



**NEW RESEARCH DEBUNKS COMMON
ECONOMIC WISDOM
AMERICANS ARE BETTER OFF THAN WE THINK**

FOR IMMEDIATE RELEASE: November 18, 2008

According to conventional wisdom, the economic well-being of all but the wealthiest Americans has stagnated or declined over the past twenty-five years. In *Prices, Poverty, and Inequality: Why Americans Are Better Off Than You Think* (AEI Press, November 2008) University of Chicago business school professor Christian Broda and Columbia University professor David E. Weinstein demonstrate why this is wrong.

Using more accurate measures, Broda and Weinstein show that real prosperity has actually dramatically *increased* among Americans over the last thirty years. They reveal that the consumer price index (CPI) used to develop conventional measures of real income ignores two important sources of prosperity for American households:

- The CPI ignores consumers' ability to substitute lower-priced goods for more expensive products, allowing low-income and middle-class consumers to benefit from the same product improvements as their wealthier counterparts.
- Furthermore, the official CPI fails to measure fully the impact that new and better goods—such as household appliances, cellular phones, vehicle air bags, medicines, and computers—have on Americans' health and quality of life.

When product improvements and consumers' ability to substitute among goods are factored into conventional measures of income and poverty, Broda and Weinstein find that economic well-being for Americans has significantly increased over the past quarter century. It is generally believed that the real hourly wages of workers in the bottom 10 percent of the wage distribution rose by only 0.2 percent between 1979 and 2005 and that poverty rates have remained essentially unchanged from the 1970s at around 12 percent of all households. However, using their new, accurate measure of prosperity, the authors find that over the last thirty years, the real wages of the poor have increased by 30 percent—and the poverty rate has plummeted to about 4 percent.

For decades, the CPI and the official poverty rate have systematically understated the prosperity of low-income Americans. *Prices, Poverty, and Inequality: Why Americans Are Better Off Than You Think* offers a more accurate—and encouraging—picture of economic well-being in the United States.

Christian Broda is a professor of economics at the University of Chicago Graduate School of Business.

David E. Weinstein is the Carl S. Shoup Professor of the Japanese Economy at Columbia University.

PRICES, POVERTY, AND INEQUALITY
Why Americans Are Better Off Than You Think

By Christian Broda and David E. Weinstein

63 pages • 978-0-8447-4275-5 • November 2008 • \$15.00