. 1, Table B-8; *Employment and Earnings*, Vol. 32, No. 1 (January, 1985), Tables 3 and 4; Vol. 33, No. 1 (January, 1986), Tables 3 and 4.

*This concludes the article begun in the previous issue, in which the author discussed progress in the areas of voting and citizenship rights, residency and housing, and education.

TABLE 2. Percent Unemployed in 1985, Percent Who Did Not Work in 1984, and Percent out of Labor Force in 1985, for Black and White Men Classified by Age, Place of Residence, and Educational Attainment.

Classification	Percent Unemployed in March 1985		Percent out of Labor Force in 1985		Percent Who Did Not Work in 1984	
	Black	White	Black	White	Black	White
Age						
15-24	32	13	47	33	49	24
25-34	15	6	14	5	18	6
35-44	13	5	13	5	17	6
45-54	10	5	16	8	17	9
55-64	10	4	46	31	41	25
65 +	9	4	85	83	81	78
Place of Residence (Men 15 and Older)						
<i>North and West*</i>						
City of Large SMSA	21	8	40	31	40	29
Suburbs of Large SMSA	15	6	36	23	33	19
Other SMSA	20	8	38	25	39	21
Non-Metropolitan	19	9	38	28	45	22
<i>South*</i>						
City of Large SMSA	8	6	33	23	35	21
Suburbs of Large SMSA	14	3	20	22	19	18
Other SMSA	14	5	32	26	32	23
Non-Metropolitan	16	6	38	30	33	26
Educational Attainment (Men 25 and Older)						
Elementary	14	10	59	55	58	53
High School, 1-3	16	10	30	32	31	31
High School, 4	14	6	18	19	20	18
College, 1-3	11	4	13	15	17	14
College, 4	8	3	10	11	13	11
College, 5 +	5	2	18	11	13	10

*These data pertain to the ten largest metropolitan areas in each region. Central cities are distinguished from suburban rings.
Source: U.S. Bureau of the Census, *Current Population Survey*, March, 1985 (Tape File).

When age groups other than 25 to 54 are considered, we find some trends which are similar and others which are different. Among those over 54, labor force participation has declined because of improved Social Security benefits, better private pensions, and the greater availability of Supplemental Security Income. At the other end of the age scale, there has been an increase in the employment of white youths but not of black. Indeed, all indicators report that the employment situation of young blacks *vis-à-vis* that of whites has deteriorated since 1960.²⁸ Whites are now much more likely than blacks to hold jobs while they attend school or when they move from the completion of high school into their twenties.

For both races there has been a steady rise in the employment of women. The recent increases, however, have been greater for whites. Traditionally a higher proportion of black than white women held jobs, but, by the early 1980s, white women caught up with black women in terms of employment.²⁹

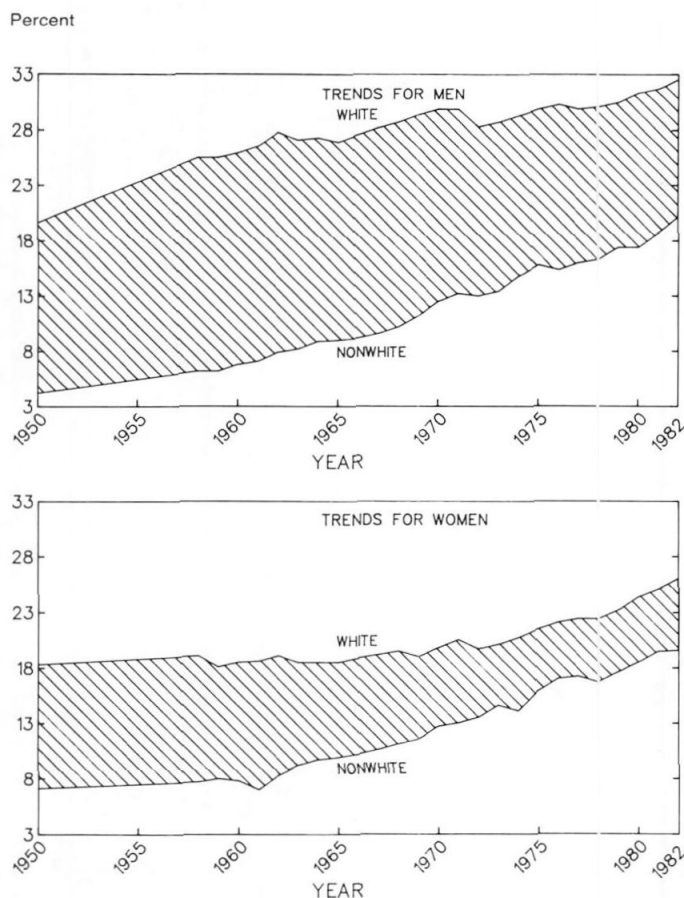
Occupational Achievement. Unlike the indicators of employment itself, there is unambiguous evidence that the occupational distribution of employed blacks has been upgraded and is gradually becoming similar to that of whites. At the end of World War II, blacks were concentrated in a

narrow range of unskilled occupations: 69 percent of the black men in 1950 worked on farms or as laborers or machine operators; 50 percent of black women were domestic servants or farm laborers.³⁰ As blacks moved into cities and their educational attainments rose, they obtained better jobs.

Chart 3 indicates this by showing the proportion of employed workers who held professional or managerial jobs from 1950 to 1982.³¹ The occupational distribution of whites improved as the focus of the economy shifted from blue collar jobs to white collar and service jobs. The changes, however, were greater among blacks. For example, the percent of white men with jobs at the top of the occupational ladder went up from 20 to 32 percent; for black men, from 6 to 20 percent.

Numerous investigators have analyzed racial differences across the entire occupational distribution, and their findings demonstrate that employed blacks moved into better jobs more rapidly than whites and that upgrading continued throughout the 1970s and into the 1980s.³² Studies of occupational mobility also report a declining net effect of race, suggesting that the process is becoming more egalitarian.³³ Nevertheless, large occupational differences remain. In 1982 the proportion of black men with professional or managerial jobs was equal to what it was among white men three decades

CHART 3. Percent of Employed Workers Holding Professional or Managerial Jobs by Race and Sex, 1950 to 1982



Sources: U.S. Bureau of the Census, *Census of Population: 1950*, P-C1, Table 128; U.S. Bureau of Labor Statistics, *Handbook of Labor Statistics: 1978* (June, 1979), Table 18; *Employment and Earnings*, Vol. 26, No. 1; Vol. 27, No. 1; Vol. 28, No. 1; Vol. 29, No. 1; Vol. 30, No. 1, Table 22 in each publication.

earlier. Among women the corresponding lag was two decades. Several more decades will be required before the occupational distributions of employed blacks and whites are similar.

Earnings of Employed Workers. Findings from many studies show that blacks once earned much less than similar whites, but this racial difference has declined among men and has just about disappeared among women.^{1,34} This is often accepted as evidence that racial discrimination in pay rates has been substantially reduced and, perhaps, even eliminated among women.

The decennial enumerations and the Census Bureau's March surveys ask national samples about their earnings, hours of employment, and educational attainment. These data may be used to fit models which relate the wages of workers to those factors which influence earnings. The analysis reported here is based upon data from the Census of 1960 and surveys conducted in March of 1970, 1980, and 1985. All noninstitutionalized persons 25 to 64 who reported cash earnings during the previous year were included.³⁵

Trends in the relative earnings of blacks are described in Table 3, which shows the average *hourly* and *annual earnings* of blacks as a percent of those of whites. Then, using

a model which sees hourly earnings as a function of education, place of residence, and years elapsed since completion of school, i.e., years of potential labor market experience, estimates were derived for blacks and whites with specific characteristics such as college education or southern residence.³⁶

In 1960 black men had hourly earnings 61 percent those of white men, and in the next two decades this increased to 74 percent. Black men do less well on an annual basis because they experience much more unemployment. Nevertheless, the annual earnings of black men as a percent of those of whites increased from 52 percent in 1960 to 66 percent in 1980.

When men are classified by region, education, and years of experience, we find that racial differences in relative earnings were much smaller in the North than in the South. However, racial differences varied little by educational level or by years of experience. Regardless of how long they spent in school, black men earned about 60 percent as much as white men in 1960 and 75 percent as much in 1980.

The 1960s and 1970s were decades of improvements in the relative earnings of black men, but there has been stagnation in the 1980s. An examination of annual data shows that the earnings of blacks rose more rapidly than those of whites until the recession of 1973-75. Following that, the earnings of men—in constant dollars—generally fell with the rates of decline being similar for both races. That recession marked a turning point, since there has been no racial convergence of the earnings of black and white men in the last decade.

The racial gap in earnings closed much more rapidly among women. In 1960 black women's hourly earnings were 61 percent of those of white women, but this increased to 98 percent by 1980, and in 1985 the hourly earnings of black women exceeded those of whites. In the past employed black women worked fewer hours than white women. Black women now report greater hours of employment, and, as a result, the average annual earnings of black women are in excess of those of white women.

When the earnings of women with specific characteristics are compared, we see that black women in 1960—with the exception of college graduates—were far behind white women. By 1980 there was racial parity, and, unlike the situation among men, the earnings of black women relative to those of white women continued to rise in the 1980s.

Trends in the earnings of employed workers provide clear evidence of racial progress. The investigation of Smith and Welch shows that differences among men also declined in the 1940 to 1960 era.¹ By 1980 black men—on an annual basis—earned about two-thirds as much as white men. When differences in education, residence, experience, and hours of work were taken into account, they earned about 85 percent as much.³⁷ Black women showed even greater improvement, and by 1980 they earned as much as comparable white women.

Family Income and Poverty. Two indicators which are frequently cited as key measures of economic welfare are the ratio of black to white family income and the percentage of blacks below the poverty line. Since the earnings of blacks have risen more rapidly than those of whites, we might expect an improvement for blacks on these indicators. The actual trends are mixed and have been confounded by changes in family structure.³⁸

Chart 4 shows the median income of black families as a percent of that of whites and the proportion of blacks and whites below the poverty line since 1959, the first year for which the Census Bureau compiled such data. Throughout

TABLE 3. Earnings of Employed Blacks as a Percent of Those of Whites, Persons 25 to 64, 1960 to 1985
(Amounts Shown in 1984 Dollars)

Earnings and Classification	1960	1970	1980	1985
Hourly Earnings of Men	61	68	74	74
Annual Earnings of Men	52	59	66	65
Annual Earnings for Men with Specific Characteristics				
Place of Residence				
North and West	67	68	71	66
South	48	56	64	65
Educational Attainment				
9 Years	60	68	73	69
12 Years	57	63	74	70
16 Years	60	60	78	76
Years of Labor Force Experience				
5 Years	54	61	73	68
15 Years	53	59	65	66
25 Years	53	58	62	62
35 Years	53	57	64	66
Hourly Earnings of Women	61	75	98	101
Annual Earnings of Women	55	74	103	107
Annual Earnings for Women with Specific Characteristics				
Place of Residence				
North and West	72	88	113	117
South	59	67	98	103
Educational Attainment				
9 Years	74	76	106	111
12 Years	74	98	107	111
16 Years	97	103	117	118
Years of Labor Force Experience				
5 Years	54	87	101	98
15 Years	56	91	104	106
25 Years	56	71	104	111
35 Years	54	69	102	113

Source: U.S. Bureau of the Census, *Census of Population and Housing: 1960*, Public Use Sample (Tape File); *Current Population Survey*, March 1970, March 1980, and March 1985, Public Use Samples (Tape Files).

the 1960s the incomes of black families rose more rapidly than those of whites, so the black median as a percent of white median income increased from 54 to 60 percent. The proportion of blacks impoverished fell sharply in the 1960s, reaching a minimum of 30 percent in the early 1970s. The continued urbanization of blacks and increases in earnings help account for the progress of that period.

Since the early 1970s blacks have made no gains on these indicators. The proportion impoverished actually increased and the ratio of black-to-white family income declined. The fact that the earnings of black males are no longer rising faster than those of whites and that there is no longer a migration from southern farms to cities plays a role, but changes in family structure are also important.

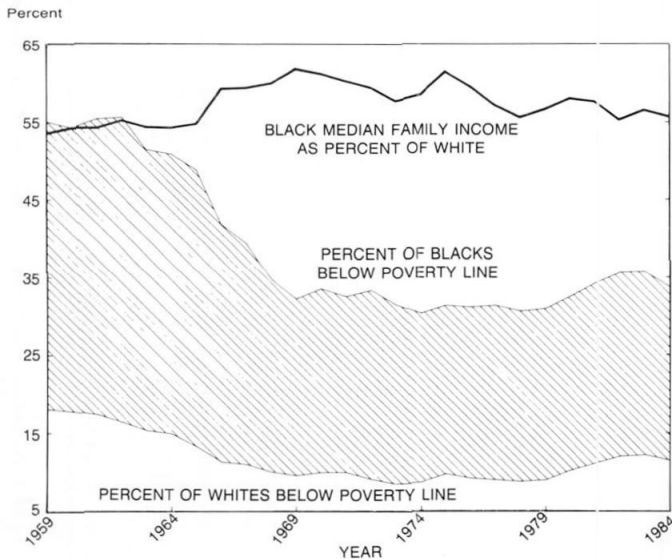
At all dates, poverty rates have been high and income levels low in families headed by women.³⁹ In 1984, for example, 52 percent of the black families with a woman as head-of-household were below the poverty line, compared to 15 per-

cent of the black married-couple families.⁴⁰ While similar trends are occurring in white families, there has been a sharper increase in the proportion of blacks living in these female-maintained families which have high poverty rates.

Table 4 summarizes changes in family living arrangements. Because of delays in age at first marriage and the increasing frequency of marital disruption, the proportion of adult women who live with husbands has fallen, and by 1984 fewer than 30 percent of black women 15 to 44 lived with a spouse.⁴¹ Women have delayed their childbearing much less than the timing of their marriage so there has been a sharp increase in the percent of births occurring to unmarried women. By 1983 about six-in-ten black children and one-in-eight white were delivered to unmarried women.⁴²

Delays in marriage, more frequent marital disruption, and more childbearing prior to marriage mean that a growing proportion of families with children are maintained by women who have no husband present (see Table 4). As a corollary

CHART 4. Median Income of Black Families as a Percent of that of Whites and Percent of Blacks and Whites below the Poverty Line, 1959 to 1984*



*Family income data for years prior to 1967 refer to whites and nonwhites. Poverty data for blacks for the years 1960 to 1966 are estimates.

Sources: U.S. Bureau of the Census, *Current Population Reports*, Series P-60, No. 146, Table 15; No. 147, Table 1; No. 149, Tables 3 and 15.

of these changes, the majority of black children under 18 now live in families headed by a woman rather than by a married couple. Two-thirds of these children were in impoverished families.⁴⁰

Table 4 indicates that, although family structure is changing among whites, blacks and whites have become increasingly different on all these indicators since 1960. These changes are certainly not the single cause and, perhaps, not the major cause of the persistently high poverty rate among blacks; however, they are a significant factor. If all blacks and whites lived in husband-wife families, blacks would still have high poverty rates, but they would be twice, rather than three times, those of whites. The median income of black families would be about 80 percent that of white families rather than the actual value: 54 percent in 1984.⁴⁰ Indicators of the economic status of black families would not be so bleak had not the living arrangements of black adults and children changed so rapidly.⁴³

The Nature of Black Progress

The conclusions which are drawn about the changing status of blacks depends upon which indicators are stressed. Those who believe that this nation is a melting pot will place great weight upon the narrowing of black-white gaps in educational attainment, in the earnings of employed workers, and in occupational prestige. They will point to the rapid growth of a prosperous black middle class and will note that, for the first time, blacks now have real political power. A large fraction of the black population took advantage of the opportunities which, they believe, were created when the United States faced its racial dilemma.⁴⁴

Those who defend this model of society recognize that many other blacks are not succeeding. Increasingly the term "urban underclass" describes those ghetto residents who seem unable or unwilling to move into the economic mainstream.

According to the melting pot view, European and Asian immigrants were once in a similar position, but they escaped poverty, not by depending upon welfare and affirmative action, but rather by taking menial jobs or starting small businesses. The fact that so many blacks prosper is proof, for them, that racial discrimination is no longer a major issue.

A variety of commentators argue that the availability of governmental payments lessens incentives for the poor and makes them even more dependent.⁴⁵ In particular, it undercuts the role of black men and leads to frequent marital disruption and high rates of childbearing outside marriage, which are assumed to be the unintended effect of governmental programs, rather than the result of present or past white racism. The problems of blacks will be solved, not by new civil rights laws or more welfare, but rather when blacks capitalize on the opportunities now available. This means accepting those low-income jobs which have traditionally been filled by immigrants and which are now very attractive to hundreds of thousands of Latin Americans.

Contradictory conclusions and policy recommendations will be offered by those who see this nation as fundamentally polarized by race and economic issues.⁴⁶ While recognizing that important changes have occurred in voting rights, educational attainment, and earnings, they will stress that black-white differences remain large. Despite decades of gains, black men in 1984 earned only 65 percent as much as white men, and blacks are still much more likely than whites to be doing manual labor or operating a machine. They see claims about the black middle class as inflated, since blacks—even those with high incomes—have assets which are a small fraction of those of whites with similar incomes.⁴⁷ Other indicators are even more disturbing. In terms of unemployment rates and labor force participation, black men made no gains in the 1980s, and the number of black poor increased from 7.2 to 9.5 million in the decade following 1974.^{40,48}

Rather than stressing that blacks are failing to utilize available opportunities, defenders of this model contend that the nation has not altered those basic social and economic arrangements which keep blacks at a great disadvantage. Symbolic changes may be accepted but real changes are seldom made. The *Brown* decision failed to integrate schools in the metropolitan areas where most blacks live. Title VII of the Civil Rights Act of 1965 called for equal employment opportunities, but the employment situation for black men has worsened since then. The Fair Housing Act of 1968 was not followed by a break-down of the chocolate city-vanilla suburbs pattern.

It is impossible to answer a question about black progress with a simple yes or no. It is clear that white Americans have made fundamental changes in our social institutions which extend the practices and principles of democracy to blacks, but it is also clear that neither the melting pot nor the polarization model adequately describes the racial situation in a nation of 230 million.

In his 1965 speech at Howard University's commencement, President Johnson asserted that you cannot take a man who has been hobbled by chains, liberate him, and expect him to compete fairly with all the others.⁴⁹ Many programs of the War on Poverty attempted to compensate for some of the inequities in the status of blacks, but current support for such policies is lacking. Quite likely, racial differences will persist and some, such as those relating to family income and poverty, will grow larger.

TABLE 4. Indicators of Racial Differences in Marital and Family Status, 1960 to Mid-1980s

Year	White	Black	Racial Difference
Percent of Women 15 to 44 Living with Husband			
1960*	69	52	17
1970	61	42	19
1980	55	30	25
1984	55	28	27
Percent of Births Delivered to Unmarried Women			
1960*	2	22	20
1970	6	35	29
1980	11	55	44
1983	13	58	45
Percent of Families with Children under 18 Maintained by a Woman			
1960*	6	24	18
1970	9	33	24
1980	14	48	34
1984	15	50	35
Percent of Children under Age 18 in Mother-only Families			
1960*	6	20	14
1970	8	29	21
1980	14	44	30
1984	15	50	35

*Data for 1960 refer to whites and nonwhites.

Source: U.S. Bureau of the Census, *Census of Population: 1960*, PC(1)-1D, Table 76; PC(2)-4A, Table 2; *Census of Population: 1970*, PC(1)-D1, Table 203; *Census of Population: 1980*, PB80-1-D1-A, Table 264; *Current Population Reports*, Series P-20, No. 212, Table 4; No. 218, Table 1; No. 365, Table 4; No. 366, Table 1; No. 398, Table 1; No. 399, Table 4; U.S. National Center for Health Statistics, *Vital Statistics of the United States: 1970*, Vol. 1-Natality, Table 1-29, *Monthly Vital Statistics Reports*, Vol. 31, No. 8 (Supplement), November 30, 1982, Table 15; Vol. 34, No. 6 (Supplement), September 20, 1985, Table 17.

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- ³⁶This model uses the log of the hourly wage rate as its dependent variable. This is regressed upon years of elementary and secondary education, years of collegiate education, years elapsed since estimated completion of schooling, the square of that variable, and a dichotomous variable indicating southern residence.
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Actual and Projected Economic Indicators

seasonally adjusted

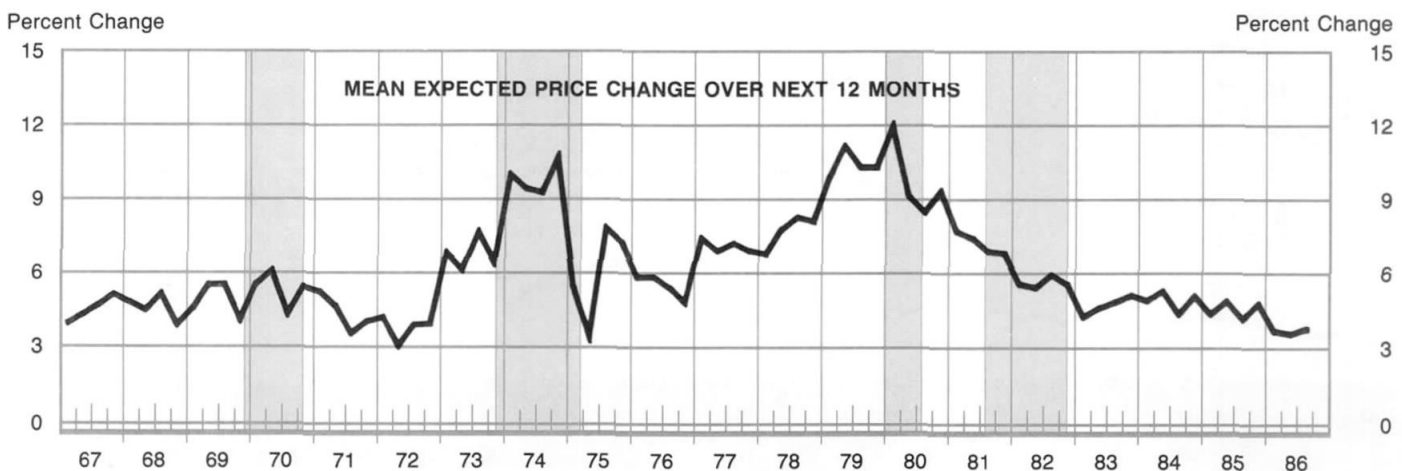
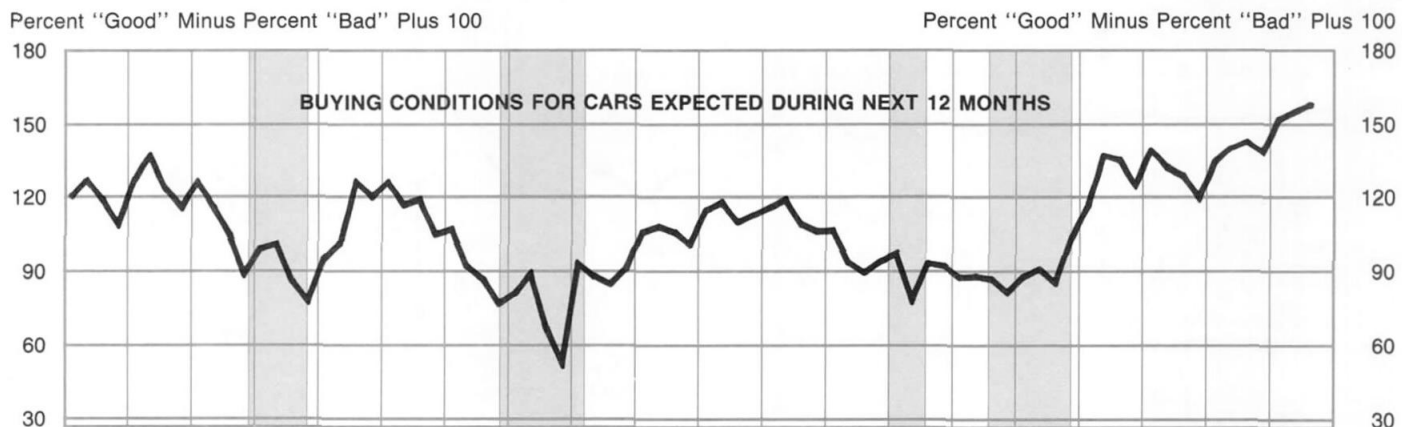
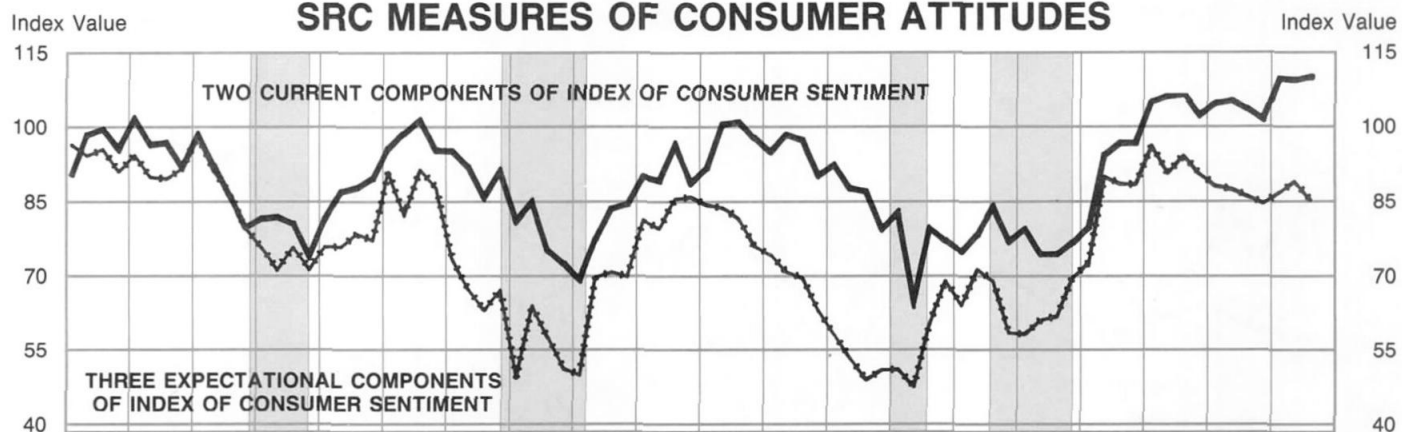
SERIES FORECAST BY THE ASA-NBER PANEL															
ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	Actual						Projected						Act'l.	Projected	
	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:3	86:4	87:1	87:2	87:3	1985	1986	1987
GROSS NATIONAL PRODUCT	3,909	3,965	4,031	4,088	4,149	4,176	4,234	4,230	4,288	4,349	4,409	4,475	3,998	4,213	4,448
GNP IMPLICIT PRICE DEFLATOR (index, 1982 = 100)	110.2	111.1	111.8	112.8	113.5	114.0	115.0	114.7	115.2	116.1	117.0	117.7	111.5	114.4	117.3
CORPORATE PROFITS AFTER TAXES	126.0	126.7	133.4	139.4	135.2	138.0	NA	140.3	145.0	143.4	146.3	147.0	131.4	140.5	148.0
UNEMPLOYMENT RATE (percent)	7.33	7.30	7.17	7.00	7.07	7.17	6.90	7.00	7.00	6.95	6.90	6.80	7.20	7.10	6.90
INDUSTRIAL PRODUCTION* (index, 1977 = 100)	123.1	123.5	124.0	124.7	125.0	124.4	125.1	125.0	125.9	126.5	128.0	129.6	123.8	125.0	128.7
NEW PRIVATE HOUSING UNITS STARTED (millions)	1.762	1.743	1.688	1.773	1.998	1.908	1.760	1.871	1.884	1.840	1.800	1.785	1.741	1.914	1.790
CONSUMER PRICE INDEX (annualized percent change from prior quarter or year)	3.21	4.05	2.56	4.32	1.44	-1.66	2.60	2.90	3.32	3.50	3.50	3.70	3.54	2.00	3.30
3-MONTH TREASURY BILL RATE (percent)	8.18	7.52	7.10	7.15	6.89	6.13	5.53	5.68	5.42	5.53	5.65	5.80	7.49	6.04	5.72
NEW HIGH-GRADE CORPORATE BOND YIELD (percent)	12.57	11.88	11.52	11.04	9.68	9.06	NA	8.70	8.45	8.50	8.64	8.80	11.75	8.96	8.80
GNP IN 1982 DOLLARS	3,547	3,568	3,604	3,622	3,656	3,661	3,683	3,687	3,715	3,739	3,767	3,795	3,585	3,681	3,780
PERSONAL CONSUMPTION EXPENDITURES (1982 dollars)	2,292	2,312	2,342	2,352	2,373	2,408	2,450	2,426	2,440	2,455	2,473	2,494	2,324	2,412	2,481
NONRESIDENTIAL FIXED INVESTMENT (1982 dollars)	442.7	463.0	463.1	476.9	457.8	456.8	457.1	452.0	453.6	453.9	453.6	458.6	461.4	454.8	457.1
RESIDENTIAL FIXED INVESTMENT (1982 dollars)	172.4	175.1	180.0	181.5	186.3	192.7	196.1	196.0	196.4	196.5	197.0	197.5	177.3	192.4	197.3
CHANGE IN BUSINESS INVENTORIES (1982 dollars)	23.2	17.4	0.7	-5.2	39.9	15.1	-4.5	16.0	18.0	20.0	22.0	23.0	9.0	21.6	23.0
NET EXPORTS (1982 dollars)	-78.8	-108	-114	-132	-126	-154	-165	-142	-134	-120	-110	-103	-108	-137	-106
FEDERAL GOVERNMENT PURCHASES (1982 dollars)	305.8	311.4	329.9	347.2	320.4	328.9	329.3	328.0	331.0	329.2	329.6	334.0	323.6	327.0	333.0
STATE AND LOCAL GOVERNMENT PURCHASES (1982 dollars)	389.5	396.9	401.9	402.2	404.8	413.3	419.5	415.0	416.0	418.0	420.0	421.0	397.6	412.0	420.0
SERIES FROM THE CURRENT-DOLLAR GNP ACCOUNTS															
ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	83:4	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	86:1	86:2	86:3	1983	1984	1985
GROSS NATIONAL PRODUCT	3,546	3,671	3,744	3,800	3,846	3,909	3,965	4,031	4,088	4,149	4,176	4,234	3,406	3,765	3,998
PERSONAL CONSUMPTION EXPENDITURES	2,316	2,364	2,416	2,446	2,487	2,531	2,576	2,627	2,668	2,698	2,732	2,799	2,235	2,428	2,600
GROSS PRIVATE DOMESTIC INVESTMENT	579.8	659.5	657.5	670.3	661.1	650.6	667.1	657.4	669.5	708.3	687.3	674.7	502.3	662.1	661.1
NET EXPORTS	-25.8	-45.6	-63.2	-60.0	-66.1	-49.4	-77.1	-83.7	-105	-93.7	-104	-110	-6.1	-58.7	-78.9
GOVERNMENT PURCHASES	676.1	693.2	733.3	743.8	763.4	777.3	799.0	829.7	855.6	836.7	860.8	870.4	675.0	733.4	815.4
DISPOSABLE PERSONAL INCOME	2,528	2,613	2,646	2,694	2,730	2,755	2,842	2,832	2,882	2,935	2,979	2,983	2,428	2,671	2,828
PERSONAL SAVING RATE (percent of disposable income)	5.8	6.9	6.0	6.4	6.0	5.2	6.5	4.2	4.4	5.0	5.1	2.9	5.4	6.3	5.1

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 October, and projected data, released by ASA-NBER in September, are displayed for third quarter 1986.

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.

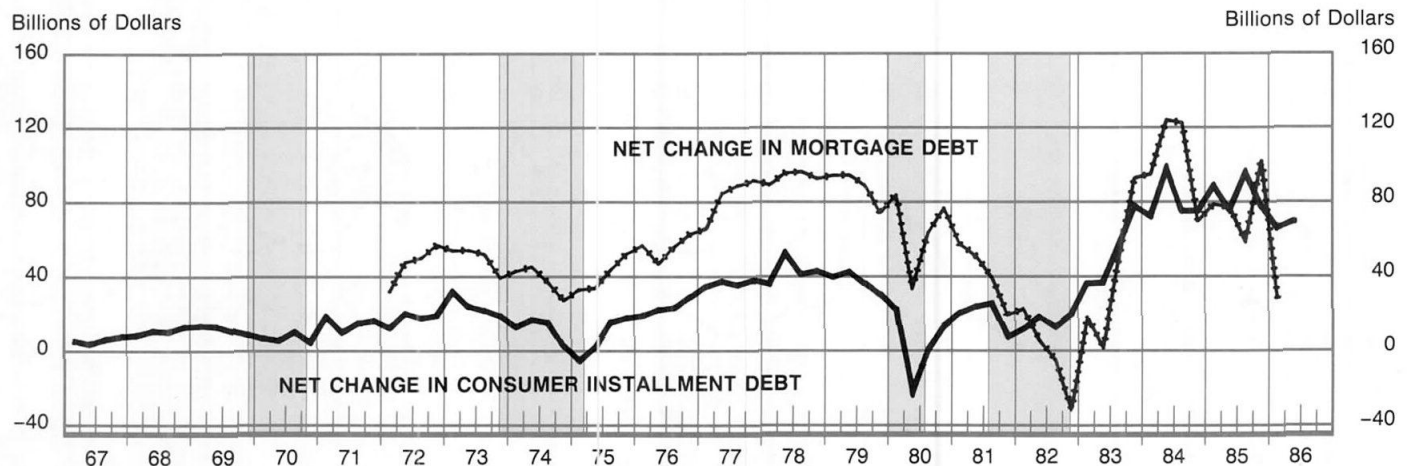
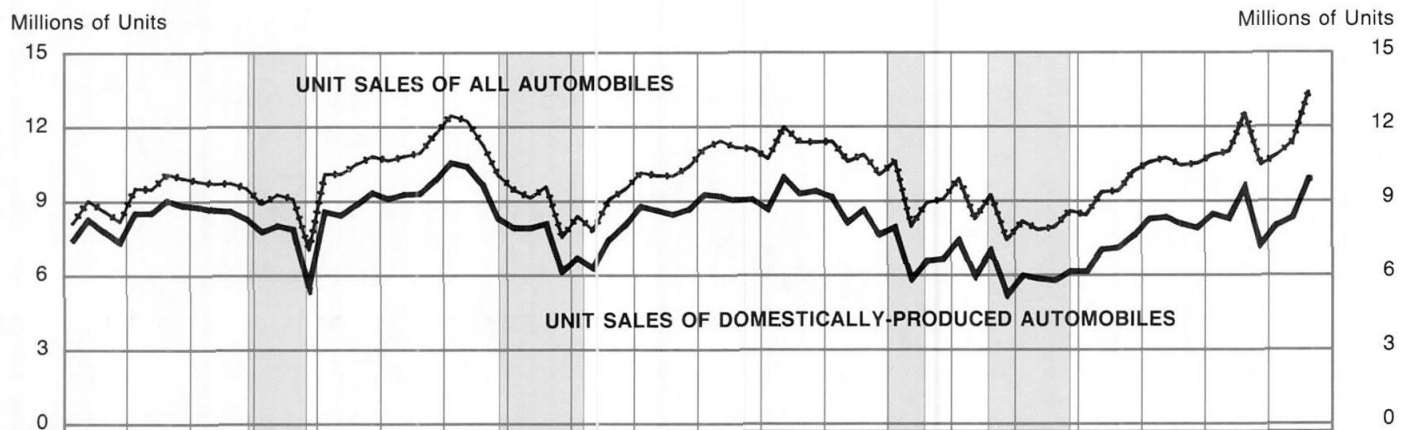
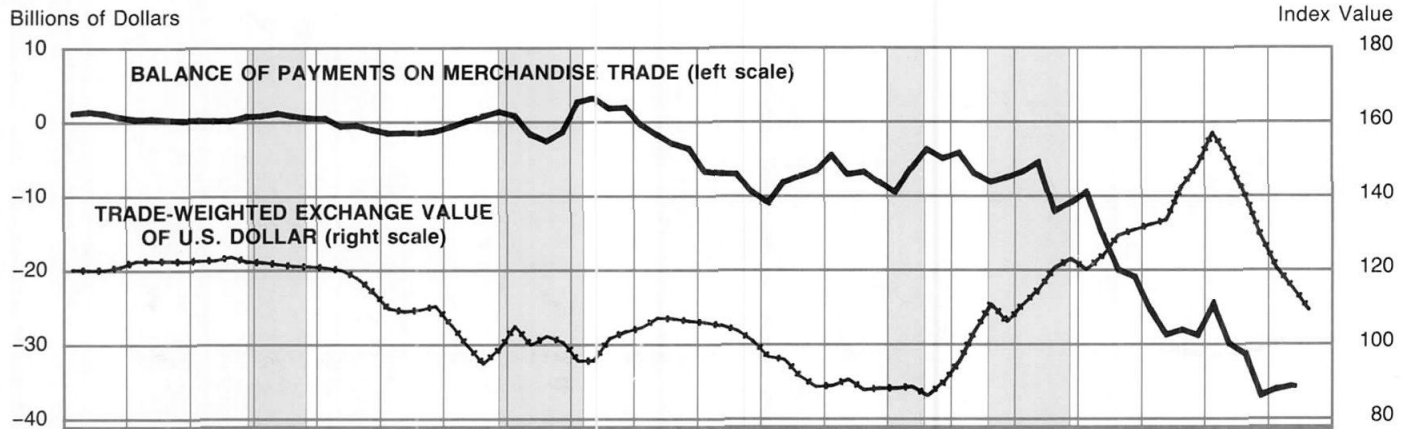
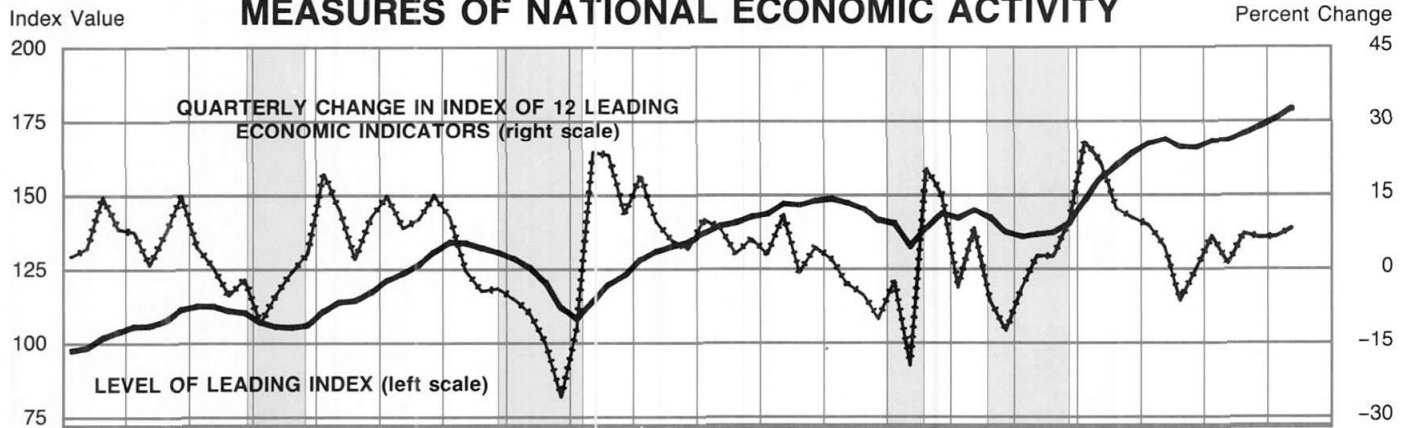
*Substantial revision of the data for variables marked with an asterisk has occurred since the last printing.

SRC MEASURES OF CONSUMER ATTITUDES



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

MEASURES OF NATIONAL ECONOMIC ACTIVITY

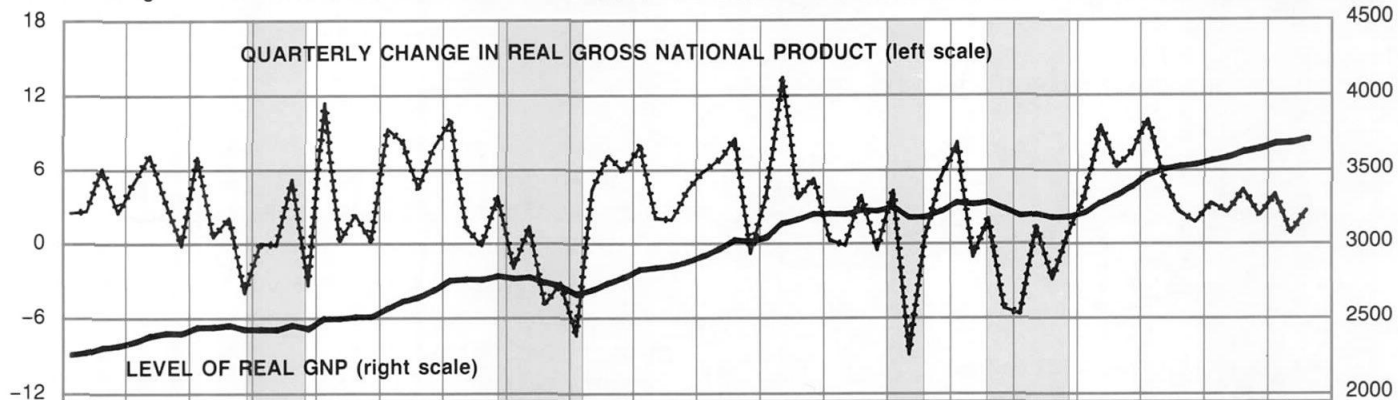


Note: Shaded areas indicate recession periods as designated by the National Bureau of Economic Research, Inc.

MEASURES OF NATIONAL ECONOMIC ACTIVITY

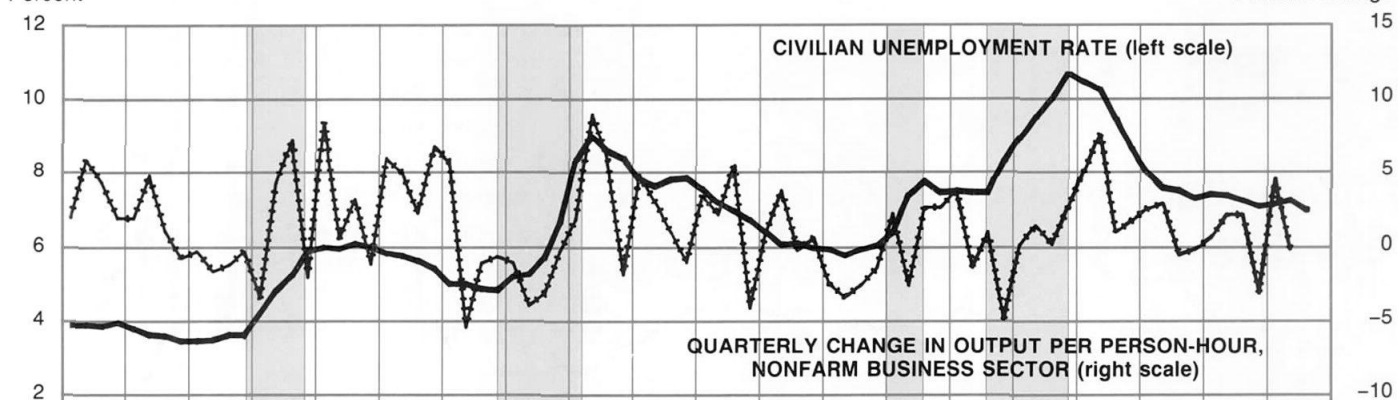
Percent Change

Billions of 1982 Dollars



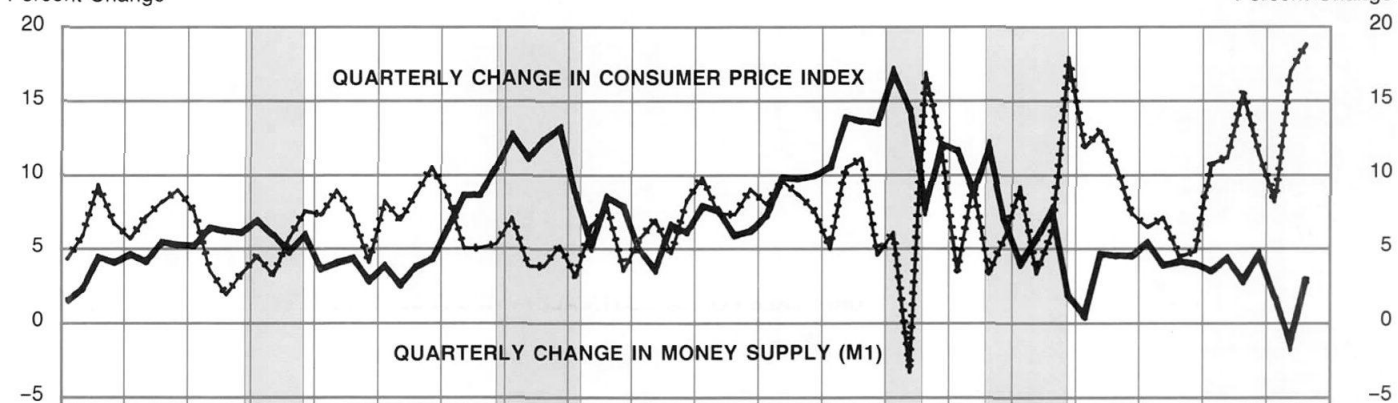
Percent

Percent Change



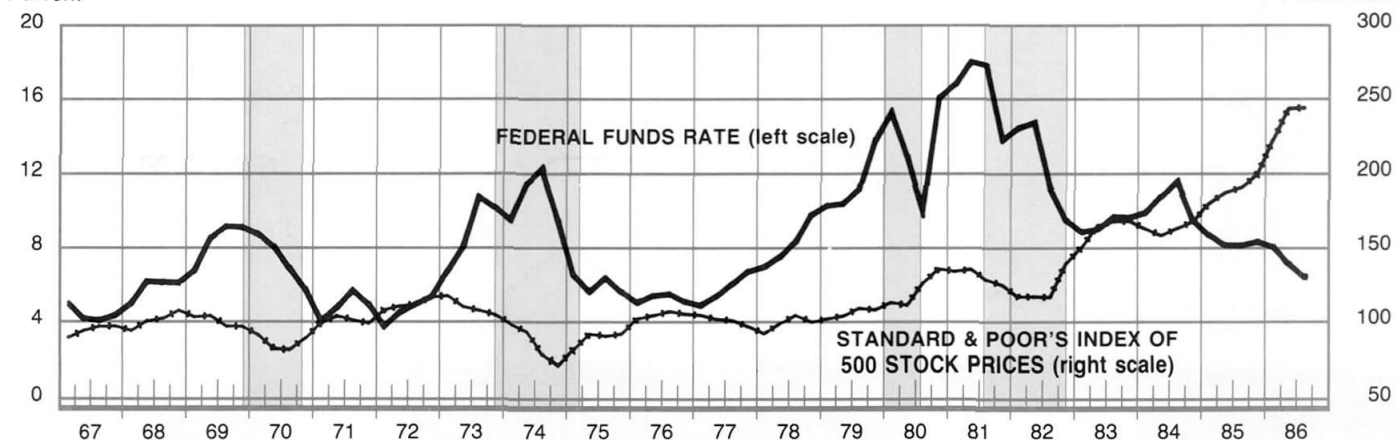
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Percent

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

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