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EDITOR'S NOTE:

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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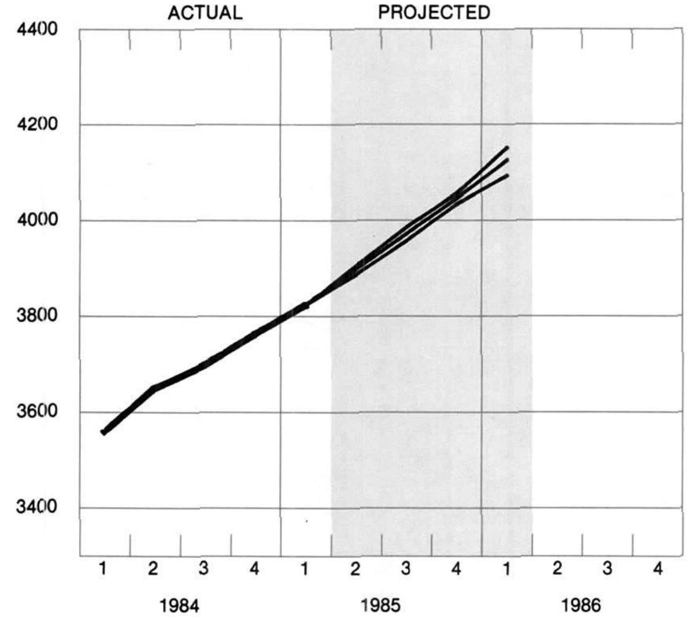
GROSS NATIONAL PRODUCT

IN CURRENT DOLLARS
Billions of Dollars



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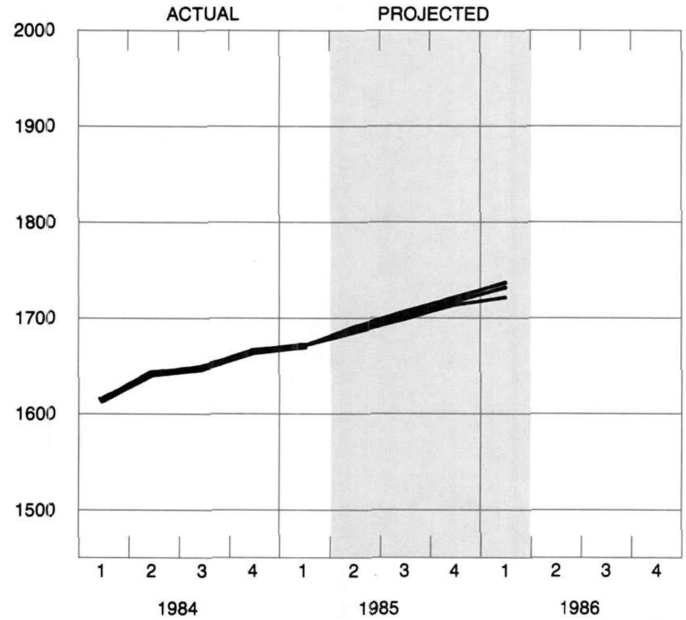
GROSS NATIONAL PRODUCT

IN CONSTANT 1972 DOLLARS
Billions of Dollars



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The Unbalanced Recovery

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Introduction

Although developments in the macro economy are never seen uniformly by the macro economic forecasting fraternity, the incidence of surprises and of events that produce mixed signals seems to be higher than usual during the current expansion. The difficulties in producing reliable future scenarios of aggregate economic activity are well illustrated by events over the last several quarters. Toward the end of last year, when the expansion was just ending its second full year, it was widely thought that we could look forward to continued rates of growth of the order of four percent over the next several years. After a sluggish third quarter performance last year, the fourth quarter recovered to about the expected rate and most business observers expected 1985 to start off at about the same rate. But the flash report on first quarter GNP growth came in lower than expected, and the recently released first quarter data suggest that hardly any growth at all took place during that period. Thus real growth has averaged only a shade better than two percent over the last three quarters.

It is easy to make too much of short-term wiggles in the economy. And it may be that what appears now as a troublesome period of sluggish growth portending ill for the vigor of the expansion will turn out to have been a mirage when the major forthcoming revision of the National Income and Product Accounts is completed late this year. Still, one can find a number of elements in the composition of the present recovery that are unlikely to be changed by any revision of the data, and which represent elements that have rarely been found during past recoveries.

The current recovery is clearly unbalanced relative to normal behavior in a number of significant respects, and that unbalance is likely to be one of the reasons why forecasters have so much difficulty in tracking current developments. More importantly, the unbalanced nature of the recovery has some characteristics that create uneasiness about longer-term developments in the economy and in the society at large.

The characteristics of this recovery that differ from the typical postwar recovery in the U.S. economy are (1) the difference in growth rates between domestic demand and domestic production, (2) the difference between growth in goods-producing industries and growth in services, and (3) the difference between income growth for the upper and lower halves of the income distribution. All of these differences are presumably a reflection of the U.S. policy mix during the last several years—very loose fiscal policy that continues to produce Federal government deficits of the order of $200 billion, coupled with monetary policy designed to restrain the growth of nominal GNP, and hopefully inflation, to moderate levels—a policy mix which is generally agreed to have resulted in high real interest rates, a strong dollar, and a weakened U.S. competitive position in foreign markets.

Domestic Production and Domestic Demand

The difference between domestic production and demand is easily illustrated by a few macro numbers. From the fourth quarter of 1982, when the current recovery began, to the first quarter of 1985 (a 10-quarter span), GNP in 1972 prices grew by roughly $191 billion, or about 13 percent. Of the major components of GNP, consumption (again in 1972 prices) grew by $124 billion, investment by $102 billion, and government spending by $18 billion. That adds up to $244 billion, a bit over $50 billion more than GNP growth. The difference, of course, was in the negative growth of net exports, which fell from a plus $26 billion contribution in the third quarter of 1982 to a minus $26 billion contribution in the first quarter of 1985 (1972 prices). Exports actually declined over the period, while imports grew by almost $50 billion.

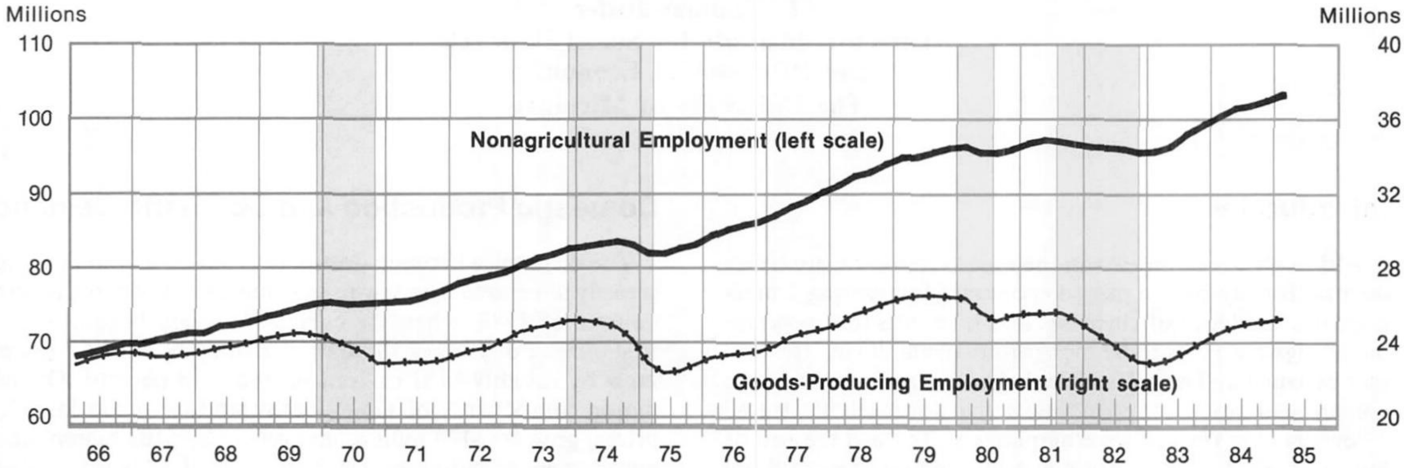
Thus domestic demand, which includes imports, grew at a 6.2 percent annual rate over this 10-quarter span, while domestic production, which includes exports, grew at a 4.8 percent annual rate over the same period. Although the growth rate of domestic production was healthy enough, it would have been almost a third higher if the trade balance had remained neutral. The point is not that domestic policy should be aimed at producing export surpluses, or that import surpluses are always undesirable, but rather that the apparent contradiction between strong domestic demand and much less strong domestic production is no contradiction at all once the massive shift in the trade balance is taken into account.

Goods and Services

Employment growth during this recovery shows a pattern which clearly reflects the trade picture. Total employment growth during the recovery has been substantial—from about 95 million total (civilian) nonagricultural employment at the end of the recession in late 1982 to a bit less than 104 million currently (see the chart below). The growth rate is about in line with employment growth during past periods of economic recovery: for example, total employment grew from roughly 82 million at the trough of the 1975 recession to about 96 million at the peak of the expansion in early 1980—an increase of roughly 14 million over about five years, while employment grew from roughly 75 million at the beginning of the 1971 expansion to about 83 million at the peak three years later. In all past periods of expansion, total employment has quickly outstripped the peaks reached during the previous expansion, usually within a year after the expansion began and sometimes almost immediately. The current recovery looks much like past recoveries in that regard.

But the picture is quite different if one looks at nonagricultural employment in goods-producing industries. Here, the total gain has been slightly over 2 million—from a little under 23 million to a current total of a bit over 25

Civilian Employment in the Nonagricultural Sector and in Goods-Producing Industries (Quarterly Data, 1966:1-1985:1)



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

million. But in contrast to all past periods of expansion, the total has not yet reached the 1979 peak of roughly 26.5 million persons employed, and it has actually not even returned to the level reached during the abortive expansion of 1980-81, where the total got to be around 25.7 million. During all past expansions (with the exception of the brief 12-month expansion of 1980-81) nonagricultural employment in goods-producing industries has always outstripped previous peaks, although usually not until the expansion was several years old. But in this expansion, goods-producing employment is well below past peaks, and the recent trajectory of change suggests that it may be difficult to reach the previous peak level during this expansion.

Again, appropriate national policy does not necessarily mean that employment in goods-producing industries in the U.S. should continue to grow, always reaching peak levels higher than those obtained during past expansion periods. But the growing competitive disadvantage of American workers in tradable commodities is visibly manifested by these macro totals, and the picture would look even worse if employment in defense-related, goods-producing industries were subtracted from the goods-producing total—employment in defense areas must have been growing rapidly in recent years, given the build-up in defense hardware.

As with the increasingly adverse trade balance on current account, there is nothing sacrosanct about the need for a growing goods-producing sector in the U.S. economy, as opposed to, let us say, the advantages of a vigorous and rapidly growing services sector. But there may well be an issue here involving short-term advantages and long-term costs. Assume that sluggish growth in the goods-producing industries in the U.S. is partly the consequence of a temporarily over-valued dollar. Even in that case, real U.S. investments in those industries are likely to be inhibited, foreign investments encouraged. The current decline in the U.S. share of goods output may thus result in some permanent loss of market share, even if long-run considerations of economic efficiency would argue for a larger U.S. goods-producing sector and share of world output. In effect, the loss of market share would not entirely be a consequence of economic efficiency considerations, but is simply part of the fallout from the high-deficit/high-real-interest-rate policy stance of the administration.

Income Distribution

A quite different measure of imbalance in the recovery is the apparent effect of income distribution policies, and of the recovery itself, on the distribution of earnings and income. Economic recoveries tend to be relatively neutral insofar as income distribution is concerned. Job opportunities expand rapidly during economic expansions, and many people in the low or middle parts of the income distribution tend to show rapid earnings increases because they reacquire jobs or work more hours. Because profits and eventually dividends show greater than average growth during economic expansions, many people at the upper end of the income distribution also show substantial income gains.

While both employment and hours growth and the growth of profits and dividends have characterized this expansion along with all previous ones, there are some special features of the current expansion that are unusual, if not unique. During this recovery, it appears to be true that there have been growing rather than declining absolute numbers of Americans falling below the poverty line. Analyses based on annual CPS data, for example, show that the poverty population increased slightly in 1983 (the most current data available), despite the strong recovery during that year. No previous expansion shows that result. At the same time, the overall distribution of income in the U.S. appears to have moved slightly toward greater inequality—the fraction of income received by the top fifth of the income distribution has grown during the expansion, while the fraction received by the bottom fifth has declined somewhat.

While the effects of social policies are difficult to isolate in macro distributions of this sort, it seems probable that the combination of differential reductions in personal income tax rates, cuts in social programs that mainly affect the lower part of the income distribution, and high real rates of interest are responsible for both the growth in numbers of people below the poverty line and the apparent increase in income inequality.

Prospects for Sustained Expansion

Do any of these imbalances threaten the vigor of the recovery? As a short-run proposition, the answer is probably no: although the domestic recovery in output and employment would be more vigorous if the trade balance shifted in favor of fewer imports and more exports with the same level of domestic demand, it is certainly possible to sustain an expansion with sufficiently strong domestic demand to keep pushing up domestic production at reasonably satisfactory rates. The fact that relatively more of domestic production consists of services, and relatively less of goods, does not in itself threaten the recovery. And there is no evidence that the shift in the income distribution, and the rising numbers below the poverty line, have much impact on the demand for consumption in a macro sense, or on the rate of personal saving, or on other macroeconomic variables of interest.

Nonetheless, the prospects of sustained recovery are viewed with some skepticism by a sizeable number of macroeconomic forecasters. For example, most members of the National Association of Business Economists—largely a group of corporate forecasters—expect a recession in 1986. Data from the National Association of Purchasing Management have been signaling prospective weakness for some time. And simply scanning the recent behavior of a variety of macro time series is disquieting. For example:

- The composite index of leading economic indicators has been flat for about a year, and actually peaked in May of 1984.
- The ratio of coinciding to lagging indicators—historically one of the more reliable predictors of economic weakness—has been declining sharply since January 1984.
- Most labor market indicators are showing weakness rather than strength—unemployment has stopped falling, average hours in manufacturing peaked early last year, weekly unemployment insurance claims have been rising for over a year, etc.
- Industrial production has been flat since the middle of last year.

On the other hand, virtually all of the macroeconomic models are predicting sustained expansion for the next several years, although typically at low to moderate rates in the 3-4 percent zone. Why the difference in the behavior of many indicator series and the macro models? It's hard to say; one possible reason is that the macro models are typically much better at tracking demand (which has been relatively strong during this expansion) while the indicator series noted above are more concerned with tracking production (which as noted has been weaker than demand).

Policy Alternatives

What can be said about the role of policy in sustaining the expansion? The current debate about the budget is clearly predicated on the notion that a change in the mix of fiscal and monetary policy is essential to continued growth. Everyone seems to agree that the deficit has to be reduced in order to provide some leeway for monetary policy to allow interest rates to fall. Just how to reduce the deficit is a subject of considerable dispute. The president wants to cut or eliminate social programs and continue vigorous growth in defense, the Congressional Democrats want to stabilize defense and trim social programs only slightly, and the Congressional Republicans are in the middle—more defense cuts than the president wants, and more social program cuts than the Democrats want.

Interestingly enough, no one wants to raise taxes as part of the deficit reduction package, for a combination of ideological and political reasons. Everyone seems to agree that the Mondale campaign pledge early in the 1984 campaign—to raise taxes because that was essential for a sufficiently large deficit reduction package—cost a great many votes. That judgment may be correct or incorrect, but it is clear that no one will take the lead in suggesting tax increases, for fear that the political opposition will then proceed to bury them. And the president will clearly not take the lead here for ideological reasons—he seems to believe that raising taxes will threaten the recovery by cutting into incentives, despite the complete lack of any evidence to support that proposition.

The specter that lies behind at least some of the pressure to cut the structural deficit is almost certainly the unpleasant scenario of a recession that *starts off* with a structural deficit of some $200 billion. In that event, policy makers would face the Hobson's Choice of allowing the deficit to grow substantially as tax receipts declined and transfer payments rose, or cutting expenditures/raising taxes and thus making the recession deeper and longer. Of course, the way to avoid that choice was to have taken steps to correct the problem while the economy was recovering strongly, but that period is now behind us. It is still better to make the adjustment now rather than later, and one can hope that the political process will produce an acceptable compromise. If it doesn't, the same imbalance problems will be with us next year, except that the solutions will be harder to find rather than easier.

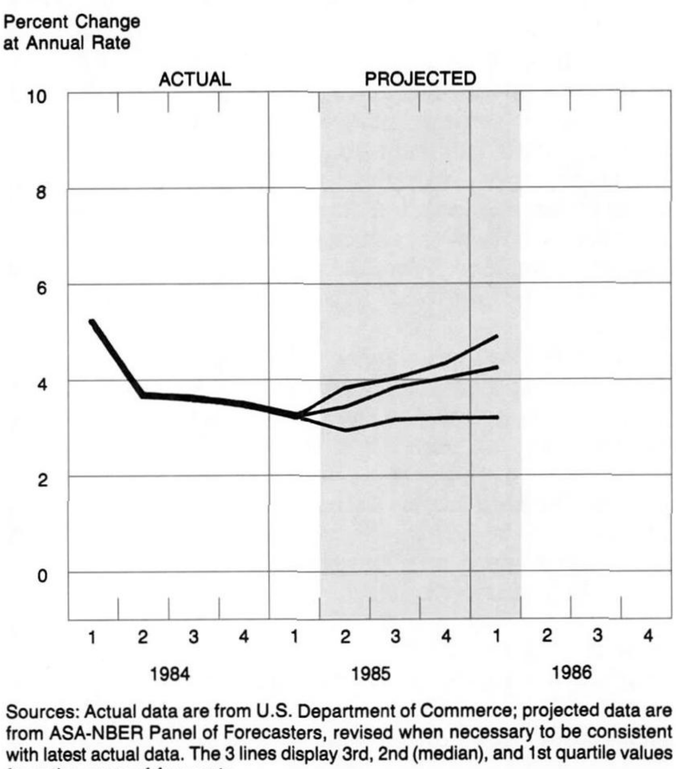
Finally, what about tax reform? The president's proposal is advertised as revenue-neutral, as creating a greatly simplified reporting requirement, as enhancing equity, and as promoting incentives to work, save, and invest. Revenue neutrality is probably a desirable feature of any tax reform proposal—one wants the reform to be considered on its own merits, not in conjunction with discussion and debate about whether taxes should generally be higher or lower. Simplification is always better than complexity, although it is far from clear to this writer why the central features of the reform—tax rate cuts, three rates instead of eleven, elimination of some deductions for itemizers, and increases in the standard deduction—make reporting any simpler for the taxpayer. Most of the complexity of the tax system results from the need to define and report taxable income, not from the need to calculate taxes once taxable income has been computed. While the proposal may be an improvement here, the improvement is likely to be modest for most people.

The proposal's main areas of interest lie in what it does for equity and what it does to incentives. Perceived fairness is an important aspect of any tax system, since fairness has an important influence on compliance. Whether any new system will be seen as more equitable probably cannot be determined until taxpayers have used it for a few years, although on the surface the proposal looks to be a significant improvement over present law.

On the incentives issue, the proposal promises a lot but is unlikely to deliver much. The fact of the matter is that there is simply no credible evidence that tax reform will do anything measurable to incentives to work, save, or invest. It will of course affect such macro variables because it will change cash flows of one kind or another—positively for some households and businesses, negatively for others—

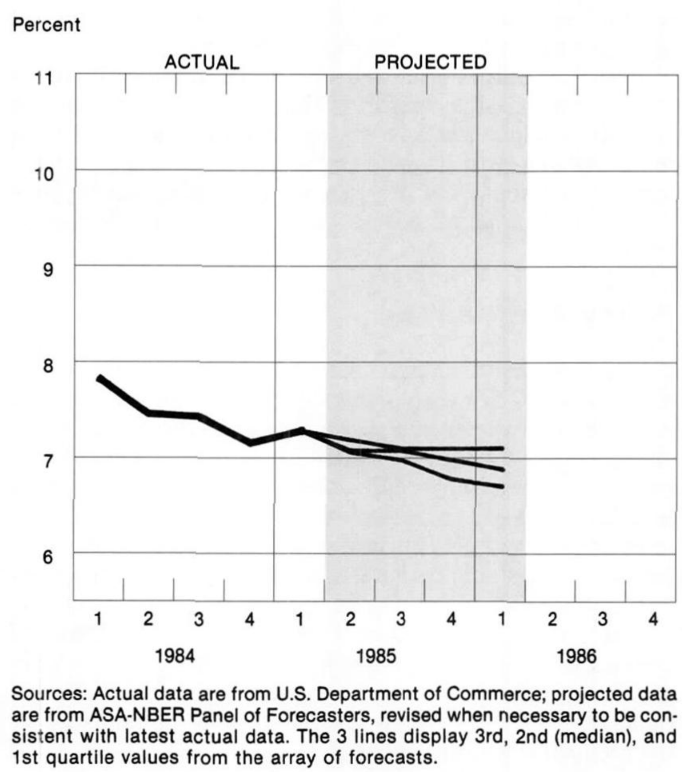
but aside from such direct impacts, the chances of anything interesting happening to the saving rate, the labor force participation rate, marginal decisions to work more or fewer hours, or real investment decisions are not very great. Thus tax reform is unlikely to solve any of our current macro policy problems, and one of the risks is that action on those problems will be deferred because people will think that tax reform *is* a solution.

CONSUMER PRICE INDEX



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.

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.

Consumer Optimism Maintained

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Extended Recovery

In the first quarter 1985 survey, the Index of Consumer Sentiment was 94.5, about the same as the 95.0 recorded in the fourth quarter of 1984, and only 5 points below the cyclical peak of 99.5 recorded in the first quarter of 1984 (see the chart below). In each of the past eight quarterly surveys, the Index of Consumer Sentiment has remained in the relatively narrow range of 91.5 to 99.5, with the most recent reading just below the two-year average of 94.9. This represents the most favorable two-year period since the mid-1960s.

Over the past five years, the Index has not only posted a larger net increase than that following any of the recessions of the 1970s, but the Index has also remained near peak levels for an unusually extended period of time. During the prior five-year period, from 1975 to 1980, the Index rose from the 1975 recession lowpoint to a cyclical peak in 1977, and subsequently fell to the 1980 recession lowpoint. In a similar fashion, the period from 1970 to 1975 included one complete cycle from recession lowpoint, through recovery and expansion, to the next recession lowpoint.

Price and Interest Rate Discounts Attract Buyers

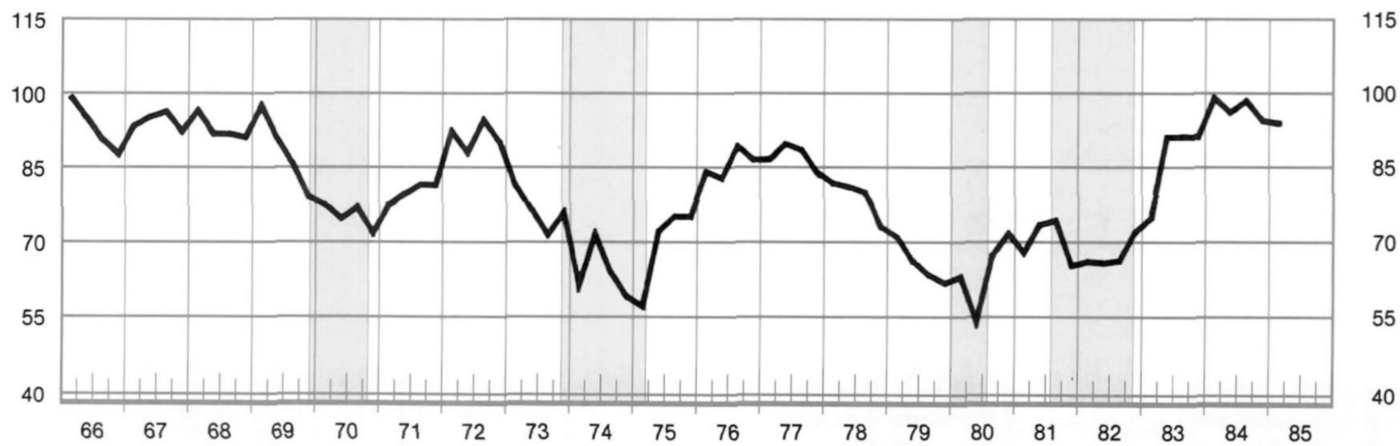
Attitudes toward buying conditions improved in the first quarter 1985 survey and reestablished the record favorable levels recorded two years earlier. It was in the spring of 1983 that attitudes toward buying conditions first reached record favorable levels. Following small declines during the balance of 1983, attitudes toward buying conditions rebounded to peak levels by the spring of 1984. Small declines were again recorded in buying attitudes during the second half of 1984, only to again rebound to peak levels in early 1985. The major reason for the pattern of spring resurgences followed by declines later in the year has been changes in the availability of discounted prices and reduced interest rates.

The first quarter 1985 survey recorded the highest proportion of American families in more than thirty years to hold favorable attitudes toward buying conditions for large household durables. Favorable buying attitudes were held by 74 percent of all families in the first quarter 1985 survey, up from 68 percent one quarter earlier, and above the 71 percent recorded at the start of 1984. The maintenance of buying attitudes at record levels for more than a year has been due to favorable perceptions of market prices for large household durables. The availability of discounted prices was reported by 41 percent of all families in the first quarter 1985 survey, the highest level ever recorded. These reports of price discounts rose from 30 percent at year-end 1984, and were just above the 40 percent recorded in the first quarter of 1984—the prior peak.

Favorable attitudes toward buying conditions for vehicles were held by 63 percent of all families in the first quarter 1985 survey, up from 59 percent in the fourth quarter of 1984, and just below the 64 percent recorded one year earlier. The availability of discounted vehicle prices was mentioned by 27 percent of all families in the first quarter 1985 survey, up from 18 percent one quarter earlier and 24 percent one year earlier. In addition to more favorable perceptions of vehicle prices, the availability of lower interest rates on vehicle loans has also attracted buyers. References to the availability of lower interest rates on vehicle loans were made by 23 percent of all families in the first quarter 1985 survey, up from 16 percent one quarter earlier, while complaints about high interest rates fell to 7 percent from 10 percent one quarter earlier. The recent quarterly increase in

INDEX OF CONSUMER SENTIMENT

February 1966 = 100



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

references to lower interest rates was especially strong among households with above-median income (rising to 30 from 19 percent).

Favorable attitudes toward buying conditions for homes were held by 62 percent of all families in the first quarter 1985 survey, up from 53 percent one quarter earlier, and just above the 61 percent recorded one year earlier. This recent improvement nearly reestablishes the cyclical peak of 64 percent recorded in the spring of 1983. The major factor behind the revival has been recent declines in interest rates. The availability of lower mortgage interest rates was mentioned by 41 percent of all families in the first quarter 1985 survey, up from 30 percent one quarter earlier and 36 percent one year earlier. This increase in reports of lower mortgage rates was concentrated among households with above-median income, rising to 60 from 47 percent. Complaints about high mortgage rates were made by 25 percent of all families in the first quarter survey, down from 38 percent six months earlier, and just above the 23 percent recorded one year earlier.

Interest rate expectations improved substantially over the mid-1984 level, offsetting the entire deterioration recorded last year. Among all families in the first quarter 1985 survey, 39 percent expected interest rate increases during the year ahead, down from 55 percent recorded six months earlier, and just below the 40 percent recorded one year earlier. Declines in interest rates were expected by 24 percent of all families in the first quarter survey, up from 17 percent one year earlier.

Personal Financial Progress Slows

The pace of improvement in the financial situation of American families slowed by the start of 1985, but nonetheless remained very favorable. Among all families in the first quarter 1985 survey, 41 percent reported that their financial situation had improved during the past year, just below the 44 percent recorded one quarter earlier and the 45 percent recorded one year earlier. Financial reversals during the past year were reported by 26 percent of all families in the first quarter 1985 survey, unchanged from one quarter earlier, and just above the 25 percent recorded one year earlier. Among families with incomes of $20,000 or more, the first quarter 1985 survey marked the fifth consecutive quarter in which a majority (54 percent) reported an annual improvement in their financial situation. The maintenance of these improved financial evaluations was due to favorable income trends during the past year, as well as the continued low rates of inflation. Among all families in the first quarter 1985 survey, 33 percent reported that their income had increased during the past year, just below the 35 percent recorded in both the quarter- and year-earlier surveys. Declines in family income were reported by 16 percent of all families in the first quarter survey, just below the 17 percent recorded both one quarter and one year earlier. Reports of overall increases in income have outnumbered reports of overall declines by a margin of two-to-one among all families (three-to-one among high income families) for more than a year.

Compared with opinion at the start of 1984, fewer families at the start of 1985 expected their financial situation to improve during the year ahead. Nonetheless, few families expected actual financial reversals at the start of either year, with improvement nearly three times more frequently expected. The majority of families expected their financial situation to remain the same on balance during the year ahead. Given the favorable financial progress reported by families during the past year, this expected maintenance of their improved financial situation represents a favorable outlook. Among all families in the first quarter 1985 survey, 35 percent expected their financial situation to improve, down from 38 percent in the fourth quarter of 1984 and 41 percent in the first quarter of 1984. Financial reversals during the year ahead were expected by just 12 percent of all families in the first quarter of 1985, just above the 11 percent recorded one quarter earlier and the 10 percent recorded one year earlier. Income increases were expected by 56 percent of all families in the first quarter 1985 survey, down from 64 percent one year earlier. During the past year, the proportion of families that expected their nominal income to remain unchanged rose slightly, from 25 to 27 percent, while expected declines in family income rose from 9 to 16 percent.

Tax Simplification

In the January and February 1985 surveys, respondents were asked whether they expected Congress to adopt reforms in the personal income tax codes, so as to lower tax rates and eliminate deductions. Among all families, 42 percent expected passage of this tax reform legislation, compared with 48 percent that did not expect passage. Respondents were also asked whether they expected to be personally better or worse off financially if Congress did enact this type of tax reform. The majority of families (56 percent) expected this simplification in the tax law to have no net effect on their financial situation (Table 1). An improved personal financial situation as a result of the tax reform was expected by 20 percent of all families, just above the 18 percent that expected a worsened financial situation. Interestingly,

TABLE 1. Tax Simplification Proposal: Expectations about Passage and Impact on Personal Finances (First Quarter 1985)

Expectations	Percent
About Passage	
Will Pass	42
Won't Pass	48
Don't Know	6
Not Ascertained	4
Total	*100*
About Impact on Personal Finances	
Will Be Better Off	20
No Difference Expected	56
Will Be Worse Off	18
Don't Know	3
Not Ascertained	3
Total	*100*

The questions were: "Lately there has been a lot of talk about changing the way federal income taxes are figured for individual taxpayers, so as to eliminate deductions and lower tax rates. Do you expect Congress to make this type of change in the tax laws?" and "Do you think that you (and your family living there) will be better off or worse off financially if Congress makes this change in the tax laws, or won't it make much difference to your financial situation?" Number of cases was 1295.

TABLE 2. Relationship between Expected Passage and Expected Impact of Tax Simplification Proposal (First Quarter 1985; Entries in Percent)

Expected Impact on Personal Finances	Expectations about Passage	
	Will Pass[1]	Won't Pass[2]
Better off	22	22
Same; no difference	56	59
Worse off	20	17
Don't Know	2	2
Not Ascertained	*	*
Total	*100*	*100*

[1]Number of cases was 540. [2]Number of cases was 623.
*Less than 0.5 percent.

whether families expected passage or not, they anticipated approximately the same impact on their own financial situation (Table 2).

Slower Economic Growth Reduces Employment Prospects

The majority of families have favorably rated the annual progress made by the national economy in each quarterly survey for nearly two years. Among all families in the first quarter 1985 survey, 58 percent thought that the national economy had improved during the past year, down from 64 percent one quarter earlier, and below the cyclical peak of 71 percent recorded one year earlier.

Despite these favorable annual assessments, recognition of more recent favorable economic developments has waned – in part due to habituation to news of the ongoing expansion, and in part due to the slowing pace of economic growth. By the start of 1985, the mix of economic news reaching consumers was no longer dominated by favorable developments, for the first time in two years. In the first quarter 1985 survey, as many families reported that they had recently heard of unfavorable economic developments as reported hearing of favorable developments – 43 percent. This stands in sharp contrast to the start of 1984, when more than twice as many families reported favorable as unfavorable developments (67 versus 30 percent). This shift in the mix of news heard and recalled by consumers has focused on changing job prospects. During the past year, references to news reports of increases in employment fell from 26 percent to 14 percent, while news of increases in unemployment rose to 19 from 12 percent.

Consumers expect a continued modest growth rate for the national economy during the year ahead, but nonetheless favorable economic conditions. Among all families in the first quarter 1985 survey, 30 percent expected the national economy to improve during the upcoming year, down from 41 percent one year earlier, and the all-time peak of 52 percent recorded nearly two years earlier. The expectation that the national economy would suffer overall reversals during the year ahead was not very widespread at the start of 1985 (15 percent). Rather than renewed declines, the majority of consumers in the recent survey (53 percent) expected the performance of the economy to remain similar to last year's.

Despite the slowdown in the rate of economic growth, the majority of families have for nearly two years expected good overall economic conditions. In the first quarter 1985 survey, 62 percent of all families expected good times financially in the economy as a whole, up from 59 percent one quarter earlier, although below the cyclical peak of 69 percent recorded one year earlier. Longer-term economic prospects also remained favorable at the start of 1985, although somewhat lower than at the 1984 cyclical peak (46 percent). At the start of 1985, 41 percent of all families expected good times financially in the national economy over the next five years, just below the 44 percent recorded at the start of 1984.

The outlook for slower but continued economic growth is based on the expectation of no further reductions in the unemployment rate, but continued low rates of inflation. Consumers expected the annual rate of inflation to average 4.4% in the first quarter 1985 survey, down from the 5.1% recorded both one quarter and one year earlier. Among all families that expected price increases, two-thirds expected an inflation rate of 5% or less during the upcoming year.

The proportion of families that expected declines in the unemployment rate reached its cyclical peak in the second quarter of 1983, and since then has steadily declined. By the start of 1985, 21 percent of all families expected unemployment to decline during the year ahead, down from 35 percent one year earlier, and the 1983 cyclical peak of 40 percent. Increases in unemployment were expected by 27 percent of all families in the first quarter 1985 survey, up from 15 percent one and two years earlier. Importantly, the majority of consumers in each of the past four quarterly surveys expected the unemployment rate to remain at about its current level during the year ahead. Confidence in government economic policies to control inflation and unemployment remained at very favorable levels at the start of 1985.

Summary

The maintenance of consumer sentiment at near record favorable levels points toward continued high levels of sales throughout 1985. The widespread availability of discounted prices and interest rates have restored buying attitudes to the cyclical peak levels recorded one and two years earlier. Personal financial progress has slowed, but the financial situation of families remains strong. Although the economic slowdown is expected to persist during the year ahead, no recession is expected. Trends in interest rates on consumer loans will continue to influence the evolving pace of demand, and less favorable job prospects are viewed by consumers as the primary source of future adversity.

If the economy has now entered an extended period of slow growth, it is unlikely that the evolving pace of growth will be smooth during the upcoming year. Monthly variations in the pace of growth will seem relatively large compared with the anticipated annual average; and monthly variations will more often seem to indicate the emergence of a recession, since the growth rate in any given month may slip below zero when the annual average hovers at so low a level. This implies that trends in consumer spending during the year ahead may be dominated to greater extent by variations about this slower pace rather than by mounting and sustained overall declines.

May 1985

The Changing American Family: Living Arrangements and Relationships with Kin

Arland Thornton
Survey Research Center
Deborah Freedman
Department of Economics
The University of Michigan

HOUSEHOLD STRUCTURE AND LIVING ARRANGEMENTS

Historically, most American households have been predominantly nuclear, containing only one married couple. Although it was not uncommon for a young married couple to live with parents early in marriage and for an older couple to live with a married child, joint families, with more than one married couple from the same generation sharing the same household, were rare. Nevertheless, American households were often complex; a conjugal family of parents and their minor children frequently shared their living facilities with additional persons—both relatives and others. Widowed parents often lived with their married children. In early America, many young persons both lived and worked in the households of relatives or others. Later, in the 19th century, many young persons still were to be found living with other families, but usually just as boarders or lodgers.

Over the years, American households have changed in several important ways. Households have become smaller and less complex, and there has been an increasing trend toward independent living among young unmarried persons, the elderly, and mothers with no current spouse.

Household Size

The size of American households has declined almost uninterruptedly since the first census was taken in 1790. As shown in Table 1, average household size in 1980 (2.75 persons) was less than half the average of 1790 (5.79) and over 40 percent less than in 1900 (4.76). Prior to 1900, the decline in household size was primarily due to the replacement of very large households of six or more individuals with households of two to four persons. From 1900 to 1950, the biggest change was the decline in households with five or more persons and the increase in two-person households. One-person households, previously a rarity, made their first substantial gain during this period. Since 1950, the predominant trends have been a large gain in single-person households, to 23 percent of the total in 1980, and a drop in households with more than two members.

An important element in the reduction in household size prior to World War II was the decline in fertility. Couples raised fewer children and were younger at the birth of their last child. With fewer children, the relative number of large households declined steadily and substantially. Since parents also reached the "empty nest" stage earlier and enjoyed greater longevity, they experienced a longer period with no children at home. Elderly married couples without adult children in their homes also became more prevalent as young adults established their own households earlier. Although data deficiencies prevent precise comparisons, Table 2 suggests that this change has been substantial; the percentage of married couples over age 65 with unmarried children in the home declined from more than 40 percent in 1900 to about 15 percent in 1962, and was only 10 percent in 1975.

Another important change in living arrangements is the virtual disappearance of the practice of living in a household as a boarder, lodger, servant, or employee. In the last half of the 19th century, when the country was urbanizing rapidly and housing was scarce, as many as 15 to 20 percent of urban households included lodgers, many of whom were young persons making the transition to adulthood. At present, less than 5 percent of households contain boarders.

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TABLE 1. Household Size: 1790-1980
(Percentage distribution of households by number of persons)

Number of Persons	1790	1900	1930	1940	1950	1960	1970	1980
Total	100	100	100	100	100	100	100	100
One	4	5	8	7	11	13	17	23
Two	8	15	23	25	29	28	29	31
Three	11	18	21	22	22	19	17	17
Four	14	17	18	18	18	18	16	15
Five	14	14	12	12	10	11	10	8
Six or More	49	31	18	16	10	11	11	6
Average Persons per Household	5.79	4.76	4.11	3.67	3.37	3.33	3.14	2.75

TABLE 2. Living Arrangements of Married and Unmarried Persons Aged 65 and Over: 1900, 1962, 1975
(Numbers in percent)

	Married			Unmarried		
Living Arrangements	**1900**	**1962**	**1975**	**1900**	**1962**	**1975**
Total	100	100	100	100	100	100
Alone or with Spouse Only	29	79	84	11	48	67
With Married Child	16	2	1	38	14	7
With Unmarried Child	42	15	10	27	20	10
With Other Relatives	7	3	5	13	12	13
With Nonrelatives	6	1	0	11	6	3

Note: Because data collection procedures used in 1900 differed from those of 1962 and 1975, it is possible only to make general comparisons between 1900 and the other two years.

Independent Living

Since 1950, most of the decline in household size has been due to a dramatic trend toward "independent" living. Just between 1970 and 1983, the number of new American households grew 33 percent — from 63 to 84 million — while the total population grew only 14 percent in these 13 years. In record numbers, young people were leaving the parental nest after school and before marriage to set up their own households, alone or with friends of their own or the opposite sex; retirees chose to live on in their old homes or move to a new apartment or a retirement community rather than move in with children; spouses moving out after a divorce (usually the husband) opted to set up their own households rather than join others; and never-married, separated, or divorced mothers also chose to keep or set up separate households for themselves and their children.

One type of independent living is now virtually universal — newly married couples immediately setting up their own households rather than living for a time in a parental household, which was still not uncommon in 1950. By 1978, only 2 percent of married couples with the husband aged 25-34 did not maintain an independent household, down from 10 percent in 1950.

Table 3 illustrates young American adults' dramatic shift to independent living before marriage. Between 1950 and 1982, the percentage of never-married people aged 25-34 maintaining their own households more than quadrupled for both men (9.5 to 42.7 percent) and women (11.0 to 53.3 percent). For men, a shift to living alone or with unrelated persons accounted for all the increase. For women, the increase included a fivefold increase in the percentage of never-married women heading a family household — a reflection of the increase in premarital childbearing, more single mothers rearing their own children, and their greater tendency to live apart from parents and other relatives. The figures in Table 3 actually understate the trend toward independent living among unmarried adults. The nonrelatives who share accommodation with an unmarried household head are usually themselves unmarried adults living apart from their parental families.

The Elderly

Although elderly married couples in America usually have lived in their own homes apart from their married children, Table 2 shows that in 1900 about 16 percent of married couples 65 or older did share living quarters with a married child and his or her spouse. Such intergenerational living has virtually disappeared in this century.

Equally dramatic has been the shift in living arrangements of elderly unmarried persons. Rough comparisons between 1900 and 1975 (Table 2) suggest that in 1900 over one-third of such persons lived with a married child, but by 1975 only 7 percent did. The proportion of older unmarried Americans living alone has increased from about one in ten to two out of three. Most of these are elderly widows or divorced women who never remarried. They can expect to live alone for a long period, since women now outlive men by a wide margin.

TABLE 3. Never-Married Men and Women Aged 25-34 Maintaining Their Own Households: 1950, 1960, 1970, 1982
(Numbers in percent)

	Men				Women			
Living Arrangements	**1950**	**1960**	**1970**	**1982**	**1950**	**1960**	**1970**	**1982**
Total Maintaining Own Household	9.5	19.4	31.1	42.7	11.0	21.1	35.2	53.3
Living with Family Members	4.6	4.3	4.5	4.1	3.6	6.7	11.9	16.8
Living Alone or with Nonrelatives	4.9	15.1	26.6	38.6	7.4	14.4	23.3	36.5

Note: 1950, 1960, and 1970 data come from decennial censuses, while 1982 data are from the Census Bureau's Current Population Survey and are not strictly comparable.

Although the parent-child relationship is often stressed as the crucial family tie in American society, significant numbers of older Americans — 13 percent of the unmarried and 5 percent of the married in 1975 — live with siblings or other relatives. This type of living arrangement is particularly important for elderly people who never married and lack the kinship support of spouse or children.

Living arrangements of the elderly are more varied for blacks than for whites. Fewer black elderly couples live by themselves (62 percent as compared to 84 percent of elderly white couples in 1975), and many more live with children (23 versus 11 percent) or with other relatives (16 versus 4 percent). Similar racial differences exist for the unmarried elderly.

One reason for the decline in co-residence of the elderly and their married children is that today's elderly are those who had their children in the low-fertility years of the 1920s to the early 1940s and now have fewer children with whom they might live in old age than earlier generations did; about 20 percent of all persons over 65 in 1975 had no living children. The next generation of elderly — the parents of the larger baby boom families — will have more children available, as noted earlier, but it seems unlikely that many more than now will opt to move in with children.

Surveys of residential preferences indicate that most elderly who live alone prefer to maintain their independence so long as their health and financial circumstances permit, though most also want to live near their children. As they grow older and their health deteriorates, more of the elderly do live with children; in 1975, 19 percent of unmarried men and 31 percent of unmarried women over age 80 lived with a child.

Maintaining a separate household now is economically more feasible for many elderly Americans. Because of Social Security benefits that have outpaced the rise in real wages and better retirement pensions, the large majority of today's elderly do not depend on their children for financial support. In fact, a recent study revealed that, because most Social Security benefits are tax-exempt and elderly households average few persons, the elderly in 1980 actually had a higher per capita income after taxes ($6,300) than the general population ($6,000). Many of the elderly are poor, particularly women, but the proportion of elderly single women with incomes below the poverty level dropped from 72 to 32 percent between 1959 and 1980, while the proportion for elderly couples was 32 percent in 1959, and only 16 percent for all the noninstitutionalized elderly in 1980. This improved financial situation has occurred even though few of the elderly now have an income from a job; in 1950, 45 percent of men aged 65 or older were still in the labor force, but only 18 percent in 1980.

The elderly still depend on their families for much health care. In 1975, some 15 percent of the elderly were severely handicapped physically, and two-thirds of these were cared for at home, with most of the care provided by relatives. Only 5 percent of all elderly persons were in health institutions in 1975.

Although institutionalization of the elderly is sometimes viewed as abandonment of parents by their children, it is usually the solution of last resort. Most of the institutionalized are the very old with serious physical impairments requiring constant care. These needs often go beyond the capabilities of close family members, many of whom are themselves growing old. Only about one in ten of the institutionalized elderly still have a surviving spouse, and about half have surviving children. Among the general elderly population, 80 percent have surviving children, and four out of five men and one of every two women still have a spouse. Providing family care for the elderly will become still more difficult if substantial numbers of Americans have no children or only one.

Families Maintained by Women

With increased divorce and out-of-wedlock childbearing, lower rates of marriage, and single mothers' greater tendency to live on their own, households headed by women with children under 18 but no husband present have now become a prominent type of family living arrangement. In 1982, there were nearly 6 million such households, making up 19 percent of all American housholds with minor children — double the number in 1970 and triple the number in 1960.

This trend has inevitably increased the proportion of children who live for some of their childhood in a fatherless home. About a quarter of children who were six and under in 1970 lived for at least a year in a fatherless home by 1979. Eleven percent spent more than half these ten years in such families, and 5 percent lived with their mother only for all ten years. If the current prevalence of female-headed families persists, it is estimated that 40 to 50 percent of all children will live in a fatherless family for some time before they reach 18.

Black children are more likely than white children to live with their mother alone because of blacks' higher rates of marital dissolution and out-of-wedlock childbearing and lower rates of marriage and remarriage. Fifty-seven percent of black children, compared to 20 percent of white children, who were six and under in 1970 experienced family living without a father for some time in the 1970s. Nearly 20 percent of black children spent the entire decade in a family headed by the mother, and only a third lived continuously in a two-parent home.

Time and money constraints are the two main reasons for concern about the high incidence of female-headed families. Single parents have less time for parenting, although research has not shown that the quality of care provided by single parents falls short of that in two-parent families. Single mothers are often severely limited in the financial resources available for them and their children. Not surprisingly, single mothers report greater stress and strains in their lives than do most other people.

Although single mothers with minor children made up only 19 percent of all family households with children in 1982, they accounted for 55 percent of households with minor children whose reported 1981 income put them below the poverty level. About 44 percent of fatherless families with children under 18 and 61 percent of those with children under six were classified as poor; for husband-wife families the figures were 9 and 11 percent. The 1981 median income of female-headed families with children under age 18 ($9,200) was about one-third that of similar husband-wife families ($26,200).

Earning a living wage is difficult for a single mother, both because of the problem of arranging child care (which they share with all working mothers) and because they tend to be ill-prepared for the job market; many were housewives or part-time workers prior to a divorce, and others are young, never-married women with little education. As a result, impoverished single mothers find it difficult to climb out of poverty by their own efforts, and many remain below the poverty level year after year, with the most likely escape being marriage. Although welfare payments for single mothers, Aid to Families with Dependent Children, have kept pace with the increase in female-headed households, evidence concerning whether the availability of welfare encourages unmarried women to have children or men to desert their families is inconclusive.

Extended Family Living

The trend toward nuclear family households and independent living obscures the importance of extended family living in the United States. While relatively few live in extended households during any particular year, many Americans find it convenient or necessary to live with relatives at some time during their lives. Though virtually all young couples now begin marriage in their own households, as noted, 19 percent of white couples and 43 percent of black couples reported in the early 1970s that they lived with other kin for some time during the first five years of marriage. Most lived in the homes of parents, but some took kin into their own homes. Extended family living also occurs during the initial adjustment to separation or divorce and when a person is old and in need of assistance.

For children, having a grandparent or another relative move in, or going to their home for a period, can be important when parents temporarily find it difficult to fulfill their responsibilities because of a death, serious illness, or a single mother's lack of time and financial resources. In 1975, 9 percent of elderly whites and 36 percent of elderly blacks reported that they had at some point had "substantial or primary responsibility" for grandchildren.

FAMILY RELATIONSHIPS BEYOND THE HOUSEHOLD

Although most Americans may share a household with only a few close family members or none at all, they do maintain contact with a substantial network of kin, often over considerable distances.

Throughout the nation's history, kin have become dispersed, beginning with the first immigrations from abroad and continuing with migratory flows within the country from east to west, south to north, from rural to urban areas, and now from Frostbelt to Sunbelt, and from cities to the far suburbs and countryside. Family relationships have always been important forces in these migrations. In earlier times, parents with their married children and grandchildren or groups of families often migrated together, and many moves to new areas were prompted because relatives were already there to help with relocation. But many others migrated alone or with only a small family core, and family ties became attenuated when contact depended on an erratic postal service or arduous travel over long distances. Even today, contact with dispersed family members involves considerable commitment, given the expense and difficulties of long-distance communication.

Although Americans continue to be highly mobile, studies have shown that most live close to at least some relatives and maintain contact with many through visits, frequent communication, and mutual assistance. One study of newborn white children and their families living in the Detroit metropolitan area in 1962 found that five-sixths of these children had at least one grandmother and the majority at least one married aunt or uncle living in the Detroit area, and nearly half had a grandparent or married aunt or uncle living in the same neighborhood. Only about one in eleven of the children lacked nearby close kin. Sixty percent of these families got together with relatives at least weekly, and only about 13 percent saw relatives less than once a month. Further, the large majority of the families received assistance from their relatives in the form of gifts, child care, help when sick, taking care of the house, financial advice, and loans. Almost half of the mothers, for example, had received help from one of the child's grandmothers following the birth of the child.

The close involvement of young children with grandparents noted in this study would have been less possible in earlier times when fewer people survived to enjoy grandchildren. Improved life expectancy has now made possible intergenerational relationships which frequently extend across four and even five generations.

A study conducted in Muncie, Indiana, in 1977 showed that a high percentage of the close relatives of the residents surveyed lived within 50 miles of the city, including 61 percent of their living parents, 49 percent of siblings, and 68 percent of grown children. Most of those with surviving parents saw them at least monthly, and almost half saw them weekly or more; siblings were visited about half as often. Additional contacts with relatives were made via letters and telephone, and the majority of Muncie residents also reported that they exchanged aid with relatives.

Most elderly Americans also have and interact with a fairly extensive network of kin, not only younger generations, as already indicated, but also siblings. A national study conducted in 1975 found that four-fifths of Americans aged 65 and over have surviving children, as noted earlier, about the same proportion have grandchildren, half have great grandchildren, and four-fifths have a surviving sibling. Only about 5 percent have no surviving children or siblings. In 1975, about half of the elderly with surviving children lived with a child or less than ten minutes away; another fourth lived no more than 30 minutes from a child. During the week prior to the interview, three-fourths of those with children saw a child, one-third with surviving siblings saw a brother or sister, and three out of ten saw a more distant relative. Seventy percent of the elderly with children reported providing assistance to them, and nearly as many received help from children. Many also reported a similar exchange of help between them and grandchildren and great grandchildren. The elderly with failing health consistently report that relatives are their chief source of help, and relatives continue to be the primary source of emotional and social support.

Undoubtedly, there are substantial numbers of Americans with few kin, others have many relatives with whom they do not interact, some relationships may be more negative than positive, and many relatives are unable, for whatever reasons, to provide support desired by family members. Nevertheless, the vast majority of Americans today clearly maintain active contact with a considerable number of relatives.

CHANGE AND CONTINUITY

Present-day American family patterns present a mosaic of change and continuity. Some current patterns of family life—the high incidence of divorce and independent living—are clearly different from the past. Other dimensions—age at first marriage—are now very similar to earlier patterns despite substantial recent fluctuations. Some recent changes incorporate both new developments and a return to old patterns. For example, the influx of mothers into the paid labor force constitutes an important change in the roles of women, but the new economic involvement of women also represents a reinstitution, though in a new form, of the contribution women made to family production in earlier times.

Despite changes in family structure and relationships, most Americans still regard the family as central to their well-being and happiness. Given the central importance of the family, the magnitude of family change has had a powerful impact on human relationships and on the quality of the lives of many individuals. The new availability of divorce, of employment for women, and the chances for independent living have provided important opportunities for many persons; yet, they also have brought psychological, social, and economic problems.

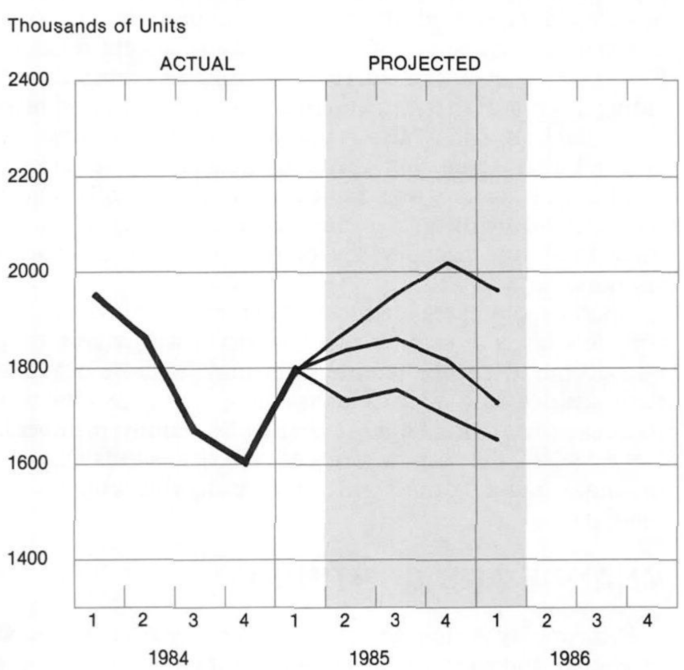
Explanations for the changes in American family life are difficult. Certainly the long-term trends in urbanization, industrialization, and economic growth have influenced family patterns, but many changes in the family have not shown clear and consistent relationships with these long-term trends. Major events, such as the Depression of the 1930s, World War II, and the Vietnam War also have had important and perhaps lasting influences on family life.

Predictions of future trends in family patterns are hazardous. Given the the scope of change, total reversal of recent patterns appears unlikely. We can probably expect that many people will marry only after a considerable period of living apart from their parents, either alone or with friends. Most wives will juggle home care and a job, with many taking little or no time out for childbearing and rearing. Most working wives will have only one or two children, and their preschool children will usually be cared for outside the home during their mothers' working hours. Many young children will experience the breakup of their parents' marriage and then will be likely to live with their mother only, though most will later acquire a stepfather and a readymade new family of "step-relatives." Most women can expect to live alone, though near their children and grandchildren, at the end of their lives; the few elderly men who lose a spouse are likely to remarry.

But this scenario could change, just as family patterns have fluctuated in the past. Having at least three children could become fashionable again, as in the baby boom. More delayed marriage could mean more compatibility among couples once they marry and thus less divorce. Parents could assume more of the care of their own children with flexible working hours that allow one of them to be at home when children are, or as the computer age shifts the workplace back to the home for many women and even men.

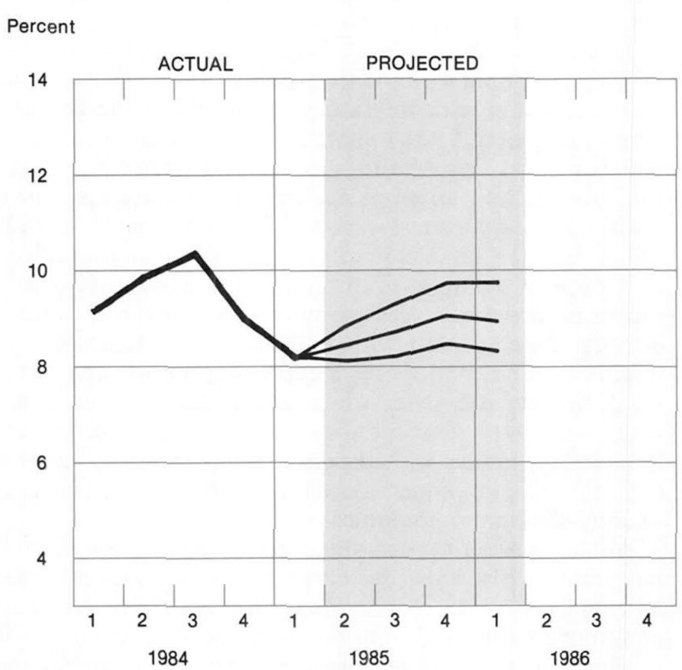
Although future changes in the family could actually bring more rather than fewer problems, the resilience of the family amidst the changes of the past demonstrates the ability of family life to adapt in a changing world. Families and family relationships continue to play a vital role in today's world and are likely to do so in the future.

NEW PRIVATE HOUSING UNITS STARTED



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.

3-MONTH TREASURY BILL RATE



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Some Consequences of Recent Changes in Household Composition[1]

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From the earliest available record the average size of the American household has been gradually declining.[2] Even within the past few decades household size has fallen rather dramatically, from slightly over 3 persons per household in 1970 to 2¾ persons in 1980. Whereas pre-1940 declines in household size were due primarily to declines in population fertility and mortality, more recent trends have been interpreted largely in terms of changes in living arrangements and residence norms. The major components of these changes in recent years involve the growth of non-traditional household types, particularly increases in the number of persons living alone and the number of households containing single parents and their children.

This paper briefly reviews the trends in household composition over the past several decades, discusses the major causes of these patterns, and examines some of their potential consequences for individuals. The information presented on trends in household composition since 1940 is based primarily on the U.S. Census Bureau's Current Population Surveys from tabulations of national survey information on households published in the *Current Population Reports.* Survey information presented on the individual concomitants of household living arrangements is based on the national Quality of Life Survey conducted by the Survey Research Center in 1978.

The Distribution of Living Arrangements

Although much has been written about the demise of the traditional family in the U.S., the most common type of living arrangement is the married-couple household. Although persons move in and out of marriages, at any time this represents the dominant form of living—about 60 percent of all households are of this type. Another 10 percent of households contain single parents living with their children. Nearly 25 percent of households now contain persons living alone, and the remaining 5 percent represents a variety of household types, including unrelated persons living together as roommates and those couples who are cohabiting.

Living arrangements are fundamentally linked to marital status and gender, and the Quality of Life (QoL) Survey can further illustrate how they are so linked.[3] For these purposes we consider four types of living arrangements: (a) persons living alone, completely by themselves with no other adults and/or children present; (b) persons living with children (aged 17 or younger) only; (c) persons living with other adults (aged 18 or more), but with no children; and (d) persons living with both adults and children. The first two categories are relatively unambiguous types of living arrangements, although the fact that children vary in age suggests that this category is far from homogenous. Owing to their greater heterogeniety, the latter two categories are somewhat less definite. Category (c), for example, contains married persons who have no children, persons who are cohabiting, and persons living with roommates. Similarly, category (d) represents a variety of different types, although the bulk of these are married persons with children.

In Table 1 the Quality of Life sample is cross-classified by living arrangements, marital status, and gender. The percentage figures in this table refer to the distribution of living arrangements within categories of marital status by gender. The figures in parentheses are the mean age for subcategories of the table.

As the table reveals, a high percentage of not-now-married persons live alone. Nearly 40 percent of never-married men and women, some 60 percent of divorced and separated men, and over 70 percent of the widowed are so situated. Divorced and separated women are about one-half as likely to be living alone as men in these marital categories, and the modal living arrangement for these women is that of living solely with children. Although not the dominant form, this is also a common situation of never-married women, nearly ten percent of whom are living alone with children. In sum, women were more likely to experience the circumstances of living alone or of living only with their children.

The figures in parentheses on average age in Table 1 reveal the covariation of living arrangements with age. For example, women are much more likely than men to live alone when they are older than when they are young. Indeed, the largest group among those persons living alone is women aged 45 and older. Although this is changing (see below), it occurs in part because women experience greater longevity and typically outlive their husbands. It is also due to the fact that never-married and divorced men living alone are younger than their female counterparts.

Trends in Living Arrangements

The patterns described in the above paragraphs are much different than those of preceding periods in U.S. history. In recent decades rather impressive changes have occurred

[1]This paper summarizes the results of research by the author, P. E. Converse, and S. S. Martin reported elsewhere: "Living Arrangements, Social Integration and Psychological Well-Being," paper presented at the annual meetings of the Midwest Sociological Association, Chicago, Illinois; and "Living Arrangements and Social Integration," *Journal of Marriage and the Family* (forthcoming). Complete references to other material pertaining to this topic are available from the author.

[2]See the previous article in this issue by Arland Thornton and Deborah Freedman.

[3]The Quality of Life data are based on a national probability sample (N = 3,692) of persons 18 years of age and older living in households (excluding those on military reservations) within the coterminous United States. Interviews were conducted during June through August 1978. The original sample of approximately 4,870 occupied housing units, comprising two independently chosen multistage area probability samples, was used to represent the noninstitutionalized adult population of the U.S. The overall completion rate was approximately 76 percent. This sample systematically underrepresents males and, to a slight degree, the widowed, divorced, and separated in this population.

TABLE 1. Distribution of Living Arrangements and Average Age by Marital Category and Gender: 1978 Quality of Life Sample

Living Arrangements	Marital Category: Never Married	Now Married	Separated	Divorced	Widowed	Total
			Males			
Alone	37% (34.2)	.5% (58.2)	57% (46.8)	66% (46.6)	72% (72.0)	18% (46.7)
Children	0% (–)	.5% (19.5)	14% (36.7)	10% (38.1)	7% (58.0)	2% (38.8)
Adults	42% (25.1)	47% (55.5)	25% (41.8)	17% (41.2)	12% (72.2)	42% (49.1)
Both	21% (20.7)	52% (38.0)	5% (49.0)	8% (41.3)	9% (60.0)	39% (36.5)
Total	100% (27.6)	100% (46.3)	100% (44.2)	100% (44.5)	100% (70.0)	100% (43.5)
n	298	1017	44	112	69	1540
			Females			
Alone	37% (41.7)	.5% (63.4)	26% (44.5)	35% (54.9)	76% (69.9)	23% (60.3)
Children	9% (26.1)	.5% (51.8)	44% (33.3)	45% (35.0)	8% (47.8)	9% (35.7)
Adults	30% (30.1)	47% (51.1)	12% (46.7)	10% (44.0)	13% (67.2)	34% (49.4)
Both	24% (21.5)	52% (35.0)	17% (35.5)	10% (43.2)	3% (55.0)	34% (34.3)
Total	100% (32.0)	100% (42.7)	100% (38.2)	100% (43.7)	100% (67.4)	100% (45.4)
n	280	1191	99	203	373	2146

Note: Average age of persons in the sub-category is in parentheses.

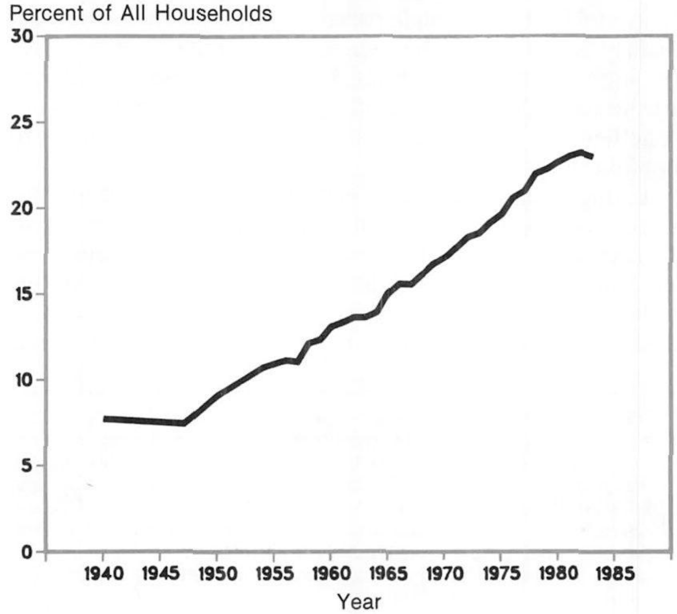
in several aspects of household composition due in part to changing family arrangements and modern lifestyles. Here I discuss two areas in which changes in the household have been the most dramatic, and which have implications for social isolation and quality of life: living alone and being a single parent.[4]

Living Alone. As seen in Chart 1, in 1940 slightly less than 8 percent of all households were occupied by persons living alone, while four decades later as many as 23 percent of all households contained persons living by themselves. This reflects major social change because in past years adults in the U.S. have lived primarily with other adults, rather than by themselves.

One component of this trend is the increased tendency for young persons to live alone. Census data indicate that increasing numbers of young persons are delaying marriage and establishing households away from their parents. While the population grew some 11.4 percent from 1970 to 1980,

[4]A third major type of living arrangement undergoing dramatic change is the number of unmarried persons living with a member of the opposite sex. Since this arrangement of living does not have implications of social isolation characteristic of the others, and since these persons do not turn up with great frequency in national surveys, we forego consideration of this type of living arrangement.

CHART 1. Proportion of U.S. Households Containing Persons Living Alone: 1940-83



the number of never-married persons living alone more than doubled during this period.

A second source of this trend is the increasing rate of marital dissolution through separation and divorce, since it is increasingly common for separated and divorced persons to head their own households rather than move back with their families of origin. Even as recently as the 1960s, high rates of movement back into relatives' households existed for divorced women. With the increased economic independence of women, these patterns have changed, and now there is a much greater propensity for divorced women to head their own households.

Finally, a third major component of this trend reflects the large number of older women living by themselves. The increase in this component is due to the increased ability of widowed women over this time period to remain in their households after the death of their spouse. Again, this is largely due to the greater longevity of women over men and the greater economic independence of women in contemporary society.

Single-Parent Households. A second major change in household composition in the U.S., is the increasing number of households composed of persons, 90 percent of whom are women, living alone with their children. Chart 2 shows this trend since 1948 and, beginning with 1968, displays the trend separately for whites and blacks as well.[5] Since 1950, when 7½ percent of family households were headed by a single parent, the proportion of single-parent family households has almost tripled. In 1984, some 26 percent of family households were so composed. The patterns of change in rates of single-parent households among blacks is particularly high—over 50 percent of black family households are headed by a single parent.

These changes in the number of single-parent households have their origins primarily in two sets of factors: (1) increasing rates of marital separation and divorce, and (2) increasing rates of never-married women with children heading their own households. The racial differences in the proportions of family households with only one parent are due in part to racial differences in rates of out-of-wedlock childbearing. And, while it is incorrect to assume that these patterns are restricted to blacks, changes among blacks have been considerably more substantial.

Although our focus here is primarily on the living arrangements of adults, it is important to note that these patterns reflect major changes in the living arrangements of children as well. According to data from the *Current Population Reports*, in the early 1980s nearly 20 percent of all children under the age of 18 were living in households headed by one parent, whereas in 1970 this figure was only 12 percent, a 75 percent increase. On the basis of projections of demographic trends in the two causal factors mentioned above, some demographers predict that upwards of 50 percent of all children born to parents in the early 1980s will spend a significant part of their lives prior to age 18 with only one of their parents.

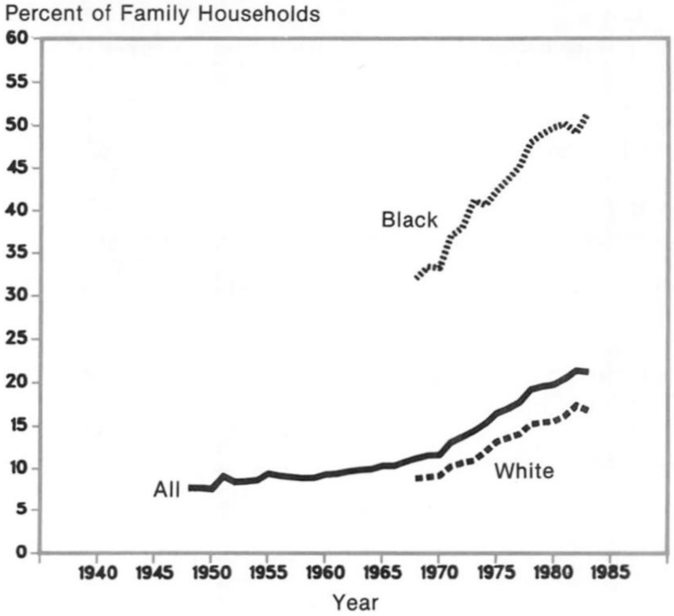
Consequences of these Trends

There is widespread agreement among students of marriage and family life that these trends in living arrangements result in part from changes in traditional family arrangements. Greater numbers of persons each year have been achieving more independent lifestyles at the expense of family membership, causing some to argue that the American household is becoming less familistic in its social arrangements.

The trends in living arrangements creating greater social isolation, namely increasees in numbers of persons living alone or living only with children, have broad implications for patterns of social contact and the quality of social life. The traditional view among mental health researchers is that social isolation is harmful, and the absence of immediate social supports for the problems of living is assumed to present potentially negative consequences. For example, the reported psychological well-being of married persons is consistently shown to be higher than that of currently unmarried persons, and one of the theoretical explanations of this difference refers to the relative isolation of the unmarried. Further, there is a vast amount of research in the epidemiological literature which suggests that social ties and relationships promote health and protect persons against disease. Contact with others is believed to make one more mentally and physically healthy by buffering the strains that result from major stressful life events and the problems of daily living. The presence (or absence) of "social others" has been linked to a variety of outcomes for individuals, including mental and physical health.

On the basis of these suggested patterns, our research—based on Quality of Life Survey data—investigated the extent to which it could be said that persons in non-traditional living arrangements were more socially isolated and experienced greater psychological stress than those living in more traditional circumstances. We examined two categories of variables, those measuring the amount of social integration (access to and contact with relatives, friends, neighbors, and confidants), and measures of self-reported psychological well-being (reported distress, positive affect, life satisfaction, and sense of personal control). Results of these efforts are reviewed in the following paragraphs.

CHART 2. Proportion of U.S. Family Households Containing Single Parents by Race: 1948-83



[5]These figures are the percentage of "family" households (those with children 17 and under) containing only one adult.

TABLE 2. Patterns of Frequencies of Visiting Friends by Living Arrangements, Marital Category, and Gender: 1978 Quality of Life Sample

Living Arrangements	Marital Category					Total
	Never Married	Now Married	Separated	Divorced	Widowed	
			Males			
Alone	.062	*−.158**	.153	.222	.137	.121
Children	—	*.062*	*.363*	−.327	*.493*	.065
Adults	.197	−.054	.050	−.078	*−.408*	−.008
Both	.233	−.167	*.381*	*.951*	*.912*	−.096
Total	.159	−.114	.166	.179	.168	−.019
n	297	1017	44	112	69	1539
			Females			
Alone	.193	*1.00*	.225	.120	.166	.177
Children	−.031	*.154*	.435	.290	.348	.288
Adults	−.085	−.163	−.250	−.082	−.180	−.154
Both	.366	−.043	−.223	.529	−.196	.003
Total	.125	−.094	.185	.216	.121	.013
n	280	1191	99	203	373	2146
P-values†						
a	ns	ns	ns	ns	ns	
b	ns	ns	.097	.043	.051	
c	.082	.005	ns	ns	ns	
Eta	.128	.086	.232	.199	.170	

*Entries in *italics* indicate cell size less than 10 cases.

†a = gender main effect; b = living arrangements main effect; c = gender by living arrangements interaction; ns = not statistically significant.

Living Arrangements and Social Integration. A detailed examination of patterns of social connectedness and social contact reveals a picture that runs counter to the assumption that persons living in solitary situations are more socially isolated than those living with others. Our results suggest that persons living alone engage in greater social contact outside of the household, clearly compensating for the absence of proximate social support naturally available to those who live with others. This pattern is revealed to some extent in Table 2, where we present average levels of frequency of contact with friends. For present purposes this variable is scaled so that scores have a mean of zero with a unit standard deviation. Positive numbers reflect greater frequencies of contact.

These results show that in several categories of marital status persons living apart from adult company tend to engage in greater social contact with friends than is true for those who live with other adults. The major exception to this involves the category of divorced men who live alone with children. But overall, persons living alone or alone with children have more friendly contact outside of the household. It is also generally the case that unmarried persons show many more visible signs of an active extra-household social life than is true for the married. And among the married, the presence of children seems to inhibit social contact with friends.

The above patterns are also supported by analyses of time diary data obtained from time-use studies, wherein time spent in the company of extrahousehold social partners is registered somewhat more accurately than the survey measures referred to above. These data also support the conclusion, evident in Table 2 as well, that women tend to exceed men in their frequencies of contact with friends outside of the household.

Living Arrangements and Subjective Well-Being. On the basis of the prevalent view that relative social isolation, as it is ostensibly reflected in the situation of living alone, is potentially harmful, our research examined several measures of psychological well-being. The existing theoretical literature would predict that those living alone will suffer a greater threat to their psychological well-being from such experiences than those living with others. In fact, our results are somewhat mixed on this issue. On some measures of well-being, those persons living alone evidence somewhat lower scores, but on others the results stand in sharp contrast to conventional wisdom. Indeed, by some indications those persons living alone show greater well-being and ability to deal with their life circumstances. This appears to be especially true for the category of widows living alone.

The potentially harmful effects of living alone, on the other hand, are also suggested in the data we examined. Such effects are most clearly demonstrated for our measure of psychological distress.[6] Table 3 presents the average levels of distress by living arrangements, marital status, and gender. As above, this variable is scaled so that scores have a mean of zero with a unit standard deviation, so that positive numbers reflect greater well-being.[7] The results

[6]This *distress index* is based on responses to the following questions: (a) How often does respondent (R) feel he is really enjoying life (all the time, fairly often, now and then, or rarely)? (b) Taking all things together, how happy is R (very happy, pretty happy, or not too happy these days)? (c) How often does R feel in low spirits or depressed? (d) Does anything make R feel frightened or worried? (e) Does R ever worry about having a nervous breakdown? and (f) five yes/no items from Bradburn's negative affect scale: During the past few weeks, has R felt so restless that he/she couldn't sit long?. . .felt very remote or lonely from other people?. . .felt bored?. . .felt depressed or very unhappy?. . .upset because of being criticized?

[7]This variable was residualized on chronological age prior to the tabulations in order to remove the effects of age on these patterns.

TABLE 3. Patterns of Distress by Living Arrangements, Marital Category, and Gender: 1978 Quality of Life Survey

Living Arrangements	Never Married	Now Married	Separated	Divorced	Widowed	Total
			Males			
Alone	−.150	—	−.057	−.106	−.103	−.113
Children	—	—	*.903**	−.132	*.214*	.119
Adults	.060	.289	.262	−.357	*.086*	.222
Both	.026	.197	*−.132*	*.001*	*.188*	.172
Total	−.031	.239	.150	−.143	−.096	.142
n	298	1017	44	112	69	1540
			Females			
Alone	−.179	—	−.516	−.541	−.278	−.314
Children	−.106	—	−.591	−.413	−.403	−.542
Adults	−.155	.078	−.492	−.170	−.182	.017
Both	−.080	.075	−.504	.344	−.118	.036
Total	−.223	.069	−.544	−.357	−.301	−.101
n	280	1191	99	203	373	2146
P-values†						
a	ns	.000	.001	.083	ns	
b	ns	ns	ns	.045	.094	
c	ns	ns	ns	ns	ns	
Eta	.214	.097	.331	.221	.154	

*Entries in *italics* indicate cell size less than 10 cases.

†a = gender main effect; b = living arrangements main effect; c = gender by living arrangements interaction; ns = not statistically significant.

indicate that persons living alone are marginally more distressed than comparable persons living with others. In addition, they show that the circumstance of being a single-parent woman living alone with children is also linked to lower relative scores on this measure, with such women suffering at least as much distress as those living alone.

The above patterns were also examined in the context of a multivariate analysis that controlled the respondent's health, household income, the experience of stressful life events, and the respondent's degree of social integration outside of the household. These analyses (not presented here) reveal few independent structural effects of living arrangements per se, although there are some instances, e.g. among divorced women, in which there does appear to be an independent negative effect on well-being.

Another striking result of these multivariate analyses, which occurs with considerable consistency over different outcomes, is the apparent negative consequence of being in the category of women living alone with children. The most visible pattern of this type is among never-married women in this category, although it is clearly present among separated and divorced women as well. In none of these cases, however, is the effect of single parenthood statistically significant. Thus, it seems appropriate to conclude that, although there is a relationship between living arrangements and psychological well-being, the causal effects appear to be largely due to the conditions which produce various living arrangements rather than to the living arrangements themselves.

Prospects and Implications

Whatever may be the long-term trends in U.S. living arrangements, there appear to be few harmful effects suffered by persons living by themselves in modern society. Some such marginal harmful effects, which cannot be allocated to antecedent factors, apparently exist for some categories of persons, but in general these effects are small. As noted above, living alone appears to be an arrangement of choice in many cases, and it is not necessarily a catastrophic situation into which persons are forced against their will. And even in some instances where it does occur involuntarily, e.g. for widows, living alone seems to be associated primarily with positive outcomes.

While our results have much in common with previous analyses, those concerning the situation of single-parent women depart from existing knowledge in important ways. Such women typically suffer from limited income, residential instability, and a variety of additional sources of stress and strain. These patterns reflect aspects of life quality both for the women involved and for their children. And owing to the expectation that the events precipitating these patterns of living are likely to continue as a part of our collective social experience, these contours of the data may represent a basis for the re-examination of social policy. There is a need for a consideration of the adequacy of current forms of income support and child-care assistance for single-parent families. Policymakers and funding agencies concerned with the welfare of children need to consider a wide range of issues regarding the well-being of children in single-parent families, including issues of the availability of resources, both social and psychological, that lessen the strains of childrearing.

Actual and Projected Economic Indicators

seasonally adjusted

SERIES FORECAST BY THE ASA-NBER PANEL

ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	Actual							Projected					Actual		Proj.
	83:3	83:4	84:1	84:2	84:3	84:4	85:1	85:1	85:2	85:3	85:4	86:1	1983	1984	1985
GROSS NATIONAL PRODUCT	3,347	3,432	3,553	3,645	3,695	3,759	3,817	3,821	3,896	3,171	4,045	4,125	3,305	3,663	3,933
GNP IMPLICIT PRICE DEFLATOR (index, 1972 = 100)	215.9	218.2	220.6	222.4	224.6	226.1	229.2	227.9	229.8	232.0	234.8	237.0	215.3	233.4	231.1
CORPORATE PROFITS AFTER TAXES	142.6	141.1	150.6	150.2	141.7	141.0	140.0	146.0	152.0	157.0	160.0	161.5	127.4	145.9	153.0
UNEMPLOYMENT RATE (percent)	9.33	8.47	7.87	7.50	7.47	7.20	7.33	7.20	7.00	7.00	6.90	6.80	9.58	7.51	7.00
INDUSTRIAL PRODUCTION (index, 1967 = 100)	151.8	155.5	159.8	163.1	165.6	164.7	165.4	167.8	169.3	170.9	173.0	174.0	147.6	163.3	170.0
NEW PRIVATE HOUSING UNITS STARTED (millions)	1.786	1.716	1.947	1.858	1.663	1.598	1.793	1.690	1.730	1.750	1.710	1.625	1.703	1.766	1.705
CONSUMER PRICE INDEX* (% change from prior quarter or year)	4.24	4.11	5.29	3.74	3.67	3.54	3.30	3.30	3.50	3.90	4.10	4.30	3.19	4.28	3.55
3-MONTH TREASURY BILL RATE (%)	9.19	8.79	9.13	9.84	10.34	8.97	8.18	7.97	8.23	8.50	8.83	8.70	8.62	9.57	8.42
NEW HIGH-GRADE CORPORATE BOND YIELD (percent)	12.68	12.76	12.94	14.18	13.72	12.63	12.61	12.35	12.18	12.55	12.75	12.30	12.25	13.37	12.43
GNP IN 1972 DOLLARS	1,550	1,573	1,611	1,639	1,645	1,662	1,665	1,678	1,694	1,710	1,725	1,739	1,535	1,639	1,702
PERSONAL CONSUMPTION EXPENDITURES (1972 $)	1,016	1,032	1,044	1,064	1,066	1,075	1,089	1,089	1,100	1,109	1,119	1,126	1,009	1,062	1,104
NONRESIDENTIAL FIXED INVESTMENT (1972 $)	172.6	184.5	193.3	202.9	209.5	213.8	215.2	219.0	222.9	226.0	228.5	232.0	171.0	204.9	224.0
RESIDENTIAL FIXED INVESTMENT (1972 $)	57.2	57.8	60.6	60.8	60.1	59.2	59.4	59.6	61.0	61.3	61.5	61.0	53.7	60.2	61.0
CHANGE IN BUSINESS INVENTORIES (1972 $)	0.9	7.2	31.6	20.3	30.6	16.8	19.6	14.5	16.0	16.0	17.0	16.3	−3.6	24.8	15.3
NET EXPORTS (1972 $)	11.9	2.0	−8.3	−11.4	−27.0	−13.4	−27.0	−18.4	−20.0	−21.3	−23.0	−22.6	12.6	−15.0	−20.8
FEDERAL GOVERNMENT PURCHASES (1972 $)	115.6	113.0	112.2	123.2	125.0	129.6	128.2	130.0	131.8	133.0	134.0	134.1	116.2	122.5	132.0
STATE AND LOCAL GOVERNMENT PURCHASES (1972 $)	176.4	175.8	177.3	178.9	181.1	180.9	181.0	183.1	184.1	186.0	187.0	187.4	175.7	179.5	185.0

SERIES FROM THE CURRENT-DOLLAR GNP ACCOUNTS

ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	82:2	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	85:1	1982	1983	1984
GROSS NATIONAL PRODUCT	3,061	3,080	3,110	3,174	3,267	3,347	3,432	3,553	3,645	3,695	3,759	3,817	3,069	3,305	3,663
PERSONAL CONSUMPTION EXPENDITURES	1,961	2,001	2,046	2,070	2,142	2,181	2,230	2,277	2,333	2,361	2,396	2,446	1,985	2,156	2,342
GROSS PRIVATE DOMESTIC INVESTMENT	431.2	415.9	376.2	405.0	449.6	491.9	540.0	623.8	627.0	662.8	637.8	651.2	414.9	471.6	637.9
NET EXPORTS	35.5	6.6	6.3	19.6	−6.5	−16.4	−29.8	−51.5	−58.7	−90.6	−56.0	−69.1	19.0	−8.3	−64.2
GOVERNMENT PURCHASES	633.7	656.3	681.0	678.8	682.2	689.8	691.4	704.4	743.7	761.0	780.5	789.0	650.5	685.5	747.4
DISPOSABLE PERSONAL INCOME	2,157	2,196	2,238	2,261	2,303	2,367	2,429	2,502	2,554	2,606	2,645	2,653	2,181	2,340	2,577
PERSONAL SAVING RATE (% of disposable income)	6.3	6.1	5.8	5.7	4.2	5.0	5.3	6.1	5.7	6.3	6.2	4.5	6.2	5.0	6.1

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 May, and projected data, released by ASA-NBER in March, are displayed for first quarter 1985.

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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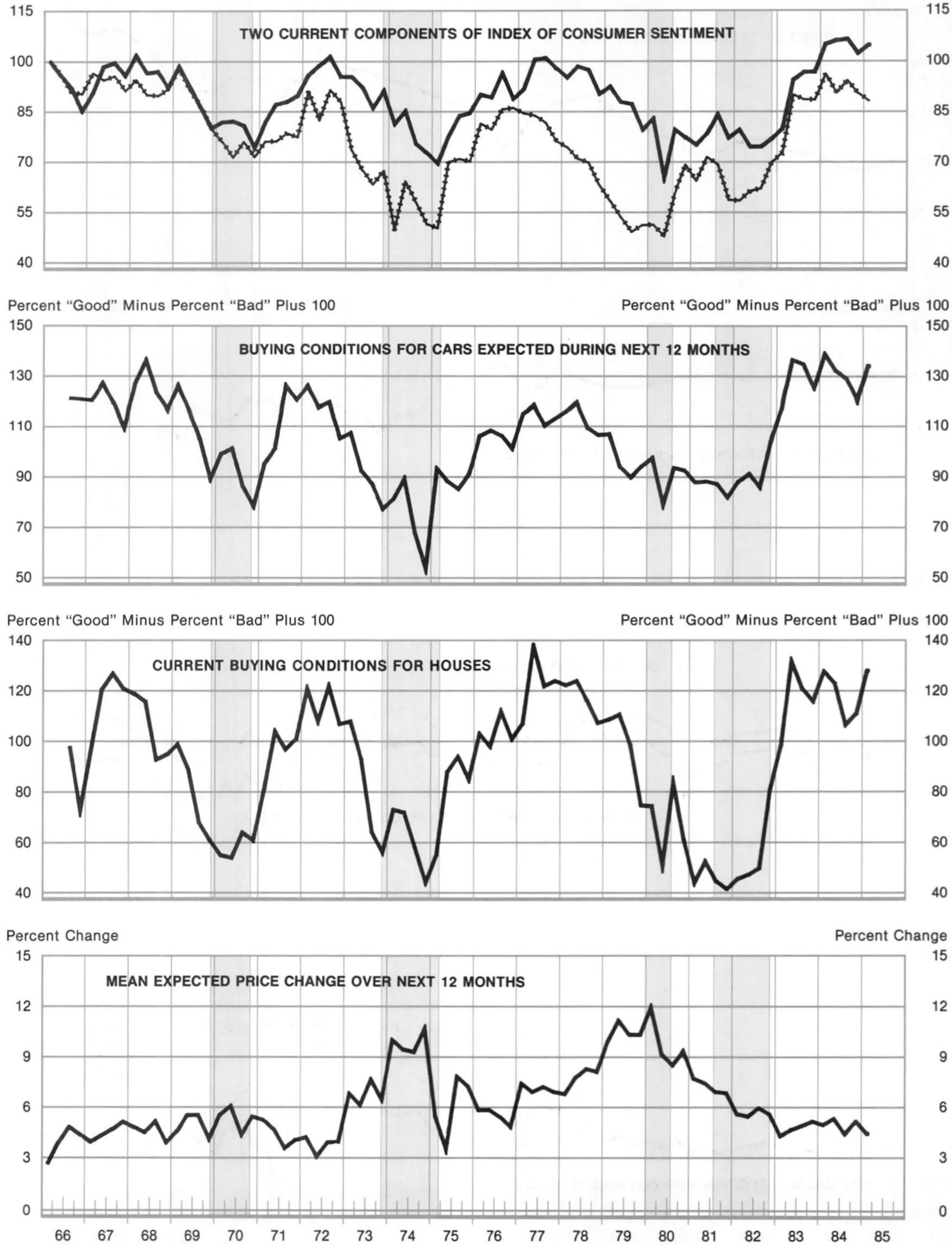

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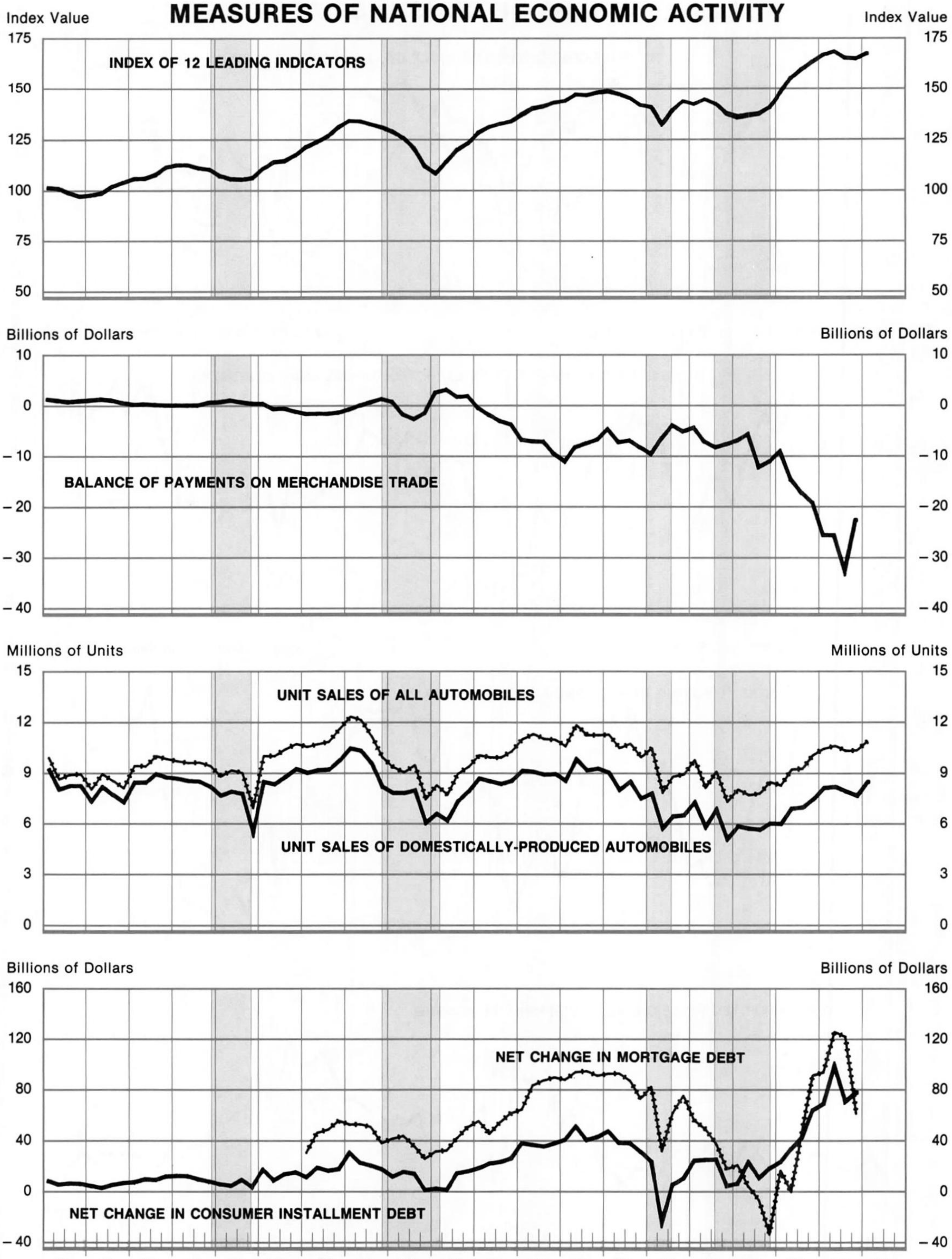
MEASURES OF NATIONAL ECONOMIC ACTIVITY



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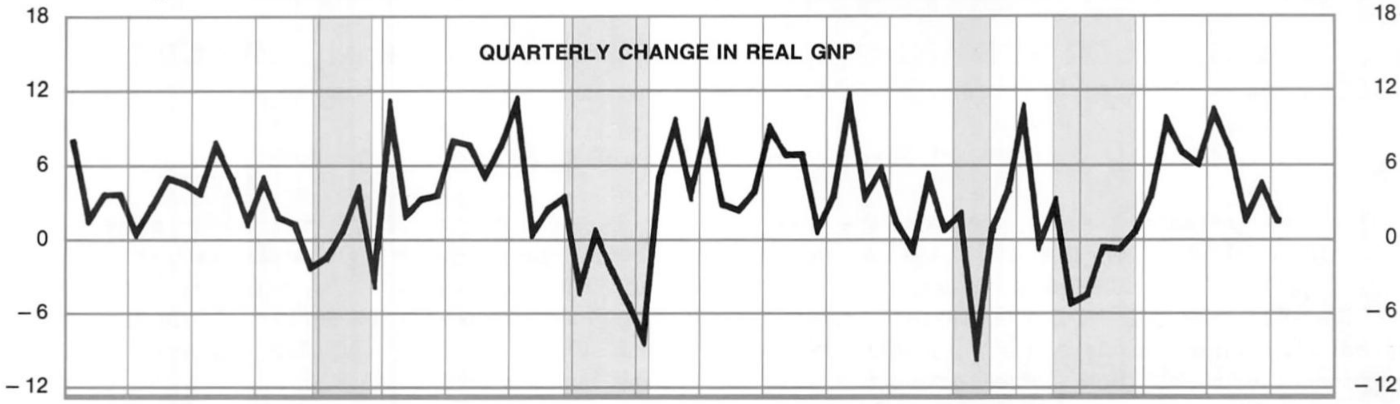
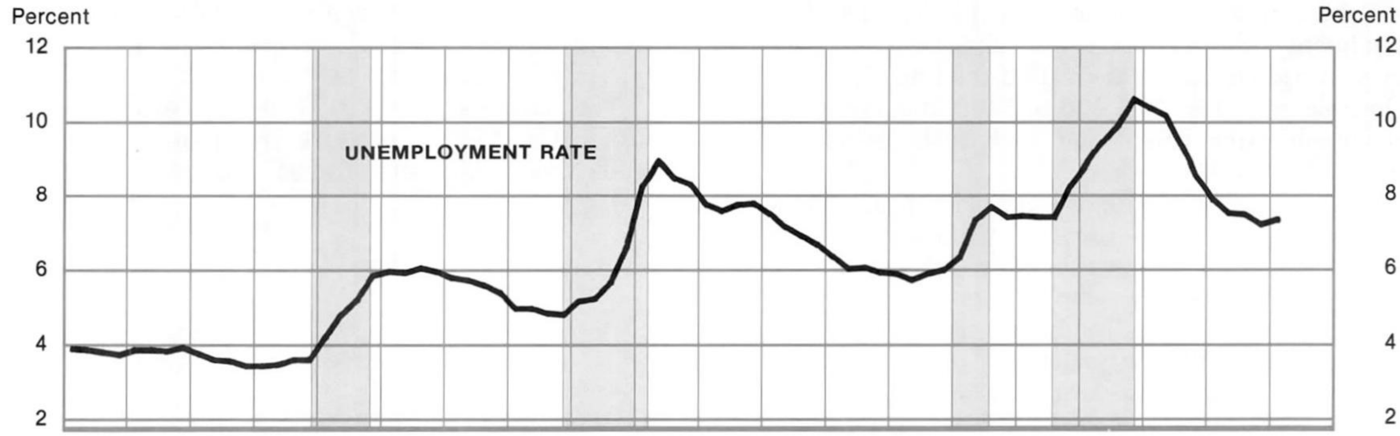
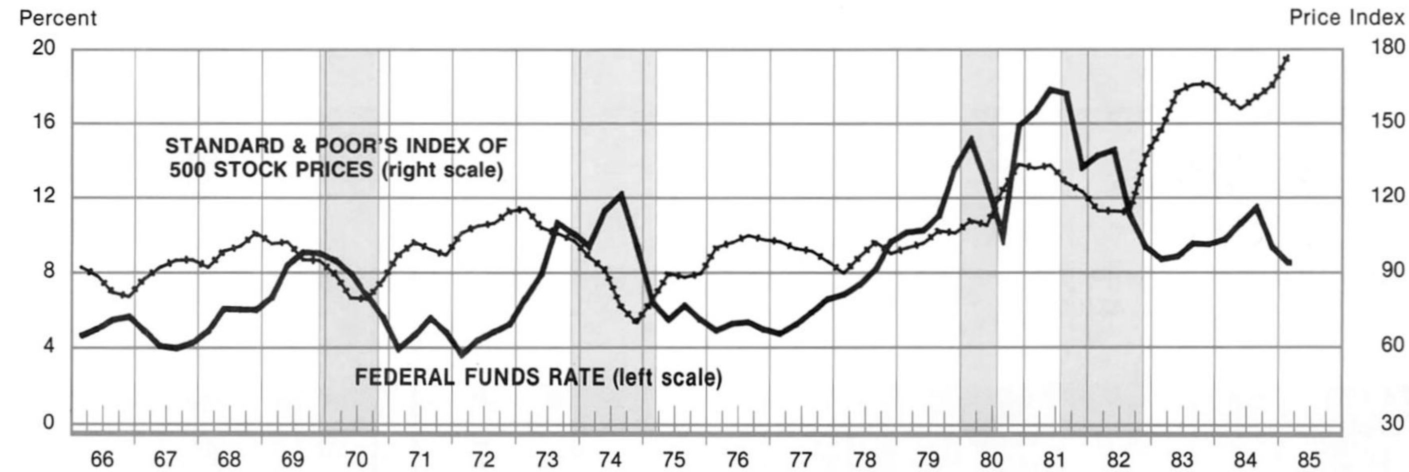
MEASURES OF NATIONAL ECONOMIC ACTIVITY







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