Income and Inequality: Millions Left Behind

A Report Based on the Work of

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INTRODUCTION

Americans for Democratic Action (ADA), the nation's pre-eminent liberal activist organization, has had a longstanding commitment to progressive social and economic public policies. In June 1998, the Economic Policy Commission of ADA declared that, despite the national euphoria among politicians and the media over the growing national economy, widening income inequality was jeopardizing equal opportunity and democracy. The Commission reviewed the factors contributing to that trend and recommended a set of social, economic and legislative programs to achieve a fairer, more equitable distribution of income for all citizens. The Commission published its findings in "Income and Inequality" in November 1998. The ADA Economic Policy staff has frequently updated that report since 2000. This 2012 update uses the latest available Census data covering income, poverty and health insurance coverage in the United States.

Following the analysis, the ADA Convention in June 2007 adopted eight recommendations for meeting the problem of income inequality and poverty that had been prepared by the Convention's Energy, Environmental and Economic Policy Commission.

Technical Note: All dollar figures are expressed in 2010 dollars (unless otherwise specifically noted) to eliminate the effect of inflation on change in wages and prices .

References:

U. S. Department of Commerce, U. S. Census Bureau: Income, Poverty, and Health Insurance Coverage in the United States 2010
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Executive Summary

The first seven editions of “Income and Inequality” were published in times of prosperity; the purpose of those reports was to point out that Americans were not sharing equally in the economic good times. This eighth edition comes out at the tail end of the worst economic slump since the Great Depression. As the statistics that follow show, everyone has suffered economically in the past four years. But as with the expansion that preceded it, this contraction has not been experienced evenly among different parts of American society. White people and the rich have lost a much smaller percentage of their income and wealth than have middle-class and poor people, African Americans and Hispanics (while the super wealthy, by any reasonable standard, have not suffered at all). The need to address these unfair and destabilizing discrepancies—true during the good years—takes on an added urgency during lean times. It’s hoped that this updated report will assist in that important project.

In the past six months, the issue of income and wealth inequality has shot to the top of the national agenda. Scholars and Occupy protesters alike have identified this dangerous and growing gap in our economy as a threat to our democracy. Writers for major newspapers, magazines, bloggers, political candidates and many economic experts have increasingly raised the issue of the severe disparities in income and wealth in our society.

All too often, the national press and media focus their economic analysis on national average economic growth – gross domestic product (GDP) – as the indicator of how well or poorly the economy is performing. But far more revealing and crucial to American living standards are the changes in median household income. And that change has in recent years been ominous: the median household income for all American families was <u>7.2 percent lower</u> in 2010 than it was in 1999.

An increasing income gap between rich and poor and shrinking middle class household income continue to be two of the most challenging economic trends facing this nation. Extreme inequality of income and wealth gives economic and political power to big corporations and the richest families and weakens the sense of community and common purpose essential to a democracy.

Income inequality is greater in the United States than in other major industrialized countries. Australia, Canada and 10 European countries have much more equal distribution of income between rich and poor.

The latest U.S. Census Bureau statistics show the rich are still getting much richer, middle income Americans are just barely raising their incomes, and the poor are falling further behind on the income ladder. Before the Reagan and Bush I Administrations, during the years 1950 to 1980, incomes increased for the nation's families far more equitably than during those twelve years of Republican control, 1981-1993.

The gap between rich and poor is now bigger than it has been since the 1920s, preceding the Crash. An incredible 98 percent of the 1979-92 gain in total household income went to the wealthiest 20 percent of households. The remaining 2 percent gain in total household income in that period was shared by the remaining 80 percent of households.

Two examples of these wide disparities are especially dramatic: the increase in the number of millionaires and the income of corporation chief executive officers (CEOs). In 1979, there were 13,500 households declaring income over $1 million. By the mid ‘90's, the number of millionaire households had jumped to almost 100,000. The steep upward trend continued in the late ‘90's when the number of super-rich households more than doubled, rising to 205,000. For 2004 the Internal Revenue Service (IRS) reported 239,581 tax returns with incomes of $1 million or more. One year later IRS reported 308,361 returns with incomes at or above a million dollars. Because of the Great Recession, in 2009 the number shrank somewhat to 241,528—still a huge increase from the 1970s.

Salaries for top corporation CEOs have skyrocketed. In 1980, CEO compensation was 42 times the average American worker's pay. In 2010, according to the Institute for Policy Studies, CEO compensation was 325 times the average worker's pay, jumping spectacularly in the past twenty years. The contrast to other industrial countries is stark: in Japan, a typical executive makes eleven times what a typical worker brings home, and in Britain the ratio is twenty-two to one.

Income disparity tells only half the story: wealth, what you own, matters as much or more than what you earn. And in this category, the numbers are even more skewed. The top 20% of American households controls 83 percent of the nation's wealth, while the bottom 80% of Americans controls only the remaining 17 percent.

Meanwhile, the Great Recession has led to an increase in poverty not seen since the 1930s. In 2010, there were 46.2 million Americans—15.1 percent of the population—living in poverty, the largest absolute number in the 52-year history of poverty estimates.[1] Two-thirds of America's poor are White people, among whom there is a 9.9 percent poverty rate. The poverty rate for African-Americans and Hispanics is two-and-a-half that of Whites, at more than 25 percent. Black median family income is 41 percent below the median income of White families, and that of Hispanic households is 31 percent lower. Nationally, one out of five children—22 million—lives in poverty. One out of every three Black and Hispanic children lives in poverty.

Many poor people work full-time, year-round, but don't earn enough to lift themselves and their families out of poverty. Of 10.6 million people in poverty who worked in 2009, 2.6 million worked on the job full time, all year long. Another 8 million worked full time for part of the year but remained in poverty. With the federal minimum wage at $7.25 an hour in 2010, the approximately $14,500 annual earnings of a minimum wage worker employed full time, year-round, was still $2,598 below the poverty line for a three-person family, and $7,454 below the four-person family poverty threshold.

Wages and salaries—the main source of income for most Americans—have lagged and stagnated, while corporate business profits have boomed. This is a central cause of growing inequality. U. S. Bureau of Labor Statistics data show average real hourly wages for private non-farm production and non-supervisory workers (about 80% of all workers) were only 2.5% higher in 2006 than a few years earlier. Real hourly wages were $8.04 in 2000, rising to $8.24 in 2006 for a small 2.2% gain in five years. By 2012, they were $8.71, still only an 8 percent rise in 12 years. These official government figures show clearly the stagnation in wages for millions of Americans. (Wages are expressed in constant 1982 dollars to offset inflation increases.)

Inequality and poverty do not have simple causes. Huge campaign contributions from our biggest corporations and wealthy individuals too often dominate politics, and, by extension, economic and social policy. Tax, trade, minimum wage, anti-union, and social safety net policies have all tilted toward the rich. Reagan tax cuts of the 1980s, the extremely regressive tax cuts of 2001 and 2003 under the Bush II administration, Congressional delays in raising the minimum wage to a more adequate level, national trade policies that ignore fair international labor and environmental standards, attacks against basic social welfare programs, including Social Security and Medicare; all have contributed to growing inequality and poverty in the United States.

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[1]In 2010, the poverty threshold was $17,098 for a family of three, $21,954 for four.

INCOME AND INEQUALITY

It's important to remember that inequality is not an entirely new phenomenon. Before the Great Recession, middle-class and poor people were experiencing the ill effects of an unbalanced, top-heavy economy. In spite of the robust economic growth of the 1990s, followed by the slow expansion of the new century's first decade— periods of relatively low unemployment, no inflationary pressures, and other positive economic trends—the United States still suffered from an extreme and growing inequality in income distribution and distressingly high poverty.

Applying the test of whether an economic system raises earnings of most of its citizens—an appropriate measure of success or failure—the American system has been "a clear failure in the past two decades," according to renowned Massachusetts Institute of Technology (MIT) economist Lester Thurow.

Similarly, the well-known Harvard economist Benjamin M. Friedman in his 2005 book, *The Moral Consequences of Economic Growth* noted with deep concern that American middle-class living standards had been stagnating for most of the past thirty years (with the brief exception of the late 1990's). And, with the anemic growth of the most recent five-year period, more than half of the population failed to get ahead economically. Then, three years later, the Great Recession hit, making all the numbers worse and raising even greater concern. Such a trend of economic stagnation and even regression for a large segment of our population puts our democracy at serious risk. To have faith in our economy and society, American citizens must feel that their standard of living, or at least that of their children, is improving. That sense does not prevail today. As a result of this failure of the economic system, the United States is experiencing greater economic inequality than all other industrial countries. And most importantly, it jeopardizes our national goal of equal opportunity for all. It gives huge economic and political power to big corporations and to the wealthy. And it erodes the sense of community and common purpose essential to democracy.

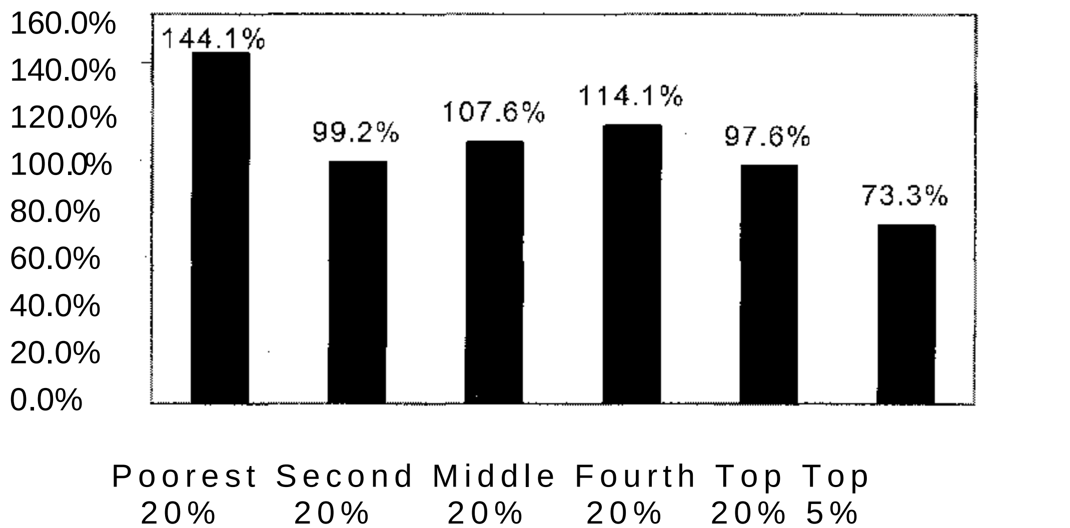
We experienced a major shift for the worse in the years after 1980. From 1950 to 1980, the economy expanded rapidly, with broad and progressive sharing of its tremendous gains to more and more Americans, including those at the bottom of the economic ladder. Starting in 1980, an unprecedented regressive shift in the distribution of earnings and wealth began - a shift that has led to the current gross inequities that beset our nation. What follows are the details of that shift.

The Post-War Years, 1950-1980

The income of Americans during the post-war years of 1950-1980 doubled, and income inequality significantly lessened. From 1980 through 2001, however, those progressive income trends came to a halt, and even reversed; inequality worsened sharply. The trend was particularly steep from 1979 through 1992 when an incredible 98% of the gain in total household income was garnered by the wealthiest 20% of households. The other 80% of households in this period shared the remaining 2% gain in total household income.

Many factors were responsible for the trend. Among the most important were regressive government policies such as the Reagan tax cuts of 1981, deep cuts in many social and economic programs that benefited middle and low income Americans, anti-union policies of the Reagan and Bush Administrations that restrained wage increases, and the failure to adjust the federal minimum wage to keep up with the increased cost of living.

1950-1980—Growing Together: Real Family Income Growth by Quintile



From 1950 to 1980 real income (income adjusted for inflation) increased for all groups - from the poorest fifth (quintile) to the richest fifth. The gain for the lowest fifth was 144.1%; for the second fifth, 99.2%; for the middle and fourth fifths slightly over 100 (107.6% and 114.1%); for the top fifth, 97.6%. (And for the richest 5% of families- the gain in the period was 73.3%) The chart above - Growing Together - shows this distribution.

<u>The Conservative Ascendancy, 1981-2010</u>

In sharp contrast to trends from 1950-1980, the shortsighted and distorted policies of the Reagan and Bush II Administrations (and of the Gingrich Congressional majorities of the 1990s) produced an entirely different pattern of income distribution for 1981-2010. This inequitable pattern is reflected in the changes in the figures for family income in the chart below, “Growing Apart.” The richest fifth of families, ranked by income, increased their income by 44.8 percent, far outstripping the increases for all other groups. Income for the poorest 20% barely budged. The second fifth of families gained only 5.9 percent, while the middle 20% of families had an income increase of 10.6 percent.

Income growth that did occur in the lower 60% of families can be explained by more wage earners per family, and more hours worked each year. In 1997, the average married couple in the middle 20% of families worked 256 more hours than they did in 1989! But those factors were not sufficient to offset other factors that limited income increases for most families and worsened income distribution from the 1980-2010.

Because of the extremely uneven distribution of the nation's economic growth from 1980 through the early 1990s, income inequality widened so much that the current (2010) income gap between the richest and the poorest is larger than it has been since the 1930s.

Income Trends for Whites, Blacks, and Hispanics

As a result of economic expansion, particularly from 1995-99, median family income for all families was $58,036 in 2010. (“Median” means that half of all families earned less than $58,036.)

Beneath the overall distribution, however, Census figures show that the income of minority families lagged far behind Whites. Median income for Black families in 2010 was $32,068, up a mere 3.3% from 1990. Moreover, Black family income was still 37.1% below White family income. Similarly, Hispanic family income was 34.7% below that of Whites.

Table 1 presents income figures for White and Blacks families for 1950-2010. Note particularly that the slow growth of the Bush II years, capped by the Great Recession, shrank median family income for both Black and White Americans; however, African Americans’ incomes suffered far heavier declines.

Table 1. Median Real Family Income By Race, 1950-2010 (in 2010 dollars)

Group	1950	1970	1980	1990	2000	2010	Percent Change		
							1950-1980	1980-2000	2000-2010
White	$23,657	$44,565	$49,150	$53,464	$60,112	$57,752	108.60%	22%	-5.4%
Black	$12,835	$27,337	$28,439	$31,027	$38,174	$32,068	121.60%	34%	-15.9%

Family Income Shares

The increasingly unequal distribution of family income in the nation for 1981-2010 is clearly reflected in the shares of total income by families ranked by income quintile.

Table 2 shows the richest fifth of families had half (50.2%) of total income in 2010—far larger than their 40.9% share in 1970. At the other end of the income ladder, the poorest 20% of families experienced a sharp shrinkage in their share from 5.4% in 1970 to 3.3% in 2010—nearly the smallest share in the post-war period.

Put in other terms, the richest fifth of the families had a share of the total national income 15 times bigger than the share of the poorest fifth of families—one of the highest rich-poor ratios in U.S. history. During the decades of the 1950s and 1970s, the rich-poor ratio, based on the measure of share of total income, ranged from 7.5:1 to 8.5:1. The gap has doubled.

Table 2. Share of Total Income Received by Families, 1950-2010

	1950	1970	1980	1990	2000	2010	1950-1980 Change	1980-2000 Change	2000-2010 Change
Lowest Quintile	4.5	5.4	5.3	4.6	4.3	3.3	+17.8%	-35.8%	-30.3%
Second Quintile	12.0	12.2	11.6	10.8	9.8	8.5	-3.3%	-25.9%	-15.3%
Third Quintile	17.4	17.6	17.6	16.6	15.4	14.6	+0.3%	-17.6%	-5.5%
Fourth Quintile	23.4	23.8	24.4	23.8	22.7	23.4	+4.3%	-6.2%	+3.1%
Highest Quintile	42.7	40.9	41.1	44.3	47.7	50.2	-3.7%	+22.9%	+5.2%

This sharp inequality can also be seen in the average actual dollar income figures, which are listed in Table 3.

Table 3. Average Real Family Income 1950-2010 by Quintiles (20% Segments) (In 2010 dollars)

Quintile	1950	1970	1980	2000	2010	Change 1950-1980	Change 1980-2000	Change 2000-2010
Poorest 20%	**$6,167**	**$13,767**	**$14,846**	**$16,520**	**$11,034**	**+140.7%**	**+11.3%**	**-33.2%**
Second 20%	**$16,360**	**$30,441**	**$32,318**	**$37,773**	**$28,636**	**+97.5%**	**16.9%**	**-24.2%**
Middle 20%	**$23,723**	**$44,014**	**$48,822**	**$59,366**	**$49,309**	**+105.8%**	**21.6%**	**-16.9%**
Fourth 20%	**$31,706**	**$59,371**	**$67,734**	**$87,494**	**$84,851**	**+113.6%**	**29.2%**	**-9.7%**
Top 20%	**$58,218**	**$102,096**	**$114,043**	**$183,571**	**$169,633**	**+95.9%**	**61.0%**	**-7.6%**

We see in Table 3 that during the two decades from 1980 to 2000, the two highest income families arranged by quintiles—the fourth quintile and the wealthiest 20% of families—had income gains of 29.2% and 61.0% respectively.

At the other end of the income ladder, the poorest 20% of families had income gains of 11.3%; the second quintile increased its income by 16.9%, and the middle 20% gained 21.6%

Note how much smaller these changes were compared to the three decades earlier, (1950-80), when expansion was more equitably shared. Then, the poorest 20% had income gains of 140.7%, the second, 97.5% and the middle quintile, 105.8%. The years under the Bush II Administration (2001-2009), which were capped off by the Great Recession, reflect lower income levels across the board, with the larger decreases in the three poorest quintiles.

An alternative picture of this gross inequality is portrayed in Table 4. That table shows the shrinking share of income garnered by the middle 60% of families. It underlines the shifts of the shares of family income for the poorest 20% of families, the middle 60%, and the wealthiest 20% during the years from 1950 to 2010.

The declining trend of income for the middle class was stressed by Senator Charles Schumer (D-NY) in a forum on income inequality a few years ago. He noted, "The main cause of American's anxiety is the growing gap between the haves, the have-nots and those in the middle who feel they have to run faster and faster merely to stay in place."

Table 4. Family Share of Total Income, 1950-2010

Families by fifths of income	1950	1970	1980	1990	2010	1950-1980 Change	1980-2010 Change
Lowest quintile	4.5%	5.4%	5.3%	4.6%	3.8%	+17.8%	-28.3%
Middle 60%	53.8%	53.6%	53.6%	53.6%	49.8%	-0.4%	-7.1%
Highest Quintile	42.7%	40.9%	41.1%	44.3%	46.3%	-3.8%	12.6%

As Table 4 shows, the income share for the middle class - the second, third and fourth quintiles combined - declined from 53.6% in 1980 to 49.8% in 2010. In the same 30-year period, the top 20% of families enjoyed a substantial increase (12.6 percent) in their share of total income.

It is important to point out that Census Bureau data understate the income received by many Americans. This becomes clear when income information published by the Congressional Budget Office (CBO) is examined. That agency in 1947 began publishing income and tax statistics that include, among other items, capital gains and earned income tax credits. Such income data (not published by Census) supplement the money income figures of the Census Bureau.

For the well-to-do particularly, the omission of capital gains in Census data seriously understates their income. Further, the Census lists as “earning one million” everyone earning one million and up. Incomes above the one million dollar level are not included in the Census data but they are included by the CBO.

To illustrate the impact of the difference, here are the figures: in 1999, CBO shows a 50.4% share of national income for the wealthiest 20%, while the Census data show a 47.3% share.

The CBO also publishes after-tax income data. These figures demonstrate the impact of tax legislation, which has disproportionately favored the wealthy in the past three decades. After-tax income for the 20% of families at the middle of the income distribution rose only 8% in the 22-year period, 1977-1999. In the same period, after-tax income for the richest 20% of families rose 43%! The comparable figure for the poorest 20% of families shows a 9% decline.

Wealth Inequality

This severe inequality of income is surpassed by the far greater concentration of the nation's wealth or assets. Based on research by Edward N. Wolff[2], holdings of the wealthy have grown steeply during the past three decades. In 1976, the richest 10% of families held 50% of the country's wealth; by 1995, they held 70% of all wealth. In 1995, the top 20% of families owned 84% of wealth. The remaining 80% of families held only 16% of the nation's wealth. This extremely inequitable distribution of wealth is much greater than the misdistribution of income. In 2005, the richest 20% of families had almost 50% of total income. The remaining 50% was shared by 80% of all families.

Stock ownership is a major component of wealth, and skews towards the wealthy. "In 2004 the top 20% of stockowners held over 90% of all stocks, by value, while the bottom 80% of stockholders owned fewer than 10%," noted the Economic Policy Institute. This gross inequality in stock ownership parallels the aggregate wealth (including ownership of several homes, for example) figures of the richest 20% of families holding some 84% of total wealth, with the remaining 80% holding only 16% of total wealth.

Note also, contrary to claims of widespread stock ownership by American families touted by Wall Street and its political backers, the facts are far different. As an Economic Policy Institute analysis shows, "Less than half of all households held stock in any form..." Of those that did own stock, only "34.9% had stock holdings in excess of $5,000."

Inequality: USA vs. Other Industrialized Nations

As numerous studies have documented, income inequality in America is far greater than in other major industrial nations. One frequently cited study, the Luxembourg Income Study, compared the income gap between the rich and the poor in the United States and ten industrialized European countries, Canada and Australia.

The study contains a series of other income figures. One set compares the median income of the poorest 10% of families with the overall median income in that country. Here are some key findings:

Income of the poorest 10% of families in the U.S. equaled 36% of median income. At the other end of the income ladder, income of the wealthiest 10% of families equaled 208% of the median.

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[2]Edward N. Wolff, “Recent Trends in the Size Distribution of Household Wealth,” Journal of Economic Perspectives, Summer 1998

In the other countries, income for the poorest 10% of families averaged 51% of the median, and income for the richest 10% percent of families averaged 186% of the median income. In other words, the poorest American lived on only about one third of the average family income. In other countries, families at the bottom lived on income of about half of the income of the average family.

In Sweden, the Netherlands and Finland, the poorest families had incomes equal to 57 % of the median income in those countries. The country with the smallest gap was Belgium with a 58% figure; the poor in the United Kingdom were worst off for European percentage, at 44%. These figures are for the early 1990s.

More recent data compiled by the Organization for Economic Cooperation and Development (OECD) shows that, from 1991 to 1995, earning inequality in the U.S. continued to widen more rapidly than in other countries. As the OECD staff wrote: "The United Kingdom and the United States stand out as the only countries where there has been a pronounced rise in earnings inequality."

Table 5 provides illustrates that point. One of the tools used by the OECD to measure income inequality is called the Gini index. This system rates the equality of income distribution on a scale from 0 (perfect equality, with every person receiving identical income) to 100 (perfect inequality, with all income going to one person). The higher the Gini index, the less equal the income distribution. As an example, the United States, with a Gini index of 36, has about a 50 percent worse distribution of income than Denmark, with a Gini index of 24.5.

Table 5. Equality of Income Distribution in Major Countries

Country	Gini Index
Sweden	22.5
Denmark	24.5
Belgium	25
Finland	25.5
Norway	25.5
France	28.5
Germany	29.5
Netherlands	29.5
Australia	32
Canada	32
Italy	32.5
United States	36

Source for statistics: Divided We Stand: Why Inequality Keeps Rising, OECD, 2011

Chief executive officers' (CEOs) compensation provides another contrast between income inequality in the United States and foreign countries. American CEOs' compensation does not reflect stock options, various insurance plans and other special privileges, factors that increase their compensation substantially.

A report of the Center for American Progress on CEO pay entitled "Supersize This: How CEO Pay Took Off While America's Middle Class Struggled" (May 2005) showed that pay for CEO's in foreign countries averaged 33% of the pay for American CEO's.

THE ONGOING BLIGHT OF POVERTY

Buffeted by the recession, median income for families is now below $50,000, a significant decrease from just two years ago. High unemployment persisted at a little over 12.5 million workers (in April 2012), while the number of poor Americans in 2010 was a record 46,180,000, up a staggering 2.6 million from the previous year and representing a poverty rate of 14.3 percent. From 1993 through 2000, the poverty rate had declined every year for seven years. That trend of improvement was broken in 2001. During the Bush II Administration—before the Great Recession, and when the economy as a whole was growing, albeit slowly—the number of poor living below poverty went higher in 2001, 2002, 2003, and 2004. Only 2005 saw a 90,000 decline in the number of poor.

Most affected by the slow-growing economy followed by a major recession are non-Whites. African-Americans suffered a severe increase in poverty, rising from 8.1 million (a rate of 22.7%) in 2001 to 10.7 million (a rate of 27.4%) in 2010.

Neither poverty nor income inequality are new to the United States economy. But poverty here fell substantially in the 1960s and early 1970s, and only began a sharp reversal in the 1980s and the first part of the 1990s. In 1960, before the Johnson Administration's War on Poverty, there were 39.9 million poor persons in the nation. During the mid-1960s, the President and Congress adopted a series of programs geared to addressing that shameful figure in this richest of all the world's nations. Those programs (plus a strong economy) succeeded in reducing poverty ranks by 15.8 million - a reduction of 40% - to 24.1 million by 1969. As a result, the poverty rate (the percentage of the poor in the total population) dropped dramatically from 22.2% to 12.1%.

During the 1970s, the number of poor remained at about 25 million. Then in the 1980s the number rose by over five million. After 1989, almost seven million more persons were forced into poverty, and the number of poor in 1993 reached 39.9 million (back to the 1960 level).

Table 6 shows the trend of poverty over the period from 1960 through 2010 for significant groups within the population.

Table 6. Persons in Poverty, Selected Years, 1960-2010 (In millions)

	2010	2005	2004	2003	2002	2001	1998	1996	1990	1980	1970	1960
Total	46.2	36.9	37	35.9	34.6	32.9	34.5	36.5	33.6	29.3	25.4	39.9
In Families	33.0	26.1	26.6	25.7	24.5	23.2	25.4	27.4	25.2	22.6	203	34.9
Unrelated Individuals	12.4	10.4	9.9	9.7	9.6	902	8.5	8.5	7.4	6.2	5.1	4.9
Whites	31.6	24.5	25.3	25	24.1	22.7	23.5	24.7	22.4	19.7	17.5	28.3
Blacks	10.7	9.2	9.4	9.1	8.9	8.1	9.1	9.7	9.8	8.6	7.5	9.9
Hispanics	13.2	9.4	9.1	9	8.5	8	8	8.7	6	3.5	2.4	N/A

Minority Poverty Rates

The incidence of poverty among African-Americans and Hispanics is more than twice the poverty rate among Whites. Table 7 shows a poverty rate for poor Whites of 13 percent in 2010, an increase of about 2.5 percentage points from 2000. The poverty rate for African-Americans and Hispanics was 27.4% and 26.6%, respectively.

Table 7. Persons in Poverty By Race, 2010

Group	Number (In Thousands)	Poverty Rate
White	31,650	13.0%
Black	10,675	27.4%
Hispanic	13,243	26.6%

Children In Poverty, 2010

More than one in five children in the United States lives in poverty. A total of 16.4 million children (22% of persons less than 18 years of age) were poor in 2010.

The Working Poor

During 2010, substantial numbers of the poor worked full time, year-round, while many more worked full time for part of the year. Despite their efforts, because of low wages and difficulties in finding full-time, year-round jobs, the income of many poor, working people was far below the poverty line. In 2010, a total of 4.24 million poor persons were on the job full-time, year-round—the "working poor."

Workers At Poverty-Level Wages, 1973-2006

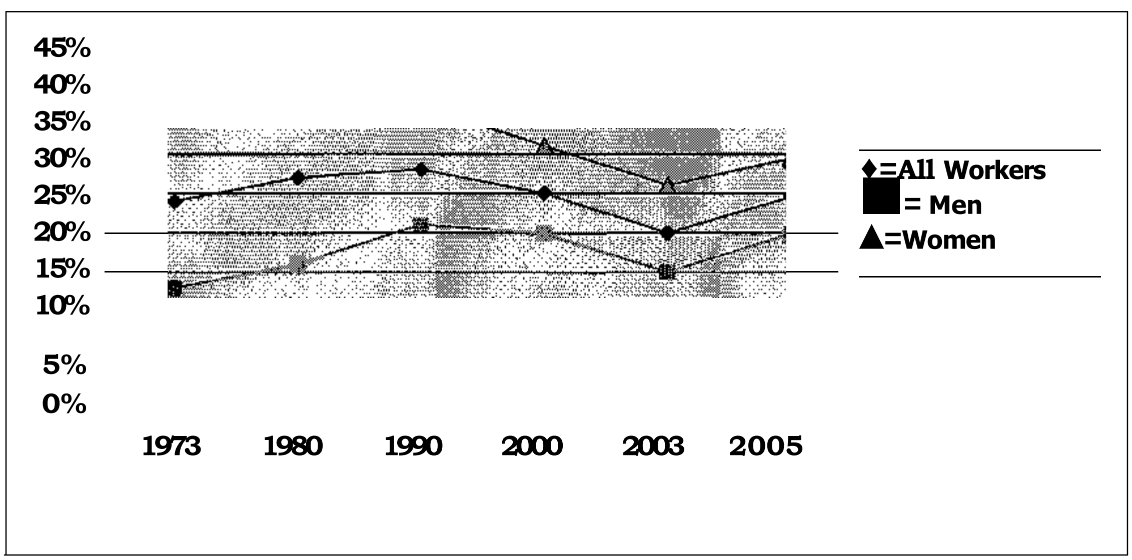
The working poor figures are only part of the picture of low-paid workers. In 2005, besides the working poor, about 35 million workers were paid wages that placed them just above the poverty line for a family of four. An Economic Policy Institute analysis of full-time, year-round workers shows the percent of poverty-wage workers rose sharply, by one fourth, between 1979 and 1995 and then declined slightly to 25% of all workers in 2000.

Most of the increase in poorly paid jobs occurred from 1979 to 1989 when 10 million workers were added to the rolls at poverty level wages. Since 1989, the percentage has remained relatively stable. Minority and women workers were disproportionately employed in such jobs. (See chart below.)

Among employed African-Americans, about 33% earned poverty-level wages. Among employed Hispanics, about 39.3% earned poverty-level pay.

Close to 30% of all working women, 44.9 million, earned poverty-level wages. It should also be noted that women typically are paid far less than men for comparable work. Among full-time year-round workers, women had median income of $32,515, a sharp 23% lower than the median income for men.

Percentage of Workers Earning Poverty Wages



Inadequacy of Official Definition of Poverty

It is important to state here that any discussion of poor Americans should note the inadequacy of the official government measure of poverty, which has remained unchanged since the early 1960's. Since then, major shifts have occurred in household expenditures. Originally, it was determined that low-income families spend about one third of their income on food. From that, the government developed a poverty line at three times the outlays for food. Since then the poverty dollar figures have been adjusted each year for changes in the consumer price index. But spending patterns of America's poor families has clearly rendered that method obsolete. Now, such expenditures as day-care costs (which many working poor women must pay), medical outlays (many of which are not covered by government programs or private insurance), and other necessary spending are not taken into account in the official poverty measure. Moreover, the cost of housing costs has increase more than the cost of food.

In 2010 there were 49.9 million Americans without health insurance - up 900,000 from 2009. Various studies, such as one by the National Academy of Science, concluded that the government's measure was dramatically understating the full cost of maintaining a family. The Academy estimated that, under current consumption patterns, the official poverty measure, to reflect actual expenses, could increase by some 45%. In brief, the government is sharply understating the dollars needed for even a subsistence living and, therefore, the number of persons forced to live at substandard levels.

Workers at the Minimum Wage

Working at the minimum wage does not yield income above poverty thresholds for most persons. A look at the poverty threshold figures in Table 9 reveals the impossibility, for millions of workers who work at the current minimum wage of $7.25 or roughly $14,500 for the year, to lift their families out of poverty. For a family of three (the average-size of poor families), the poverty line in 2011 was $17,595. The earnings of a minimum wage worker employed full-time year-round would fall $3,095 short of that figure. For a family of four, the $14,500 yearly income of a full-time, year-round worker at minimum wages would be $8,701 below the poverty threshold of $23,201. On a weekly basis, these figures show a $60 gap between weekly income and the poverty level for a family of three, and a $167 gap for a family of four.

Nearly two thirds of minimum wage earners are women, comprising a total of 2.4 million workers.

Table 8. Poverty Thresholds, 2011

One Person Under 65	$11,702
One Person 65 years and older	$10,788
Two persons (householder under 65)	$15,063
Family of three	$17,595
Family of four	$23,201

Poverty Income Deficit

There is a huge gap between the actual income of the nation's poor people and the income they need just to get up to the official government poverty threshold level—"the income deficit". The average income deficit for all poor families in 2010 was $9,244. The income deficit for poor individuals alone was $6,225. Comparing these deficit income figures with the poverty threshold shows that America's poor are forced to live with incomes of scarcely half the official government poverty line!

Poverty Rates by State and Area

Poverty rates vary depending on location, the extent of urbanization and other social and economic factors. For the nation in 2010, there were 46.2 million, or 14.3 percent of the population, who were poor. In various sections and states, the poverty rate differed widely from the national rate.

Table 9 below shows the percentage of people living in poverty by state in 2010. In 27 states the poverty rates exceeded the national average - 18 of them in the South and West. In 14 states the poverty rate was at or above 16.7 percent, meaning at least one in six residents was living in poverty.

Poverty higher than the national average also prevailed in large industrial states like California, where poverty engulfed 15.8 percent of its citizens, and New York, with 15 percent of its people in poverty. Only one state—Maryland—had a poverty rate below 10 percent, and that just barely (9.9).

Table 9. Poverty by State, 2010

State	Percent	State	Percent	State	Percent
United States	14.3	Kentucky	18.9	North Dakota	12.5
Alabama	18.9	Louisiana	18.8	Ohio	15.8
Alaska	11.0	Maine	13.1	Oklahoma	16.8
Arizona	17.6	Maryland	9.9	Oregon	15.8
Arkansas	18.7	Massachusetts	11.4	Pennsylvania	13.4
California	15.8	Michigan	16.7	Rhode Island	14.1
Colorado	13.2	Minnesota	11.5	South Carolina	18.1
Connecticut	10.1	Mississippi	22.4	South Dakota	14.6
Delaware	11.9	Missouri	15.3	Tennessee	17.8
District of Columbia	18.8	Montana	15.2	Texas	17.9
Florida	16.5	Nebraska	12.6	Utah	13.3
Georgia	18.0	Nevada	14.8	Vermont	12.4
Hawaii	11.1	New Hampshire	8.6	Virginia	11.1
Idaho	15.8	New Jersey	10.2	Washington	13.5
Illinois	13.8	New Mexico	19.8	West Virginia	18.2
Indiana	15.3	New York	15.0	Wisconsin	13.2
Iowa	12.5	North Carolina	17.4	Wyoming	11.4
Kansas	13.5				

Conclusions

For the vast majority of Americans, wages and salaries are the key source of annual income. Unfortunately, since the end of the 1970s, wages have stagnated or declined for millions of workers. This is a central cause of the sharp inequality documented in this review. Even with strong increases in recent years, the buying power of the average hourly wage in 2012 was still below comparable figures of the 1970s.

U. S. Bureau of Labor Statistics data for 2012 show average hourly wage for private non-farm production and non-supervisory workers (about 80% of all workers) was $8.71 in constant (1982-4) dollars. The average hourly wage in 1982-4 was $8.19. That means in 30 years the real, inflation-adjusted pay of the great majority of workers has gone up a grand total of 6.4 percent

The Council of Economic Advisors 1994 report attributed this stagnation largely to the decline of unions and the erosion of the minimum wage through inflation. In the early 1970s, 27 percent of the work force belonged to unions. By the 1990s, only 14 percent of all workers and only 10 percent of private sector workers were union members. By 2011, the comparable figures were 11.8 of all workers and 6.9 of private sector workers. According to several studies referred to by the Council, the weakening of unions accounted for about 20 percent of widening income inequality. Whatever the precise percentage, clearly the weakening of effective union bargaining power sharply lowered wage gains between 1980 and 2010. Although unions play such a vital role in fostering economic democracy, federal action has been lacking to protect collective bargaining.

In his 2012 book, *99 to 1: How Wealth Inequality Is Wrecking the World and What We Can Do About It*, long-time economic-equality activist Chuck Collins wrote: “Extreme inequalities of wealth are undermining much of what we hold dear. Our society is in the throes of an inequality death spiral as disparities of wealth and power compound and worsen. This polarization is wrenching communities apart, undermining democratic institutions, making us sick and unhappy, and destabilizing our economy.”

In light of this detailed documentation of severe economic inequality, and a persistence of high levels of poverty, ADA in resolution 304 of the Energy, Environment and Economic Policy Commission in June 2007 reviewed the income and wealth inequality plaguing the nation and recommended eight specific actions to address the problems. Despite efforts by many progressive members of Congress, these recommendations remain on our unfulfilled agenda.

ADA Program Recommendations

1. Deep cuts in programs designed to serve low-income families and individuals, the working poor, the disabled, and the elderly must be reversed. Needed funds can be gained through cuts in corporate welfare legislation, cuts in military spending, and a reversal of tax cuts for the wealthiest.

2. The federal government must assume a role in expanding job opportunities through such programs as public works and public service and increasing access to year- round full-time jobs. In the spirit of President Franklin D. Roosevelt's Economic Bill of Rights, the federal government must create year-round, full-time living-wage jobs when private industry does not provide enough jobs for all who want to work. All new programs must include strong anti-displacement and wage protection language.

3. Laws must be passed to require equal benefits for those at the top and bottom of corporate America. Corporate executives should not be permitted to increase their pension and health care packages at the same time that they are cutting those for lower-income workers. The federal government also should require employers to provide a minimum level of health, pension and other benefits, as it does with the minimum wage. Additionally, corporations must be required to offer paid maternal/paternal leave to all workers so parents do not have to choose between their jobs and the best interests of their children.

4. The federal government also must play a constructive role in elementary and secondary education, and ensure equality of educational opportunity across all income levels. The extremely regressive tax cuts of 2001 give the top 1% of taxpayers almost 40% of the reduction. These cuts will cost the Treasury at least $1.8 trillion over the next decade. The tax bills of 2002 and 2003 add additional revenue losses. That huge drain has absorbed the surplus, and will force sharp erosion of funds needed for vital social and domestic programs, such as health, welfare, education, housing, and the environment. This reflects the Republican policies of curtailing a broad range of federal programs for meeting basic social and economic needs. The U.S. must return to a progressive system of taxation to mitigate inequality. Currently pending additional tax cuts, with the greatest benefit going to the wealthiest Americans, must be rejected in favor of a fairer system.

5. It is widely acknowledged that union-won wage increases “spill-over” to many non-union workers as employers raise wages to reduce the threat of unionization. We recommend that federal laws and administrative procedures to protect and encourage collective bargaining be enhanced and allocated increased federal funding.

6. International trade pacts should be designed to bring other workers up to the U.S. standards rather than pulling down the wages of U.S. workers. The U.S. must require its trading partners to adhere to environmental, labor, and human rights standards at least to internationally recognized standards. U.S. companies that manufacture goods outside the U.S. and import them into the U.S. should be treated in the same manner as U.S. companies which manufacture goods in the U.S., paying their full share of taxes. Subsidies to companies that export jobs must be ended. This will discourage companies from moving jobs overseas and across borders to increase profits and avoid taxes; and increase in revenue should be used to provide job training for displaced workers in the U.S. and to monitor conditions for workers in developing countries.

7. The Federal Reserve Board must focus on high employment/high growth instead of focusing on potential higher inflation.

8. The federal government must act to encourage the growth of unions and to protect the rights of unorganized workers. Unions can thrive only when the rights to organize and to bargain collectively are guaranteed effectively and enforced by the government.

Source: Energy, Environment and Economic Policy Commission Resolution # 304 (June 2007)

About ADA

Americans for Democratic Action, inc., (ADA) is the nation's leading independent liberal political organization. Founded in 1947, ADA is dedicated to promoting individual liberty and economic justice. Our founders include Eleanor Roosevelt, labor leader Walter Reuther, economist John Kenneth Galbraith, historian Arthur Schlesinger, Jr., theologian Reinhold Neibuhr, and former Vice President Hubert Humphrey. Our members are committed to promoting ADA's policies on Capitol Hill, in the White House, with local and state governments, as well as through the media and public engagement.

ADA's annual Voting Record has served as the standard measure of political ideology since 1947. "News and Notes"—published weekly via email when Congress is in session—provides a timely legislative update for our members.

In addition, ADA/PAC, a separate segregated fund, constantly monitors federal candidates and supports those who share our ideals and vision for the country. We make a special effort to help promising challengers, women and minorities.

The Americans for Democratic Action Education Fund is an independent entity seeking to increase political awareness and achieve widespread public dissemination of information. Dedicated to the belief that education is an essential foundation for a more just and democratic society, the ADA Ed Fund sponsors research, publishes papers and reports, and hosts conferences on public policy issues in order to educate the public.

Annual Membership dues for Americans for Democratic Action are: Dual $80, **Individual** $55**, Under 30** $20, **Limited Income** $30

Checks for membership dues, contributions and subscriptions should be made payable to: Americans for Democratic Action, 1629 K Street NW, Suite 300, Washington, DC 20006.