

Income and Inequality: Millions Left Behind

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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 updated that report every year since 2000. This 2007 update uses the latest available Census data covering, published August 2007, income and poverty and health insurance coverage in the United States.

The analysis is followed by the ADA Convention resolution adopted in June 2005 by the Energy, Environmental and Economic Policy Commission with eight recommendations for meeting the problem of income inequality and poverty.

Technical Note: All dollar figures are expressed in 2006 dollars (unless otherwise specifically noted) to eliminate the effect of price changes.

References:

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Executive Summary

During the past year, there has been a major expansion in the discussion of income and inequality. Writers for major newspapers, magazines, political candidates and many economic experts have increasingly raised the issue of the severe disparities in income and wealth in our society. The economic facts show scant progress in ameliorating the problem, and in many measures the disparities have worsened.

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 the economy is performing. But far more revealing and crucial to American living standards are the changes in median family income. The median family income for all American families was only two percent higher in 2006 than it was five years earlier in 2001.!

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 the rich and the 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 still falling further behind on the income ladder. Before the Reagan and Bush I Administrations, during the years 1950 to 1980, the nation's families had far more equitable income increases than during those twelve years of Republican control—1980-1992.

The gap between rich and poor is now bigger than it has been since the 1930's. An incredible 98% of the 1979-92 gain in total household income went to the top 20% wealthiest households. The remaining 2% gain in total household income in that period was shared by the remaining 80% of households.¹

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 close to 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)

¹ Robert Reich, "The Choice Ahead", remarks at the National Press Club, Washington, D. C. January 5, 1995.

reported 239,581 tax returns with incomes of \$1 million or more. One year later IRS reported 308,361 returns with incomes of \$1 million or more.

Salaries for top corporation CEOs have skyrocketed out of sight. In 1980, CEO compensation was 42 times the average American worker's pay. In 2001, CEO compensation was 411 times the average worker's pay, jumping spectacularly in the past twenty years. In addition, the average CEO compensation of Fortune 500 companies was \$37.5 million, while the average worker's pay at these companies was \$38,000, or a ratio of 1000 to 1. Note the difference in other industrial countries: in Japan, a typical executive makes eleven times what a typical worker brings home and in Britain, twenty-two times.

When we take wealth - in addition to income - into consideration, the top 20% of American households control 83% of the nation's wealth, while the bottom 80% of Americans control only about 17% of the nation's wealth.

Poverty is still a blot on America's conscience. In 2006, there were 36.5 million Americans - 12.3% of the population - who lived in poverty.² Two-thirds of America's poor are White, with a 10.3% poverty rate. The rate for African Americans and Hispanics is twice that of Whites, at more than 20%. Black and Hispanic median family income is 38% below the median income of White families. Nationally, one out of six children - 12.8 million children - lives in poverty. One out of every three Black and Hispanic children lives in poverty.

Many poor people are working people who work full-time, year-round but don't earn enough to lift themselves and their families out of poverty. Of 9.3 million people in poverty who did some work in 2005, there were 2.9 million on the job full-time, year-round. Another 6.3 million worked full time for part of the year but remained in poverty. With the federal minimum wage at \$5.15 an hour, in 2006, the \$10,700 annual earnings of a minimum wage worker employed full-time, year-round was still \$4,577 under the three-person family poverty line, and \$9,444 below the four-person family poverty threshold.³

Wages and salaries - the main source of income for most Americans - have been lagging and stagnating, while corporate business profits have been booming. 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 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. These official government figures show clearly the stagnation in wages for millions of Americans. (Wages expressed in constant 1982 dollars to offset inflation increases) Even with the increase in the minimum wage, legislated in the summer of 2007, to \$7.25 (2009) the yearly income will be \$15,280—still below the 2006 poverty line of \$15,769 for a family of three.

² \$15,277 for a family of three

³ The minimum wage rises to \$7.25 in July 2009, after increases of \$0.70 in 2007, and \$0.70 in 2008

Inequality and poverty do not have simple causes. Huge campaign contributions from big-money corporations and wealthy individuals too often dominate politics, and, by extension, economic and social policy. Conservative and reactionary government policies such as the unfair Reagan tax cuts of the 1980's, the 2001 extremely regressive tax cuts of the Bush administration, the Congressional delays in raising the minimum wage to a more adequate level, national trade policies which 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.

INCOME AND INEQUALITY

In spite of the ten-year growth of the economy, relatively low unemployment for many of those years, the absence of inflation pressures, and other positive economic trends, the United States still suffers 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," as noted by renowned Massachusetts Institute of Technology (MIT) economist Lester Thurow.

A similar assessment was made by the well-known Harvard economist Benjamin M. Friedman in his recent book, The Moral Consequences of Economic Growth. Friedman noted with deep concern that American middle-class living standards have been stagnating for most of the past thirty years (with the brief exception of the late 1990's) and the decline in the past five years means that more than half of the population is not getting ahead economically. Such a trend puts our democracy at serious risk. American citizens must feel that their standard of living, or at least that of their children, is improving, to have faith in our economy. That sense does not prevail today.

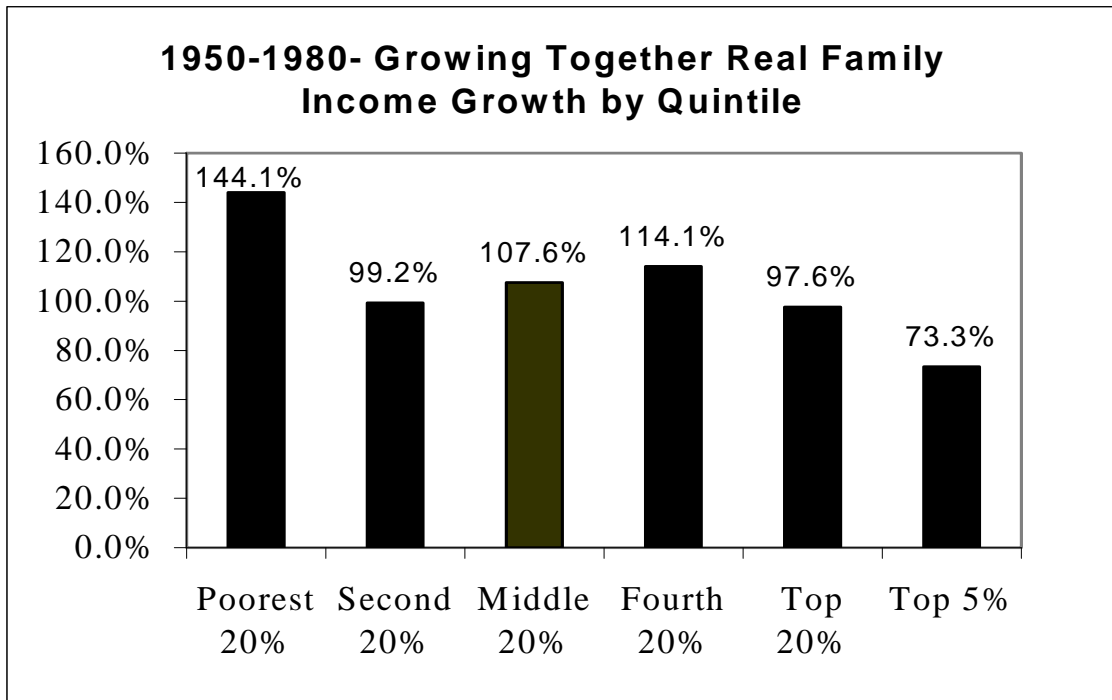
This failure of the economic system results in the United States experiencing greater economic inequality than all other industrial countries. And most importantly, it jeopardizes our national goal of equal opportunity for all. It gives huge economic and political power to big corporations and to the wealthy. And it erodes the sense of community and common purpose essential for democracy.

There was 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." Here are the details of the shift:

The Post-War Years, 1950-1980

The income of Americans during the post-war years of 1950-1980 doubled and income inequality was significantly lessened. Income distribution in the United States became less unequal and fairer. From 1980 through 2001, however, those progressive income trends not only came to a halt, but reversed, and 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, the anti-union policies of the Reagan and Bush Administrations which restrained wage increases and the failure to adjust the federal minimum wage.



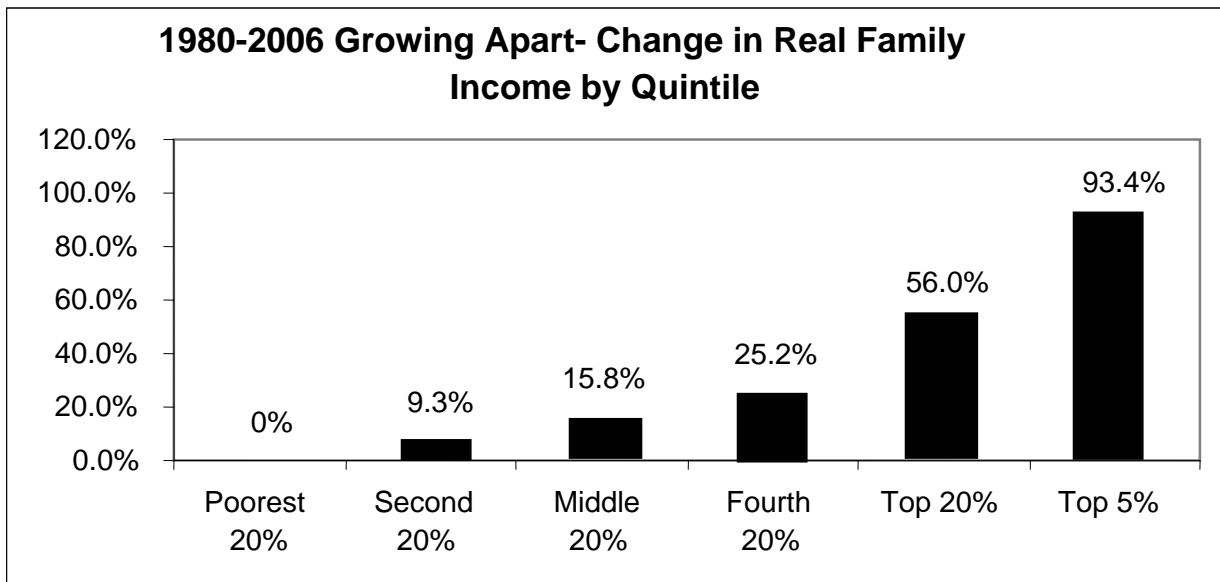
From 1950 to 1980 real income (income adjusted for inflation) increased for all groups - from the poorest fifth (quintile) to the richest fifth. The gain for the lowest fifth was 144.1%; for the second fifth, 99.2%; for the middle and fourth fifths slightly over 100 (107.6% and 114.1%); for the top fifth, 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.

The Reagan-Bush I Years, 1980-2001

In sharp contrast to trends in the 1950-1980 period, the shortsighted and distorted policies of the Reagan and Bush Administrations produced an entirely different pattern of income distribution for 1980-2006. This inequitable pattern is reflected in the changes in the figures for family income in the chart below - Growing Apart. The wealthiest fifth of families, ranked by income, increased their income by 56.0%, far outstripping the increases for all other groups. Income for the poorest 20% did not increase at all!! The second fifth of families gained only 9.3%, while the middle 20% of families had an income increase of 15.8%.

More wage earners per family, and more hours of work each year were largely responsible for the income growth that did occur in the lower 60% of families. In 1997, a married couple in the middle 20% of families worked 256 more hours than in 1989! But those factors were not sufficient to offset other factors that limited income increases for most families and worsened income distribution in the 1980-2006 period.

Because of the extremely uneven distribution of the nation's economic growth from 1980 through the early 1990s, income inequality widened so greatly that the current (2006) income gap between the richest and the poorest is larger than it has been since the Depression years of the 1930's.



Income Trends for Whites, Blacks, and Hispanics

As a result of economic expansion, particularly from 1995-99, median family income for all families reached \$59,804 in 2006.

Beneath the overall average, however, Census figures show that the income of minority families lagged behind Whites. Median income for Black families in 2004 was \$38,520, up a substantial 24.1% from 1990. However, Black family income was still

37.1% below White family income. Similarly, Hispanic family income was 34.7% below White family income.

Table 1 presents income figures for Whites, Blacks, and Hispanic families for 1950-2006. Note, particularly, that in the current Bush years, 2000-2006, median family income for all declined; however, the Black and Hispanic Groups suffered far heavier declines than whites.

Table 1. Median Real Family Income By Race, 1950-2006
(in 2006 dollars)

Group	1950	1970	1980	1990	2000	2006	Percent Change		
							1950-1980	1980-2000	2000-2006
White	\$23,657	\$44,565	\$49,150	\$53,464	\$60,112	\$61,280	108.60%	22%	1.94%
Black	\$12,835	\$27,337	\$28,439	\$31,027	\$38,174	\$38,520	121.60%	34%	0.91%
Hispanic	n/a	n/a	\$33,021	\$33,935	\$39,043	\$40,000	n/a	18%	2.45%

Family Income Shares

This trend of the unequal distribution of the nation's wealth for 1980-2006 is also clearly reflected in the shares of total income received by families ranked by income and for the richest 5% of families.

Table 2 shows the richest fifth of families had half (50.5%) of total income in 2006 - 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 3.4% in 2006 - close to the smallest share in the post-war period.

Put in other terms, the wealthiest 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 1950's and 1970's, the rich-poor ratio, based on the measure of share of total income, ranged from 7.5:1 to 8.5:1.

Table 2. Share of Total Income Received by Families, 1950-2006

	1950	1970	1980	1990	2000	2006	1950-1980 Change	1980-2006 Change	2000-2006 Change
Lowest Quintile	4.5	5.4	5.3	4.6	4.3	3.4	+17.8%	-35.8%	-21.0%
Second Quintile	12.0	12.2	11.6	10.8	9.8	8.6	-3.3%	-25.9%	-12.2%
Third Quintile	17.4	17.6	17.6	16.6	15.4	14.5	+0.3%	-17.6%	-6.9%
Fourth Quintile	23.4	23.8	24.4	23.8	22.7	22.9	+4.3%	-6.2%	+1.2%
Highest Quintile	42.7	40.9	41.1	44.3	47.7	50.5	-3.7%	+22.9%	+5.9%
Top 5%	17.3	15.6	14.6	17.4	21.1	22.3	-15.6%	+52.7%	+5.7%

Table 2 shows the top 5% group had 22.3% of total income in 2005, larger than the aggregate share of the entire lower 50% of all families ranked by income.

This sharp inequality can also be seen in the actual dollar income figures which are listed in Table 3. For the richest 5%, average family income in 2006 was \$313,574 - up \$151,542 - or 196.5% from 1980.

Table 3. Average Real Family Income 1950-2006 by Fifths (20%) and Top 5% of Families (In 2006 dollars)

Quintile	1950	1970	1980	2000	2006 (partially estimated)	Change 1950-1980	Change 1980-2000	Change 2000-2006
Poorest 20%	\$6,167	\$13,767	\$14,846	\$16,520	\$14,848	+140.7%	+11.3%	-11.2%
Second 20%	\$16,360	\$30,441	\$32,318	\$37,773	\$35,312	+97.5%	16.9%	-5.5%
Middle 20%	\$23,723	\$44,014	\$48,822	\$59,366	\$56,564	+105.8%	21.6%	-4.7%
Fourth 20%	\$31,706	\$59,371	\$67,734	\$87,494	\$84,851	+113.6%	29.2%	-3.4%
Top 20%	\$58,218	\$102,096	\$114,043	\$183,571	\$177,879	+95.9%	61.0%	-3.2%
Top 5%	\$94,352	\$155,465	\$162,121	\$325,292	\$313,574	+71.8%	100.6%	-3.8%

We see in Table 3, 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 (2000-2006) 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%, the highest 20%, and the top 5% of families during the years from 1950 to 2006.

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, 1950-2006

Families by fifths of income	1950	1970	1980	1990	2006	1950-1980 Change	1980-2006 Change
Lowest quintile	4.5%	5.4%	5.3%	4.6%	3.4%	+17.8%	-35.8%
Middle 60%	53.8%	53.6%	53.6%	53.6%	46.7%	-0.4%	-12.8%
Highest Quintile	42.7%	40.9%	41.1%	44.3%	49.9%	-3.8%	21.4%
Top 5%	17.3%	15.6%	14.6%	17.4%	22.3%	-15.6%	51.3%

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 46.7% in 2006. In the same 25 year period, the top 20% of families and the wealthiest 5%, enjoyed substantial increases in their share of total income. For the top 20%, the increase in its share was 21.4% from 1980 to 2006 and for the top 5%, a 51.3% jump.

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 includes only the first one million dollars of earnings from a person's primary employment. 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 disproportionately favoring the well-to-do in the past two 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. Based on research by Edward N. Wolff,⁴ a leading expert on wealth in the United States, 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 extreme inequitable distribution of wealth is much greater than the maldistribution of income. In 2005, the richest 20% of families had almost 50% of total income. The remaining 50% of income was shared by 80% of all families.

Stock holdings are a major component of wealth, and their ownership has been especially skewed to the wealthy. "In 2004 the top 20% of stockowners held over 90% of all stocks, by value, while the bottom 80% of stockholders owned under 10%," as noted by analysts of the Economic Policy Institute. This gross inequality parallels the aggregate wealth 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, that contrary to the picture of widespread stock ownership by American families which Wall Street and other financial institutions promote, the facts are far different. As the Economic Policy Institute analysis shows, "Less than half of all households held stock in any form..." Of those which did own stock, only "34.9% had stock holdings in excess of \$5,000."

Inequality: USA vs. Other Industrial Nations

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

The study also 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:

➤ The poorest 10% of families in the U.S. had income equal to 36% of median income. At the other end of the income ladder, the wealthiest 10% of families had income equal to 208% of the median.

The statistics in the other countries showed that income for the poorest 10% of families averaged 51% of the median, and 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 in similar economic conditions lived on income of about half of the income of the average family.

⁴ Edward N. Wolff, Recent Trends in the Size Distribution of Household Wealth, *Journal of Economic Perspectives*, Summer 1998

➤ 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 highest percentage was Belgium with a 58% figure; the United Kingdom had the lowest figure of 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 rise 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 the evidence to support that statement. The OECD found the gap between the income of the wealthiest and poorest 30% of families was greater in the U.S. than in 11 other industrialized nations. Table 5 shows that the wealthiest 30% of families in America held 52.5% of disposable income while the poorest 30% held only 11.8% - a 4.5 to 1 ratio. In contrast, in Finland the ratio was 2.7 to 1. Similarly, details of inequality in other industrialized countries show smaller gaps between their wealthiest and poorest citizens than in the U.S.

Table 5. Share of Disposable Income in Major Countries

Country	Wealthiest 30%	Poorest 30%
Denmark	48.3%	13.8%
Sweden	45.8%	15.8%
Finland	45.6%	17.0%
Norway	46.1%	16.3%
Netherlands	46.3%	15.8%
Germany	48.9%	14.7%
Canada	49.2%	14.3%
France	49.0%	15.6%
Belgium	48.3%	15.5%
Australia	49.3%	13.8%
Italy	53.2%	12.0%
United States	52.5%	11.8%

Source for statistics: OECD Reports: Income Distribution and Poverty in 13 OECD Countries, 2000.

Another illustration of the sharply greater income inequality in the United States compared to foreign countries is the compensation of chief executive officers (CEOs). American CEOs’ compensation does not reflect stock options, various insurance plans and other special privileges, factors which 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 CEOs. Table 6 shows foreign CEO pay as a percent of United States CEO pay in a number of major countries.

Table 6. Foreign Chief Executive Officers Pay

Country	Pay as a percent of U.S. CEO pay
Japan	20%
France	33%
United Kingdom	37%
Germany	42%
Canada	40%

Poverty in the United States

Median income for families in 2006 reached \$58,526, a scant \$325 higher than a year earlier. But that figure was still \$1,314 below the 2000 level. In other words, American families' income after five years of overall growth in the economy did not share in that expansion.

Unemployment persisted at a little over 9.7 million workers and the number of poor persons remained virtually unchanged at 36,500,000, a scant 400,000 lower than in 2004, for a poverty rate of 12.6%. The poverty rate had declined every year for seven years from 1993 through 2000. That improving trend was broken in 2001. During the Bush II Administration, the number of poor and the poverty rate went higher in 2001, 2002, 2003, and 2004. Only in 2005 was the trend changed with a 90,000 decline in the number of poor.

Most of those still affected by the impact of a slow growing economy are non-Whites. African-Americans suffered a severe increase in poverty. Their poor rose from 8.1 million (a rate of 22.7%) in 2001 to 9.1 million (a rate of 24.9%) in 2006.

Both poverty and income inequality are not new aspects of the United States economy. Poverty in the United States dropped substantially in the 1960s and early 1970s, but 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 helping those caught in poverty. 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. Since 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). Since 1993, the number of poor people has declined by 6.4 million, for a poverty rate of 11.7% in 2001, larger than in 1989.

Table 7 shows the trend of poverty over the period from 1960 through 2004 for significant groups within the population.

Table 7. Persons in Poverty, Selected Years, 1960-2006
(In millions)

	2006	2005	2004	2003	2002	2001	1998	1996	1990	1980	1970	1960
Total Persons	36.5	36.9	37	35.9	34.6	32.9	34.5	36.5	33.6	29.3	25.4	39.9
In Families	25.9	26.1	26.6	25.7	24.5	23.2	25.4	27.4	25.2	22.6	20.3	34.9
Unrelated Individuals	9.9	10.4	9.9	9.7	9.6	9.02	8.5	8.5	7.4	6.2	5.1	4.9
Whites	24.4	24.5	25.3	25	24.1	22.7	23.5	24.7	22.4	19.7	17.5	28.3
Blacks	9.0	9.2	9.4	9.1	8.9	8.1	9.1	9.7	9.8	8.6	7.5	9.9
Hispanics	9.2	9.4	9.1	9	8.5	8	8	8.7	6	3.5	2.4	N/A

In 2006, poverty remained high as unemployment persisted at over 9 million. Another indicator of distress was the number of those unemployed for six months or more. In 2003, a record high of 1.9 million workers, or one of every five jobless, were unemployed for six months or more.

Minority Poverty Rates

The incidence of poverty among African-Americans and Hispanics is more than twice the poverty rate among Whites. Table 8 shows that poor non-Hispanic Whites represented 45.6% of all persons in poverty, with a poverty rate of 8.3% from 2000. In sharp contrast, African-Americans and Hispanics had poverty rates of 24.9% and 21.8% respectively. Among black families headed by a woman the rate of poverty reached 39.3%.

Table 8. Persons in Poverty By Race, 2006

Group	Number (In Thousands)	Poverty Rate
White (non-Hispanic)	16,227	8.3%
Black	9,048	24.9%
Hispanic	9,243	21.8%

Children In Poverty, 2006

Slightly more than one of six children in the United States is living in poverty. A total of 12.8 million children (17.4% of persons less than 18 years of age) were poor in 2006. For African-Americans, the child poverty rate was 33%. For children of Hispanic origin, the poverty rate was 27%.

The Working Poor

Many poor people work. During 2006, 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 2006, a total of 2.9 million poor persons were on the job full-time, year-round - the “working poor.” An additional 6.3 million people worked full-time part of the year, but their earnings were too small to lift them out of poverty.

Workers At Poverty-Level Wages, 1973-2006

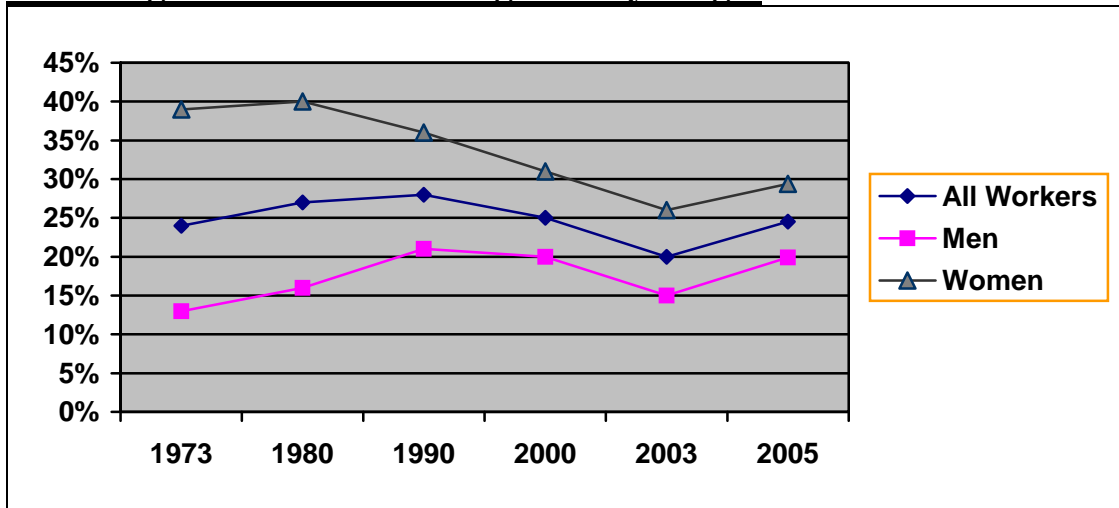
The working poor figures are not the complete picture of low-paid workers. In addition to the working poor, there were about 35 million workers in 2005 whose wages fell short of the poverty line for a family of four. An Economic Policy Institute analysis of full-time, year-round workers shows the percent 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 of poverty-wage workers. Since 1989, the percentage has been relatively stable. Minority and women workers were disproportionately employed in such jobs. (See chart below.)

Among employed African-American workers, about 33% were working at poverty-level wages. Among employed Hispanics, about 39.3% were getting only poverty-level pay.

Among women there are 20 million, or close to 30% of all women workers, employed on jobs which pay 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



Poverty Official Levels Inadequate

Again, it is important to state here that any discussion of poverty 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 that method has clearly been made obsolete by substantial changes in the spending patterns of America's poor families. Now, such expenditures as day-care costs (which many working poor women have to 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.

In 2006 there were 46.9 million Americans without health insurance - up 1.4 million from 2004. Various research studies like one done 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 \$5.85 (the rate as of 7/24/07) or \$12,168 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 2006 was \$15,769. The earnings of a minimum wage worker employed full-time, year-round would fall \$3,601 short of that figure. For a family of four, the \$12,168 yearly income of a full time, year round worker at minimum wages would be \$8,626 below the poverty threshold of \$20,794. On a weekly basis, these figures show a \$69 gap between weekly income and the poverty level for a family of three, and a \$166 gap for a family of four.

Fully two thirds of minimum wage workers are women, comprising a total of 7 million workers. Even with an increase in the minimum to \$7.25 an hour (in July 2009) as currently proposed will provide minimum wage workers with a yearly income of \$15,080, still just below the government threshold of poverty for a family of three, in 2006.

Table 9. Poverty Thresholds, 2006

One Person Under 65	\$10,488
One Person 65 years and older	\$9,669
Two persons (householder under 65)	\$13,500
Family of three	\$15,769
Family of four	\$20,794

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 2005 was \$8,125. The income deficit for poor individuals alone was \$5,361. 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 2006, there were 36.5 million, or 12.5% of the population, who were poor. In various sections and states, the poverty rate differed widely from the national rate of 12.5%.

Table 10 below shows the percentage of people living in poverty by state using the average of the rates for 2005 and 2006. There were 17 states with poverty rates above the national average - six of them in the South and Southwest. Two states - New Mexico and Mississippi - had rates above 17%; Texas had a 16.3% rate and Tennessee, a 14.9% poverty rate.

Poverty higher than the national average also prevailed in large industrial states like California where poverty engulfed 12.7% of its citizens, New York, 14.3%, and Illinois with a 11.0% poverty rate.

Table 10. Poverty by State, 2005-2006

State	Average percent 2005-2006	State	Percent	State	Percent
United States	12.5	Kentucky	15.8	North Dakota	11.3
Alabama	15.5	Louisiana	17.6	Ohio	12.2
Alaska	9.4	Maine	11.4	Oklahoma	15.4
Arizona	14.8	Maryland	9.1	Oregon	11.9
Arkansas	15.8	Massachusetts	11.1	Pennsylvania	11.3
California	12.7	Michigan	12.6	Rhode Island	11.3
Colorado	10.6	Minnesota	8.1	South Carolina	13.1
Connecticut	8.7	Mississippi	20.4	South Dakota	11.3
Delaware	9.3	Missouri	11.5	Tennessee	14.9
District of Columbia	19.8	Montana	13.7	Texas	16.3
Florida	11.3	Nebraska	9.9	Utah	9.2
Georgia	13.5	Nevada	10.1	Vermont	7.7
Hawaii	8.9	New Hampshire	5.5	Virginia	8.9
Idaho	9.7	New Jersey	7.8	Washington	9.1
Illinois	11.0	New Mexico	17.4	West Virginia	15.3
Indiana	11.6	New York	14.3	Wisconsin	10.2
Iowa	10.8	North Carolina	13.5	Wyoming	10.3
Kansas	12.7				

Summary

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 2006 was still below comparable figures of the 1970s.

U. S. Bureau of Labor Statistics data for 2005 show average hourly wages for private non-farm production and non-supervisory workers (about 80% of all workers) were \$15.68. By contrast, in the last years of the 1970s the average hourly wage was

about \$15.00 in constant 2005 dollars. These official government figures tell us that the purchasing power of hourly wages has inched up by a tiny 4.5% in the past two decades.

The Council of Economic Advisors 1994 report noted that the decline of unions and the erosion of the minimum wage through inflation were two major factors contributing to this drop. In the early 1970s, 27% of the work force belonged to unions. By the 1990s, only 14% of all workers and only 10% of private sector workers were union members. According to several studies referred to by the Council, the weakening of unions accounted for about 20% of widening income inequality. Whatever the precise percentage, clearly the weakening of effective union bargaining sharply lowered wage gains in the 1980's and 1990's.

Unions play a vital role in fostering economic democracy but federal action must be taken to protect collective bargaining and to reform labor law so workers' rights to organize and bargain collectively are guaranteed and enforced. It is widely acknowledged that union-won increases "spill-over" to many non-union workers as employers raise wages to reduce the threat of unionization.

Former Secretary of Labor Robert Reich early in 1997 declared, "The unfinished agenda...(of the nation) is to address widening inequality. Over 15 years ago inequality of income, wealth and opportunity began to widen and the gap today is greater than at any time in living memory." Even as income inequality continues to rise, White House officials ignore these signs of growing distress for millions of families and claim the economy is moving in the right direction by focusing on overall growth—the gross domestic product—which conceals the real living standards of the nation's families.

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.

ADA Program Recommendations

1. Deep cuts in programs designed to serve low-income families and individuals, the working poor, the disables, 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 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.

5. 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

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 nations leading independent liberal political organization. Founded in 1947, ADA is dedicated to promoting individual liberty, economic justice. Our founders included Eleanor Roosevelt, labor leader Walter Reuther, economist John Kenneth Galbraith, historian Arthur Schlesinger, Jr., theologian Reinhold Neibuhr, and former Vice President Hubert Humphrey. Our over 65,000 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 publications.

ADA's annual Voting Record has served as the standard measure of political ideology since 1947. ADAAction 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 reach 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.

ADA National President Jim McDermott started his political career in the Washington State Legislature in 1970 and served in the state House and Senate before being elected to the 101st Congress. He is now serving his 7th term and has been especially active on health care issues. While serving in the Washington state legislature, he developed the first program providing low cost health insurance for the unemployed and the working poor.

In the House of Representatives, Congressman McDermott serves on the Ways and Means Committee and its Subcommittees on Human Resources and Trade. Jim McDermott became President of Americans for Democratic Action in June 2002.

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, 1625 K Street, NW, Suite 210, Washington, D.C. 20006

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