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Why Incomes Could Fall For the Next 30 Years

By [Rick Newman](#) | Daily Ticker – 3 hours ago

You read this Every downturn in America's economic history has been followed by a recovery. And since the 1930s, those recoveries have only taken a couple of years to materialize.

Even now, in the aftermath of a deep recession, the economy is growing and the unemployment rate is falling. But the next few decades could be uncharacteristically bleak, according to a new study.

Economists Richard Burkhauser of Cornell University and Jeff Larrimore, a staffer on the Congressional Joint Committee on Taxation, warn that demographic factors -- which have largely aided the U.S. economy in the past -- could end up pushing incomes down for the next 30 years or more. If other factors don't force incomes up, we may be at the beginning of the longest period of economic decline in American history.

It's well understood that incomes went up in the 1980s and 1990s but stagnated from 2000 to 2007. The median income fell sharply during the 2007-2009 recession and [has yet to recover](#).

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The new study, which will be published as part of a [Russell Sage Foundation](#) book later this year, breaks down income trends since 1979 into various causal factors, then projects how demographic changes will affect median income through 2050. The biggest factor helping to boost incomes between 1979 and 2000 was the growing percentage of women in the workforce, along with rising earnings for those women.

Starting around 2000, however, the contribution of female workers to income growth plateaued. Around the same time, male earnings began to fall, detracting from income growth.

Two other trends will exert powerful influence on incomes in the future: the aging workforce and the growth of minorities—especially Hispanics—as a percentage of the overall population. As the baby boomers retire, the U.S. population will become top-heavy with a larger portion of lower-earning seniors. And since average earnings for blacks and

Hispanics are lower than the national earnings average, the median income will fall as lower earners become a greater percentage of the workforce.

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These trends alone could reduce the median income by 0.43 percentage points per year between now and 2020, 0.52 points per year between 2020 and 2030, and 0.2 points per year between 2030 and 2040. By then, most baby boomers will have headed to the great planned community in the sky, and the aging of the workforce will ease. But the changing racial makeup of the country will still cut median income by 0.24 points annually between 2040 and 2050.

Those numbers might sound small, but over time they would add up to a significant loss of purchasing power for the typical American and a long era of decline for the nation as a whole. A typical worker earning \$50,000 today would earn only about \$48,400 by 2020 if his or her income fell by the amounts projected in the study. The worker's income would fall to about \$45,900 in 2030, \$45,000 in 2040 and to less than \$44,000 in 2050. In a society built upon consumer power and the idea that succeeding generations leap ahead of preceding ones—rather than fall behind them—four decades of falling incomes could be catastrophic.

The study only makes income projections relating to demographic changes. Other changes could either offset those income declines, or exacerbate them. Future tax hikes or cutbacks in Social Security—some combination of which seems likely, to deal with mounting government debt—would reduce income even more, for instance.

On the other hand, demographic changes aren't written in stone.

"We could change some of this if we wanted to," says Burkhauser, one of the study authors. "What we need to do is come up with better education, better training and a greater effort to encourage blacks and Hispanics to stay in the labor force."

If incomes for lower-earning groups were to tick upward, that would obviously boost incomes overall. That might happen if new immigration laws encouraged highly educated foreigners to come to America and start businesses, similar to the way Canada attracts talented foreigners, for example.

It's also possible there could be widespread innovations that inject fresh prosperity into the economy. Forecasting firm IHS Global Insight recently calculated that new sources of domestic oil and gas could significantly boost business activity in the United States and add \$3,500 to the typical household's income by 2025. It would be foolish to hope for such deliverance while ignoring basic economic problems, but America, among other things, is the land of the lucky break. Maybe one more is coming.

Rick Newman's latest book is [Rebounders: How Winners Pivot From Setback To Success](#). Follow him on Twitter: [@rickjnewman](#).

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