Some Pleasant Economic Side Effects

BY VIRTUALLY EVERY popular measure, the U.S. economy is performing better today than in decades. Between October 1999 and March 2000, GDP grew at an annualized 6.3 percent and productivity at 4.6 percent. The next month, the expansion was a record 109 months long and unemployment hit a 30-year low of 3.9 percent. The nation has added an average of 162,000 jobs per month since the expansion began.

Just about every commonly cited statistic says that U.S. living standards have risen markedly over the past decade. With more Americans earning more money than ever before, people can afford to consume more, save more—or both. Perhaps more important, it has never been easier for ordinary Americans to find work or move to a better job.

Yet there are other ways—less celebrated but no less important—the strong economy has improved the everyday lives of ordinary people. Among these pleasant side effects are those on crime, welfare, charity, the budget deficit and minority well-being. The current expansion began in March 1991. But because America has had only eight months of recession since 1982, it can be seen as the second installment in a long boom that began about 210 months ago.

Crime

Estimates of the annual cost of crime in the United States range as high as $1 trillion.[1] Many factors influence an individual's decision to commit crimes: the likelihood of being caught, the severity of punishment and the potential reward, to name a few. But high on the list are the job and income prospects one faces in pursuing lawful work. Research shows that economic incentives play a key role in influencing crime, just as they do in many other decisions in life.[2] So it makes sense that crime rates, especially those economically linked—robbery, burglary, larceny and motor vehicle theft, for example—fell in the 1990s (*Chart 1*).[3]

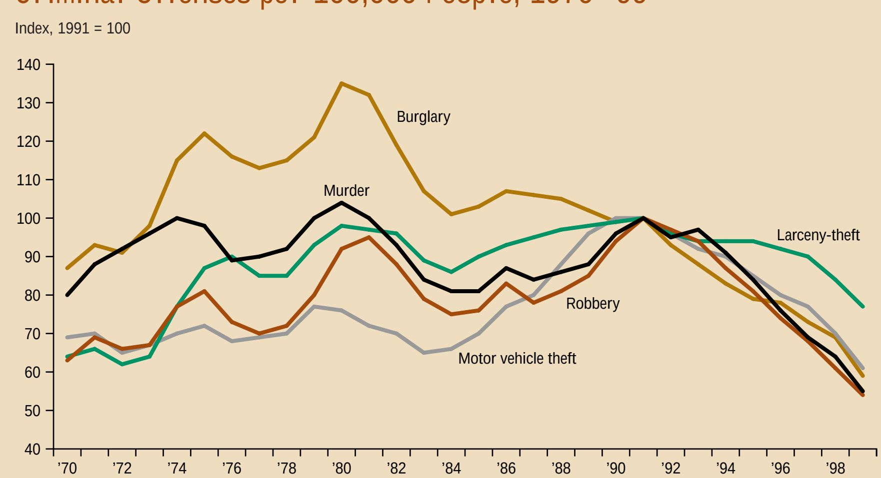
What's remarkable about the decline is that all major types of crimes fell sharply. While non-economic factors such as demographic changes and more prisons can gradually reduce crime rates over time, what's remarkable about the 1990s is the sharp decline in virtually all major types of crime. Crime in every category has declined each year since the current expansion began, with the exception of small one-year increases in murder (1993) and larceny (1995). Declines have been so substantial that most types of crime are less prevalent now than they were in 1970. During the current expansion, robbery has fallen by 46 percent, murder by 45 percent, burglary by 41 percent, motor vehicle theft by 39 percent and larceny-theft by 23 percent.[4] These numbers show that one pleasant side effect of the nation's long economic boom has been a substantial reduction in crime.

Welfare

Since the social safety net was created in 1936, numerous programs have been established to assist out-of-work Americans. As conceived, the nation's welfare system would rescue unfortunate but well-intended citizens from occasional hard times. In practice, however, the system also created incentives for able-bodied and otherwise competent individuals to opt out of the labor market in return for welfare benefits—cash, food and food vouchers, medical care, rent subsidies and others.

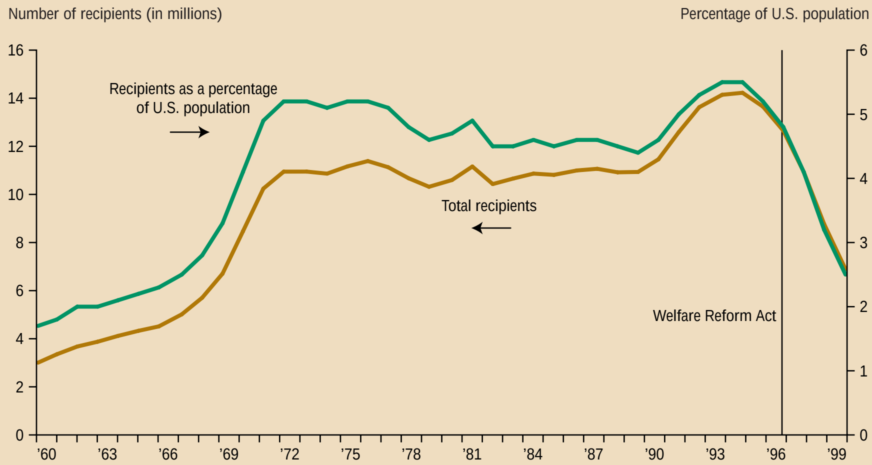
While America's growing economy has been providing ever-greater incentives for individuals to work, for those in some categories (such as the less skilled), an increasingly generous welfare system has been providing incen-

Chart 1
Criminal Offenses per 100,000 People, 1970–99



NOTE: 1999 data are calculated using growth rates from the Uniform Crime Report, January–June 1999.
SOURCE: Federal Bureau of Investigation.

Chart 2
Temporary Assistance for Needy Families, 1960–99



SOURCE: Department of Health and Human Services.

tives to seek social welfare. By 1994, the number of Americans receiving cash welfare payments had reached an all-time high of 14.2 million, or 5.5 percent of the population (*Chart 2*).

Two factors changed the welfare cost–benefit calculus: the landmark welfare reform law enacted in 1996 and the prolonged economic expansion. It is difficult to pinpoint how much of the decline is due to the current expansion, and the General Accounting Office credits both factors for reducing welfare recipiency. As Chart 2 shows, however, the welfare rolls began to fall roughly three years into the expansion, two and a half years before welfare reform was signed into law.

The decline in welfare recipiency has been broad-based, touching every state. Looking at recipiency on a region-by-region basis provides further evidence that economic growth has helped cut welfare rolls (*Chart 3*). Regions with the greatest percentage decline in per capita recipiency in the '90s tended to be those with greater percentage growth in median per capita real income.[5]

The fraction of Americans on welfare has declined by well over half—from 5.5 percent in 1994 to 2.5 percent in 1999. Welfare rolls are down by 53 percent over that period—from 14.2 million in 1994 to 6.8 million in 1999. Of course, the strong economy can't eliminate the need for welfare. But fewer Americans are on welfare today than at any time since 1967—clearly another pleasant side effect of the nation's long boom.

Charity

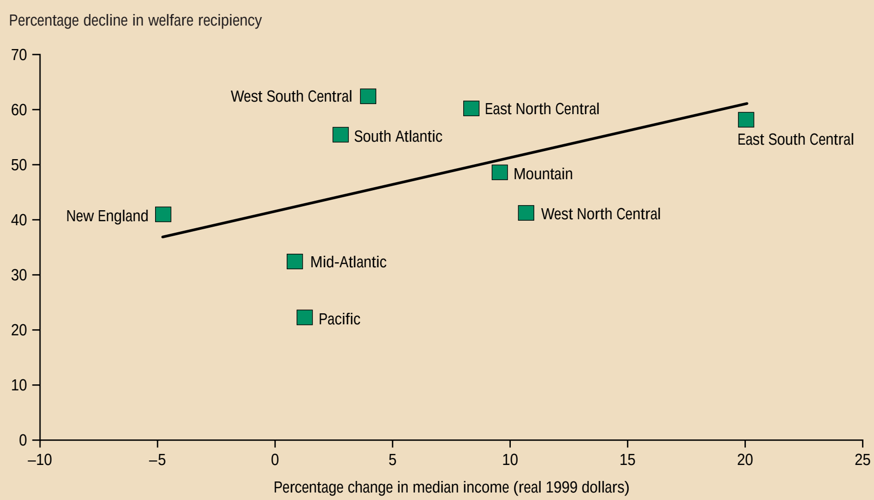
In recent years, stories of self-absorbed millionaires and Internet billionaires have convinced many that Americans have abandoned their commitment to charity. The data, however, provide evidence that Americans are contributing more than ever.

To gauge the extent of increased giving, it's helpful to compare the growth in giving per capita over the 1970s, 1980s and 1990s. The years 1970, 1982 and 1991 are business cycle peaks, so it makes sense to calculate and compare the growth in real giving per capita over three periods: 1970–82, 1982–91 and 1991–99.

The data show that real per capita contributions to charity declined at an average annual rate of 0.2 percent from 1970 to 1982, then rose at an annual average of 1.2 percent during the expansion of the 1980s. Since 1991, however, real per capita charitable contributions have grown at an annual average of 4 percent (*Chart 4*).[6]

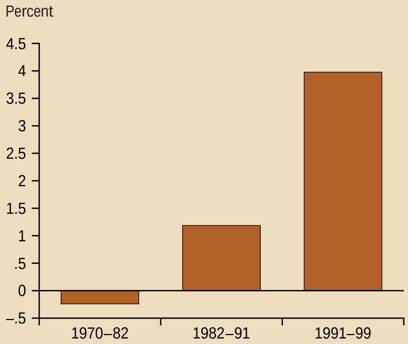
More recent data show an even stronger increase in giving. Since 1995, total real charitable contributions have grown 9 percent annually, rising from $135.9 billion to $191.7 billion in 1999. Real giving per capita has risen 8.4 percent annually over the period. Real contributions from individuals—the biggest category of giving—have grown 7.1 percent annually, rising to $750 per adult. Other forms of charity have grown even faster, with foundations upping their contributions by 17 percent in 1999

Chart 3
Income Growth and the Per Capita Decline in Welfare Recipiency: 1990–98



SOURCES: Department of Health and Human Services; Census Bureau.

Chart 4
Annual Growth in Real Giving per Adult



NOTE: Adults are individuals 20 years of age or older.
SOURCE: A.A.F.R.C. Trust for Philanthropy.

alone. Roughly half of all charitable contributions in the 1990s went to religious organizations such as churches, but the fastest-growing types of charities deal with social issues, such as environmental concerns.

From these data, it is clear a charitable renaissance is under way, powered in large part by the strong economy.

The Budget Deficit

The federal budget deficit has caused concern for more than three decades. Since 1969, the government has amassed debt of over $5 trillion. In the first full year of the current expansion (1992), the deficit reached a record $290.4 billion, and many analysts expected deficits in excess of $400 billion annually by the end of the decade. But although federal spending has grown by about 4 percent annually since 1992, the budget has moved into surplus. Current projections call for a surplus of almost $200 billion in fiscal 2000 and an end to the federal debt by 2013, or even 2009.[7]

The primary factor improving fiscal balance has been income tax revenues, which rose from $468 billion in 1991 to $880 billion in 1999 (*Chart 5*). This increase is largely due to growth in personal income, which expanded from $5 trillion in 1991 to almost $8 trillion last year. However, effective income tax rates have climbed, too. Between 1991 and 1999, the average citizen's federal income tax bite rose from 9.2 percent to 11.3 percent—a 23 percent increase.

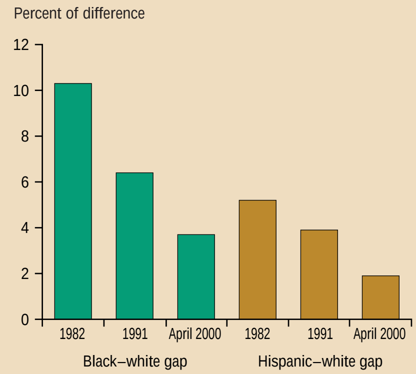
How did this happen? Part of the answer lies in a 1993 tax hike, but part is due to the way the tax system handles growth. A little-known aspect of the tax code is that real economic growth raises the proportion of income subject to taxes—and pushes people into higher tax brackets in the process. This means average Americans don't just pay more taxes when times are good, they actually pay a higher percentage of their income. Bracket creep isn't something that just happens to individuals when they get better jobs. It's designed into current national policy by a code that adjusts tax brackets only for inflation, not for real economic growth.[8]

Owing partly to the effects of strong economic growth on real taxable income, the average income tax rate rose significantly in the 1990s. But while we can lament a tax policy that shifts an ever-greater portion of society's output to government as economic growth proceeds, we can also celebrate the growth that has helped reduce government red ink.

Minority Well-Being

Historically, most minorities have fared worse than whites on standard measures of economic well-being. Average wages earned by blacks and Hispanics have generally fallen short of those earned by whites. Unemployment rates among blacks and Hispanics have lingered well above those of whites. And poverty has plagued the minority population.

Chart 6
Unemployment Rate Gaps



SOURCE: Bureau of Labor Statistics.

Has the recent economic expansion helped minorities? Since 1993, the poverty rate has dropped considerably among Americans of all races, especially minorities. From its 1990s peak of 7.6 percent (in 1993), the poverty rate among white non-Hispanic families fell

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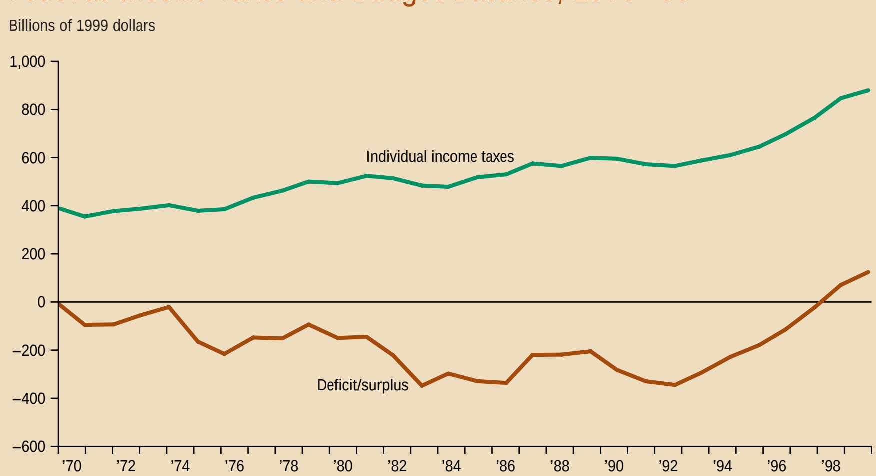
Chart 5
Federal Income Taxes and Budget Balance, 1970–99



SOURCE: Office of Management and Budget.

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(Continued from page 9)

to 6.1 percent by 1998.[9] Among blacks, the drop has been greater, with the rate declining from 31.3 percent to 23.4 percent—a nearly 8 percentage point drop. Poverty rates among Hispanic families fell from 27.3 percent to 22.7 percent over this period, which is especially remarkable given the large number of poor Hispanics who migrated to the United States in the 1990s.

The minority unemployment picture is even better. During America's long boom, overall unemployment has fallen from its 1980s high (in 1982) of 9.7 percent to a 1990s high of 7.5 percent (in 1992) to 3.9 percent in April 2000. Unemployment rate gaps, however, have shown steeper declines (*Chart 6*). The gap between black and white unemployment rates narrowed from 10.3 percent in 1982 to 6.4 percent in 1991 and 3.7 percent in April. The Hispanic–white gap went from 5.2 percent in 1982 to 3.9 percent in 1991 and 1.9 percent in April.

Minorities have faced many obstacles in the 20th century. But after nearly two decades of strong economic growth, falling unemployment rates and intensifying global competition, these obstacles have lessened. Minorities have seized the opportunities the New Economy affords to narrow the gap with the broader population and provide a better standard of living for themselves and their families—another pleasant side effect of the strong economy.

—Jason L. Saving
W. Michael Cox

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Notes

1 See David A. Anderson, "The Aggregate Burden of Crime," *Journal of Law and Economics*, October 1999, pp. 611–42.

2 The seminal article on the subject is Gary S. Becker, "Crime and Punishment: An Economic Approach," *Journal of Political Economy*, March/April 1968, pp. 169–217. More recent work that confirms the importance of economic factors to criminal behavior is Ralph C. Allen and Jack H. Stone, "Market and Public Policy Mechanisms in Poverty Reduction: The Differential Effects of Property Crime," *Review of Social Economy*, June 1999, pp. 156–73.

3 Both homicide and forcible rape have also declined since 1992. Although initially one might view these crimes as unrelated to the economy, there is good reason to believe they might be indirectly linked to job and income prospects. Working citizens have less time to commit crime, and they are apt to feel more included in society, less frustrated and marginalized and therefore less antisocial.

4 The rate of motor vehicle theft continued downward in the 1990s, but it has been in decline since the early 1980s.

In some cases, technologies introduced since the early 1980s have likely reduced crime as much as the economic expansion has. Examples are car alarms and home security systems, largely unavailable until the early 1980s but now found in nearly a quarter of U.S. residences and vehicles.

5 The regions in the article and Chart 3 are the standard nine U.S. Census divisions.

6 The figures used here are real giving per adult to help control for demographic changes.

7 The $200 billion includes a $40 billion non-Social Security surplus.

8 Under the tax code, all Americans could be in the 39.6 percent tax bracket someday. The obvious solution is to change the way tax brackets are indexed. Tax brackets could be raised by the full extent of nominal income growth annually, not just the portion due to higher prices.

9 Data are the most recent available.

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