PERSONALLY SPEAKING

Number 8 ***February 2005***

INCOME GAP WIDENS BETWEEN POOR FAMILIES AND NONPOOR FAMILIES

Edward J. O'Boyle, Ph.D.
Mayo Research Institute

Since 1988 the Census Bureau's annual report on poverty in the United States has included information on the income deficit and income surplus. The income deficit measures impoverishment in terms of the difference between the income of each poor family and the appropriate poverty threshold for a family of that size. The income surplus of nonpoor families is the extent to which the income of every nonpoor family exceeds the poverty threshold for a family of the same size.

In 2003 the *mean* income deficit for all poor families was $7,627. The mean income surplus for all nonpoor families was $59,759. It follows that the sum of those two estimates -- $67,386 -- represents the average (mean) difference in income between poor and nonpoor families or simply the family income gap. In current dollars, this gap has increased by $30,231 since 1988. In constant dollars (2003 = 100), the increase has been $9,596 (see Table 1A). Put differently, since 1988 the real income of poor families has been falling further behind the real income of nonpoor families by nearly $640 every year. The recession of 1991-1992 is reflected in a narrowing of the income difference between poor and nonpoor families. *Between 1993 and 2000 – the period marking the longest expansion in U.S. economic history -- the real family income gap grew by $1,188 every year.*

The *median* income deficit for all poor families in 2003 was $6,701. At the same time, the median surplus for all nonpoor families was $42,936. Thus the family income gap measured in terms of median income was $49,637. In current dollars, this gap has increased by $20,132 since 1988. In constant dollars (2003 = 100), the increase has been $3,746 (see Table 1B). Because the median is the midpoint of a frequency distribution, the median family income deficit/surplus figures reduce the measured family income gap by removing the disproportionate impact that very high-income families have on mean family income surplus and extremely low-income families have on mean family income deficit. Compared to the mean, the median provides estimates of the income surplus and income deficit which are more nearly typical of families above the poverty threshold and families below that threshold.

These findings raise three questions. Why is this information in effect buried in the annual reports on poverty prepared by the U.S. Census Bureau? Why are the poor falling further behind during the longest expansion in U.S. economic history? What implications can be drawn from this evidence? The final answer to the first question, while it calls for insider

information, seems to inhere in the Census Bureau's resolute commitment to defining and measuring poverty in terms of what is commonly called an absolute standard. The answer to the second and third questions originates in the fundamental nature of poverty, notably how persons and families enter and exit poverty.

Why the Family Income Gap is Widening

The family income gap has been widening because improved employment opportunities have worked especially well for those better positioned to take advantage of them, those who already are better skilled, more talented, more mobile, better connected, more willing to work longer, harder, and smarter in order to qualify for better jobs and advancement.

But there is more at work here than greatly improved job opportunities. Persons and families transition into and out of poverty due to significant life events such a marriage, divorce, separation, death, birth, injury, and disease. Marriage, for example, may involve withdrawing adult wage earners (the bride and the groom) from two families of origin perhaps plunging both families below the poverty threshold, and creating a third family that itself may have income below the poverty threshold. Death of a wage-earning spouse could reduce the surviving family members to poverty, and re-marriage could lift them out of poverty. Retirement, especially if forced due to a permanent disability, could drop income for an older married couple below the poverty threshold. Similarly the birth of a child in a family with no improvement in income could plunge that family below the poverty line.

Large numbers of persons and families enter or exit poverty from one year to the next. The latest information from the Census Bureau's *Survey of Income and Program Participation* indicated that among persons who were not poor in 1996 a total of 7.6 million had entered into poverty by 1999. At the same time, nearly twice as many exited poverty. A total of 14.8 million persons who were poor in 1996 exited poverty by 1999. Family status is a significant factor in both the entry into and exit from poverty. The 1996-1999 entry rate for persons in married-couple families was 1.9 percent. For other family types the entry rate was 6.8 percent. The 1996-1999 exit rate for persons in other family types was 39.4 percent. For persons in married-couple families the exit rate was 59.7 percent [Iceland, pp. 4-8]. One obvious reason for these differences is that married-couple families are more likely to have two or more adult wage earners than other family types.

The *mean* income gap for poor compared to non poor families in 2003 was much greater for white families ($69,232) than for black families ($48,503). It was even higher ($76,198) for white married-couple families living above poverty than for black female-headed families[1] living below poverty. The difference became much smaller ($16,594) when white married-couple families that are nonpoor are compared to similarly circumstanced black married-couple families (see Table 2A).

[1] Strictly speaking, a female-headed family is one in which there is a female householder and no husband present.

Female-headed families account for 51 percent of all poor families, and for 55 percent of all those poor families with an income deficit of $8,000 or more.[2] **There is no need to differentiate here between mean family income and median family income.**

Four other findings from the 2002 report on poverty are noteworthy. First, there is an income gap of more than $75,000 between white married-couple families that are living above poverty and poor female-headed families whether white or black. Second, black married-couple families that are above poverty have incomes more than $58,000 greater than the incomes of both poor black female-headed and poor white female-headed families. Third, there is little difference -- about $72 per month -- between poor white female-headed families and similarly circumstanced black families. Fourth, comparing 2003 to 2000, the overall family income gap widened by about $3,616 between nonpoor white married-couple families and nonpoor black married-couple families.

The same types of differences are noted when the surplus/deficit is measured in terms of median income rather than mean income, though the order of magnitude is much greater for the mean income gap than the median income gap (see Table 2B).

Three Remedies

The significance one attaches to these data on family income depends on one's social values and how those values are prioritized. If one holds fast to individual freedom as the dominant social value, that individuals should be free to use their skills and talents to their own best advantage, that their income should be determined by how well they apply themselves in economic affairs, information on the family income gap is perceived as the reward for using those skills and talents effectively and the penalty for using them ineffectively. There is, in other words, nothing untoward in the information on family income gap, and no remedial intervention is necessary.

If, however, one embraces human equality as the dominant social value, information on the family income gap is of central importance because huge differences in income complicate the task of developing a sense of belonging within an individual business enterprise and a sense of community in a neighborhood, town, city, state, and nation. The remedies suggested below are based on the premise that greater economic equality contributes to a heightened sense of unity and oneness in business and throughout society.

The statistics on poverty for 2003 point to three remedies. The first remedy is a year-round full-time job. Only 3.3 percent of the families with at least one year-round full-time worker were living in poverty. Among poor female-headed families, 85 percent had no year-round full-time workers.

---

[2] **The Census Bureau publishes the income-deficit information using ten income intervals. The tenth interval is "$8,000 or more."**

The second remedy is two or more wage-earners in a family. Only 2.1 percent of the families with two or more workers were officially classified as poor. For families with two or more persons working year-round full-time, the rate of poverty was 0.7 percent. In poor families headed by a female, only 4.0 percent had two or more workers, and virtually *none* had two or more year-round full-time workers.

The third remedy is a husband and wife living together. The rate of poverty for married-couple families in 2003 was 5.4 percent. If there is one worker in a married-couple family, the poverty rate is 10.0 percent. With two or more working in a married-couple family the rate drops to 1.7 percent. Among female-headed families with no workers, the poverty rate is 46.5 percent. With two or more workers, the rate of poverty for female-headed families is 5.0 percent.

Poverty remains a serious problem even after the longest economic expansion in U.S. history, suggesting at least for married-couple families that the poverty rate likely will not fall further in the future. Indeed, a rate of poverty of 5 percent for all married-couple families could be the *lower limit* because even in the best of times such families will experience death, birth, disease, injury and thereby at times fall below the poverty line. Similarly, a rate of poverty of 25 percent could be the *lower limit* for all female-headed families because, in addition to experiencing the significant life events of death, birth, disease, injury, 9 of 10 such families even in the best of times were one-worker or no-worker families.

What happens in the future regarding the family income gap depends importantly on which social value -- individual freedom or human equality -- prevails. The gap likely will become larger or smaller depending on whether freedom or equality is the more highly valued.

Concluding Remarks

From the very beginning, poverty in the U.S. has been defined officially as the annual cost of the goods and services required to support a minimal standard of living. It is most often called an absolute standard, but is better described as a minimal-living standard. In 2003, for instance, the annual cost of the goods and services for a family of four with no children under age 18 to live at a minimal standard of living was $18,979. This definition has been attacked from the very beginning on grounds that poverty is properly defined not in terms of some minimal-living standard but in terms of what a person or family has relative to what others have. This definition yields what is called a relative standard that usually is constructed from information regarding income distribution. For that reason, it is better described as an income-distribution standard.

The income-distribution standard may be rendered into a specific poverty measure by defining as poor all persons or families at the lower end of the distribution, such as in the lowest 10 percent, 15 percent, 20 percent, or everyone below one-half of the median income of all persons or families. Proponents of the income-distribution standard largely have been silent in recent years such that not once in an open letter to the Census Bureau did more than 40 well-

known poverty specialists recommend incorporating income distribution in the official poverty definition or developing a separate income-distribution standard.[3]

The minimal-living standard clearly has won the day, and for that reason the Census Bureau's annual poverty report takes no notice of the family income gap that displays the income of poor families relative to the income of nonpoor families. This omission is regrettable because it denies the social dimension of human nature, choosing instead to focus entirely on the individual dimension. Every human being is at once an individual being and a social being, a person who at times is solitary and autonomous and at other times is communal and dependent. Humans develop into different adult persons because they integrate those two dimensions differently. The introvert and the extrovert, the team player and the loner, the hero and the bystander are everyday examples of this human duality.

The minimal-living or absolute standard rests on the premise that all humans are exclusively individual beings. The income-distribution or relative standard rests on the premise that all humans are exclusively social beings. Because humans are at once individual beings and social beings, both premises should be incorporated in the way in which poverty is defined and measured. *By paying no heed to information such as the income gap between poor families and nonpoor families, the official poverty definition rejects human sociality and the annual report on poverty says in effect that humans beings do not determine their own material well-being in terms of what they have compared to what their neighbors have*.

Information on the family income gap is no substitute for an accurate estimate of the numbers of persons and families who are living in poverty. However, it is an important complement to that data and adds significantly to our understanding of poverty. The family income gap is noteworthy in that it avoids one of the major criticisms of typical income-distribution standard, that is where to draw the line differentiating the poor from the nonpoor. It is unique in that it incorporates both income distribution and minimal living in one standard, thus constructing a single standard that reflects at once human individuality and human sociality. Further, because the family income gap is based on the official minimal-living (absolute) standard of poverty employed by the Census Bureau, any improvements made in constructing the official poverty thresholds or in how family income is defined and measured are automatically included in the Census Bureau's estimates of the family income gap. Thus, there is very little additional cost in supplying the yearly estimates, and improving those estimates is literally cost-free.

[3] See www.ssc.wisc.edu/irp/povmeas/povlet.htm.

References

***An Open Letter on Revising the Official Measure of Poverty*, <http://www.ssc.wisc.edu/irp/povmeans/povlet.htm> (October 2001).**

Iceland, John. *Dynamics of Economic Well-Being: Poverty 1996-1999*, U.S. Bureau of the Census, Current Population Reports, P70-91, July 2003.

U.S. Bureau of Labor Statistics, *Consumer Price Index – All Urban Consumers*, <http://data.bls.gov/PDQ/servlet/SurveyOutputServlet> (February 2005).

U.S. Bureau of Labor Statistics and U.S. Census Bureau, *Annual Demographic Survey: March Supplement*, http://pubdb3.census.gov/macro/032004/pov/toc/htm> (February 2005).

U.S. Census Bureau, Current Population Reports, *Poverty in the United States* (various years, 1988-2003), U.S. Government Printing Office, Washington, D.C.

Table 1A. *Mean* Family Income Gap:
Difference Between All Poor Families and All Nonpoor Families, 1988-2003

	Current Dollars	Constant Dollars 2003=100
1988	$ 37,155	$ 57,790
1989	39,898	59,203
1990	41,056	57,799
1991	41,963	56,690
1992	43,374	56,884
1993	46,543	59,266
1994	48,423	60,120
1995	49,801	60,127
1996	52,310	61,345
1997	55,613	63,756
1998	58,245	65,749
1999	60,814	67,166
2000	63,247	67,581
2001	65,072	67,607
2002	65,212	66,698
2003	67,386	67,386

Table 1B. *Median* Family Income Gap:
Difference Between All Poor Families and All Nonpoor Families, 1988-2003

	Current Dollars	Constant Dollars 2003=100
1988	$ 29,505	$ 45,891
1989	31,156	46,231
1990	32,167	45,285
1991	33,068	44,673
1992	34,084	44,700
1993	34,651	44,123
1994	36,096	44,816
1995	37,035	44,714
1996	39,133	45,892
1997	40,997	46,999
1998	43,166	48,727
1999	45,082	49,790
2000	46,326	49,500
2001	47,426	49,274
2002	47,843	48,933
2003	49,637	49,637

Sources: U.S. Census Bureau; *Consumer Price Index* from U.S. Bureau of Labor Statistics.

Table 2A. Mean Family Income Gap:
Difference in Income between Poor Families and Nonpoor Families, 2000 and 2003
(current dollars)

	2000	2003
All families	$ 63,247	$ 67,386
All white families	64,992	69,232
All black families	46,029	48,503
Nonpoor white married-couple families compared to:		
poor white female-headed families	$ 70,251	$ 75,336
poor black female-headed families	70,436	76,198
nonpoor black married couple families	12,978	16,594
Nonpoor black married-couple families compared to:		
poor white female-headed families	$ 57,273	$ 58,742
poor black female-headed families	57,458	59,604
Poor white female-headed families compared to:		
poor black female-headed families	$ 185	$ 862

Table 2B. Median Family Income Gap:
Difference in Income between Poor Families and Nonpoor Families, 2000 and 2003
(current dollars)

	2000	2003
All families	$ 46,326	$ 49,637
All white families	47,968	51,080
All black families	32,834	35,791
Nonpoor white married-couple families compared to:		
poor white female-headed families	$ 53,325	$ 57,161
poor black female-headed families	53,320	58,164
nonpoor black married couple families	9,578	10,470
Nonpoor black married-couple families compared to:		
poor white female-headed families	$ 43,747	$ 46,691
poor black female-headed families	43,742	47,694
Poor white female-headed families compared to:		
poor black female-headed families	$ -5	$ 1,003

Source: U.S. Census Bureau.

Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute. Since he completed his doctorate in economics from Saint Louis University in 1972, Dr. O'Boyle has been specializing in economic research and analysis increasingly from the perspective of the human person engaged in everyday activities both as a unique individual and as a community member. In January 2004 the Association for Social Economics conferred on Dr. O'Boyle its prestigious Thomas Divine Award for lifetime contributions to social economics and the social economy.