

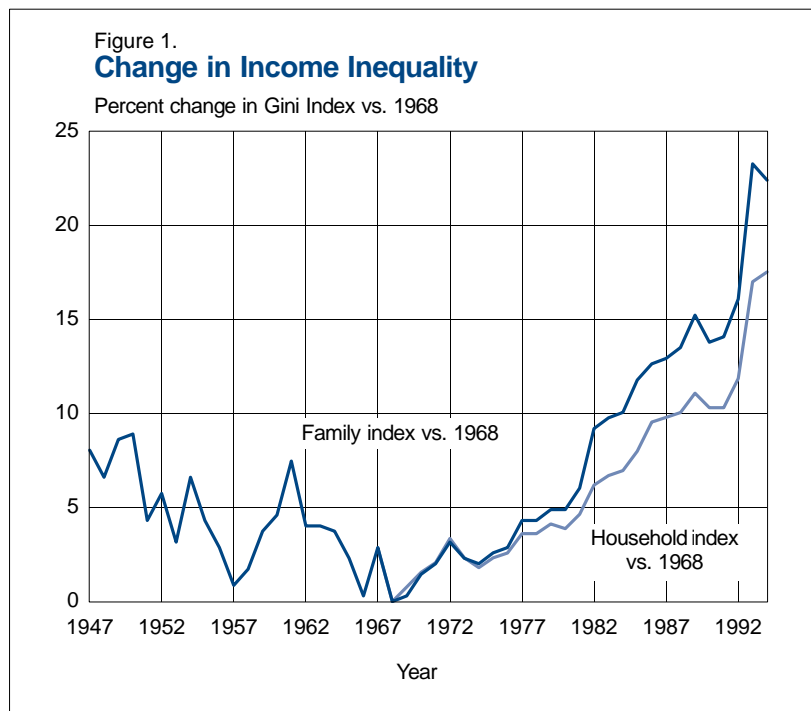
### Are the rich getting richer and the poor getting poorer?

*Historical Census Bureau statistics on income can shed some light on that debate. Although the Census Bureau has been measuring incomes for a half-century and a large number of factors have been identified as contributing to changes in inequality, the root causes are still not entirely understood.*

The Census Bureau has been studying the distribution of income since the late 1940's. The first income inequality statistics were published for families and came from the annual demographic supplement to the Current Population Survey (CPS). The most commonly used measure of income inequality, the Gini index (also known as the index of income concentration),<sup>1</sup> indicated a decline in family income inequality of 7.4 percent from 1947 to 1968. Since 1968, there has been an increase in income inequality, reaching its 1947 level in 1982 and increasing further since then. The increase was 16.1 percent from 1968 to 1992 and 22.4 percent from 1968 to 1994 (see figure 1).<sup>2</sup>

<sup>1</sup> The Gini index ranges from 0.0, when every family (household) has the same income, to 1.0, when one family (household) has all the income. It is, therefore, one way to measure how far a given income distribution is from equality.

<sup>2</sup> Part of the increase from 1992 to 1994 is due to changes in survey methodology, see footnote 3.



Living conditions of Americans have changed considerably since the late 1940's. In particular, a smaller fraction of all persons live in families (two or more persons living together related by blood or marriage). Therefore, starting in 1967, the Census Bureau began reporting on the income distribution of households in addition to families. By coincidence, 1968 was the year in which measured postwar income was at its most equal for families. The Gini index for households indicates that there has been growing income inequality over the past quarter-century. Inequality grew slowly in the 1970's and rapidly during the early 1980's. From about 1987 through 1992, the growth in measured inequality seemed to taper off, reaching

11.9 percent above its 1968 level. This was followed by a large apparent jump in 1993, partly due to a change in survey methodology.<sup>3</sup> The Gini index for households in 1994 was 17.5 percent above its 1968 level.

<sup>3</sup> Computer-assisted personal interviewing (CAPI) was introduced in January 1994 to the Current Population Survey. As part of the March 1994 supplement, households were permitted to report up to \$1 million in earnings, up from \$300,000, and parallel increases were made in the reporting limits for selected other income sources. Both of these changes affected the data. Analysis of the 1993 statistics suggests that the increase in the maximum amounts that could be reported accounts for about 1.8 percentage points or about one-third of the 1992 to 1993 increase of 5.2 percentage points. The contribution of the change to CAPI to the increase in measured inequality cannot be determined, but may bring the share of survey methods-related changes in inequality to over one-half of the 5.2 percentage points. See Paul Ryscavage, "A Surge in Growing Income Inequality?" *Monthly Labor Review*, August 1995.

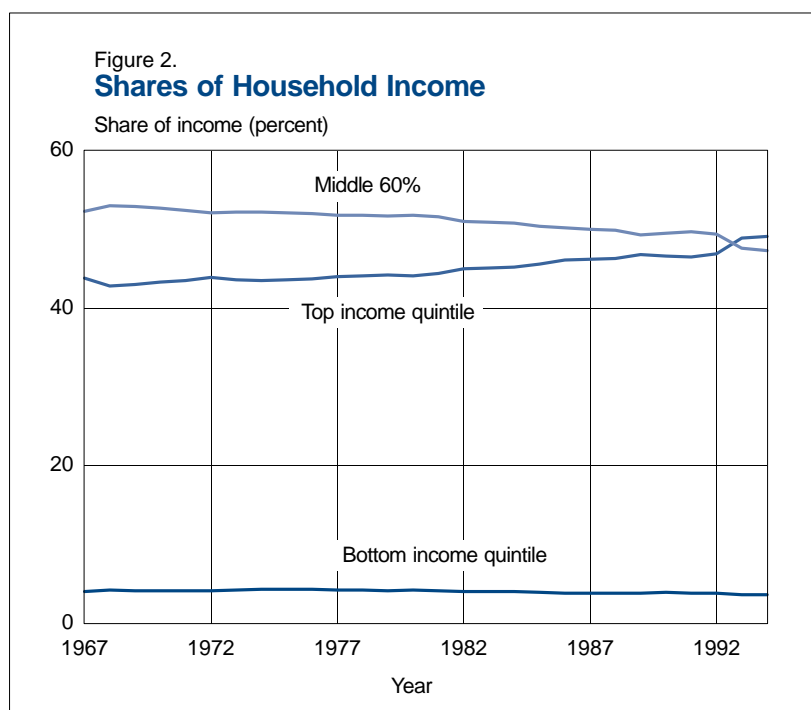
Income inequality measures such as the Gini index or shares of aggregate income are particularly sensitive to changes in data collection measures. A change that may only affect a relatively small number of cases (especially those in the upper end of the income distribution) can affect these measures, while having virtually no effect on median income. We are unable to determine what fraction of the measured increase in income inequality between 1992 and 1993 was due to changes in survey administration between those 2 years, though our analysis suggests there was nonetheless a real increase in inequality between 1992 and 1993.<sup>4</sup>

Figure 2 illustrates the increasing share of aggregate household money income received by the highest income quintile (households with incomes above \$62,841 in 1994)<sup>5</sup>, 49.1 percent in 1994 and 46.9 percent in 1992, up from 42.8 percent in 1968, and the declining share for households in the middle 60 percent and those in the bottom quintile (incomes below \$13,426).<sup>6</sup> During that same period, the share received by households in the top 5 percent of the income distribution went from 16.6 percent in 1968 to

<sup>4</sup> See U.S. Bureau of the Census, *Income, Poverty, and Valuation of Noncash Benefits: 1993*, Current Population Reports P60-188, Washington DC: U.S. Government Printing Office, February 1995, and Ryscavage, op. cit. for a discussion of the 1993 statistics. The Gini index of inequality did not change significantly between 1993 and 1994.

<sup>5</sup> All dollar amounts are in 1994 dollars and all percentage increases are corrected for inflation, as measured by the experimental Consumer Price Index for Urban Consumers. (The experimental index uses the official methodology adopted in 1983 by the Bureau of Labor Statistics as applied to the 1968-1982 period; see U.S. Bureau of the Census, op. cit., appendix A.)

<sup>6</sup> The respective shares of the middle 60 percent and the bottom 20 percent were 53.0 and 4.2 percent in 1968, down to 49.3 and 3.8 percent in 1992 and 47.3 and 3.6 percent in 1994.



18.6 percent in 1992 and 21.2 percent in 1994.

Yet another way to look at the change in inequality involves the income at selected positions in the income distribution. As figure 3 shows, in 1994 dollars the household at the 95th percentile in 1994 had \$109,821 in income, 8.2 times that of the household at the 20th percentile, whose income was \$13,426 (the comparable 1992 ratio was 7.9).<sup>7</sup> In contrast, in 1968, the household at the 95th percentile had but 6.0 times the income of the household at the 20th percentile.

A parallel way to look at this change examines the average (mean) household income in each quintile (see figure 4). The average income of households in the top quintile grew from \$73,754 in 1968 to \$96,240 in 1992 and \$105,945 in 1994. In percentage terms, this growth was 30 percent from 1968 to

<sup>7</sup> Not significantly different from the 1994 ratio.

1992 and 44 percent from 1968 to 1994. During the 1968 to 1994 period, the average income in the bottom quintile grew by only 8 percent, from \$7,202 to \$7,762 (7 percent from 1968 to 1992).<sup>8</sup> Consequently, the ratio of the average income of the top 20 percent of households to the average income of the bottom 20 percent went from 10.2 in 1968 to 12.5 in 1992 and 13.6 in 1994.

Yet one more way to look at the income distribution adjusts for family size changes over the period, by examining the change in the ratio of family income to its poverty threshold. Poverty thresholds vary by family size and composition, reflecting consumption efficiencies achieved through economies of scale (i.e., families of two or more persons can share certain goods

<sup>8</sup> Not significantly different from the 1968 to 1994 percentage change.

Figure 3.  
**Upper Limits of Percentiles**

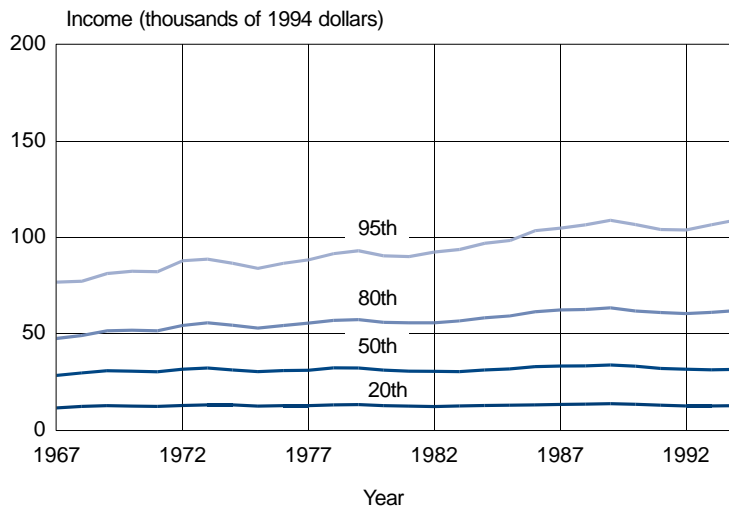
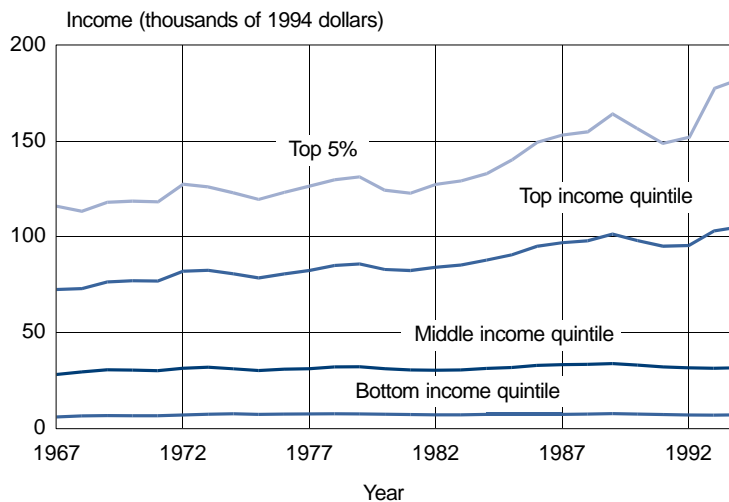


Figure 4.  
**Average Incomes**



such as housing).<sup>9</sup> A ratio of 1.00 thus indicates that the family has an income equal to the poverty threshold for its size and composition. The average ratio in the bottom quintile in 1968 was 1.04, while the average in the top quintile was 6.13. By 1994, these ratios were 0.92 and 9.22, respectively (and 0.89 and 8.39 in 1992), also indicating a widening income gap (see figure 5). The ratio for the middle quintile also rose, from

2.80 in 1968 to 3.26 in both 1992 and 1994.

**In sum, when money income is examined, each of these indicators shows increasing income inequality over the 1968 to 1994 period. But, are there other perspectives that change this story?**

Since 1979, the Census Bureau has examined several experimental measures of income. These measures add the value of noncash benefits (such as food stamps and employer contributions to health

insurance) to, and subtract taxes from, the official money income measure. The Bureau's research in this area<sup>10</sup> has shown that the distribution of income is more equal under a broadened definition of income that takes account of the effects of taxes and noncash benefits. Further, government transfer benefits play a much more equalizing role on income than do taxes. Nonetheless, while the levels of inequality are lower, this alternative perspective does not change the picture of increasing income inequality over the 1979 to 1994 period.<sup>11</sup>

### Why are these changes in inequality happening?<sup>12</sup>

The long-run increase in income inequality is related to changes in the Nation's labor market and its household composition. The wage distribution has become considerably more unequal with more highly skilled, trained, and educated workers at the top experiencing real wage gains and those at the bottom real wage losses. One factor is the shift in employment from those goods-producing industries that have disproportionately provided

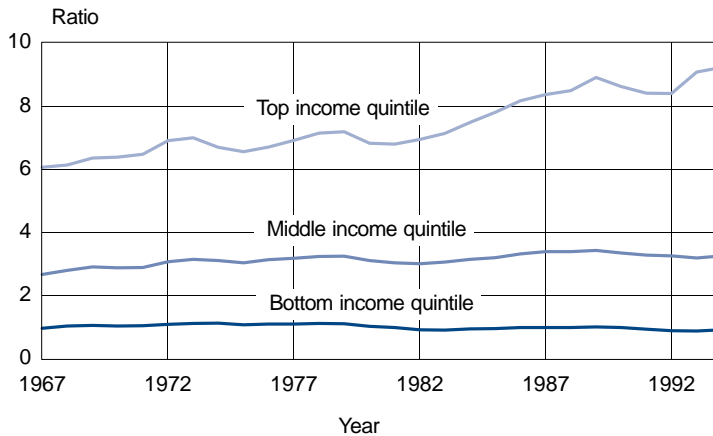
<sup>10</sup> See U.S. Bureau of the Census, op. cit., and U.S. Bureau of the Census, *Income, Poverty, and the Valuation of Noncash Benefits: 1994*, Current Population Reports P60-189, April 1996.

<sup>11</sup> For example, there was no significant difference between the percentage changes in the Gini index measured using the official income definition and a comprehensive measure including all income sources except imputed rent to owner-occupied dwellings.

<sup>12</sup> This section is based on Paul Ryscavage and Peter Henle, "Earnings Inequality Accelerates in the 1980's," *Monthly Labor Review*, December 1990; Sheldon Danziger and Peter Gottschalk (eds.) *Uneven Tides: Rising Inequality in America*, New York: Russell Sage Foundation, 1993; Lynn A. Karoly and Gary Burtless, "Demographic Change, Rising Earnings Inequality, and the Distribution of Personal Well-Being, 1959-89," *Demography*, v. 32, no. 3 (August 1995), 379-405; U.S. Council of Economic Advisors, *Economic Report of the President*, Washington, DC: U.S. Government Printing Office, February 1992, Chapter 4; and U.S. Council of Economic Advisors, *Economic Report of the President*, Washington, DC: U.S. Government Printing Office, February 1995, Chapter 5.

<sup>9</sup> Poverty is defined only for families and unrelated individuals, not for households.

Figure 5.  
**Ratio of Income to Poverty**



high-wage opportunities for low-skilled workers, towards services that disproportionately employ college graduates, and towards low-wage sectors such as retail trade. But within-industry shifts in labor demand away from less-educated workers are perhaps a more important explanation of eroding wages than the shift out of manufacturing. Also cited as factors putting downward pressure on the wages of less-educated workers are intensifying global competition and immigration, the decline of the proportion of workers belonging to unions, the decline in the real value of the minimum

wage, the increasing need for computer skills, and the increasing use of temporary workers.

At the same time, long-run changes in living arrangements have taken place that tend to exacerbate differences in household incomes. For example, divorces and separations, births out of wedlock, and the increasing age at first marriage have led to a shift away from married-couple households and toward single-parent and nonfamily households, which typically have lower incomes. Also, the increasing tendency over the period for men with higher-than-

average earnings to marry women with higher-than-average earnings has contributed to widening the gap between high-income and low-income households.

### Accuracy of the Estimates

All statistics in the report are from the Current Population Survey and are subject to sampling variability, as well as survey design flaws, respondent classification errors, and data processing mistakes. The Census Bureau has taken steps to minimize errors, and analytical statements have been tested and meet statistical standards. However, because of methodological differences, use caution when comparing these data with data from other sources.

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Historical tabulations on income and poverty can be found on the Census Bureau's Internet site, at <http://www.census.gov>.

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