

**INCOME GAP BETWEEN POOR FAMILIES AND OTHERS:  
SIGN OF INDIVIDUAL FREEDOM OR  
PROOF OF SOCIAL INEQUALITY?**

by

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This paper was published in the *Forum for Social Economics*, Spring 2003. For more information about the *Forum*, go to <http://www.socialeconomics.org/forum.htm>

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Since 1988 the Census Bureau's annual report *Poverty in the United States* has included information on the income deficit and income surplus.<sup>1</sup> Taking into account family size, income deficit defines impoverishment in terms of the difference between the income of each poor family and the appropriate poverty threshold for a family of that size. Income surplus of nonpoor families is the extent to which the income of every nonpoor family exceeds the poverty threshold for a family of the same size. In the following we examine: (1) the difference in income between poor and nonpoor families; (2) transitions into and out of poverty; (3) the income gap by race and type of family; and (4) three remedies for closing the gap. Our concluding remarks call attention to the linkage between our understanding of human nature and the way in which poverty is defined and measured.

### **Family Income Gap**

In 2001 the *mean* income deficit for all poor families was \$7,231. The mean income surplus for all nonpoor families was \$57,841. It follows that the sum of those two estimates -- \$65,072 -- represents the average (mean) difference in income between poor and nonpoor families or simply the family income gap. In current dollars, this gap has increased by \$27,917 since 1988. In constant dollars (2001 = 100), the increase has been \$9,449 (see Table 1A). Moreover, the income surplus of nonpoor families accounted for proportionately more of the total difference in 2001 (88.9 percent) than in 1988 (87.2 percent). That is, since 1988 the real income of poor families has been falling further behind the real income of nonpoor families by nearly \$727 every year. The recession of 1991-1992 is reflected in a narrowing of the income difference between poor and nonpoor families. *Between 1993 and 2000 – the period marking the longest expansion in U.S. economic history -- the real family income gap grew by \$1,143 every year.*

The *median* income deficit for all poor families in 2001 was \$6,079. At the same time, the median surplus for all nonpoor families was \$41,347. Thus the family income gap measured in terms of median income was \$47,426. In current dollars, this gap has increased by \$17,921 since 1988. In constant dollars (2001 = 100), the increase has been \$3,256 (see Table 1B). Over this entire period, the proportion of the gap attributable to the income surplus of nonpoor families ranged from a low of 84.6 percent (in 1993) to a high of 87.3 percent (in 2000). Because the median is the midpoint of a frequency distribution, the median family income deficit/surplus figures reduce the measured family income gap by removing the disproportionate impact which very high-income families have on mean family income surplus and extremely low-income families have on mean family income deficit. Compared to the mean, the median provides estimates of the income surplus and income deficit which are more nearly typical of families above the poverty threshold and families below that threshold. In 1988 the mean family income gap was measured as 26 percent higher than the median family income gap. By 2001 the same gap as measured in terms of mean family income was 37 percent greater than the estimate derived from the median figures.

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<sup>1</sup> Income deficit information is included in earlier annual reports, but income surplus data became available for the first time in 1988.

These findings raise three questions. Why is this information buried in *Poverty in the United States*? Why are the poor falling further behind during the longest expansion in U.S. economic history? What implications can be drawn from this evidence? The final answer to the first question, while it calls for insider information, seems to inhere in the Census Bureau's resolute commitment to defining and measuring poverty in terms of what is commonly called an absolute standard. The answer to the second and third questions originates in the fundamental nature of poverty, notably how persons and families enter and exit poverty.

### **Transitions Into and Out of Poverty**

The numbers of persons in poverty have been falling because the economic expansion of the 1990s created more and better-paying jobs for those who are poor as well as for those who are not. The family income gap has been widening because improved employment opportunities have worked especially well for those better positioned to take advantage of them, those who already are better skilled, more talented, more mobile, better connected, more willing to work longer, harder, and smarter in order to qualify for better jobs and advancement.

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

Large numbers of persons and families enter or exit poverty from one year to the next. Information from the Census Bureau's *Survey of Income and Program Participation* indicated that in 1990-1991 more than 11 million persons transitioned into or out of poverty [Shea, Table 5]. The following year the total was greater than 12 million [*Dynamics 1991-1992*, Table 5]. In 1993-94, the latest year for which these data are available, 14.4 million changed poverty status, with 6.8 entering poverty and 7.6 million exiting poverty. For the 30.0 million persons who were poor in 1993 and did not change family status, *22 percent were not poor in 1994*. Among the 1.8 million who were poor in 1993 and changed family status, *51 percent were not poor in 1994* [*Dynamics 1993-1994*, Table 5].

### **Race and Type of Family**

The income gap for poor compared to non poor families in 2001 was much greater for white families (\$66,847) than for black families (\$45,987). It was even higher (\$73,634) for white married-

couple families living above poverty than for black female-headed families<sup>2</sup> living below poverty. The difference became much smaller (\$17,230) when white married-couple families which are nonpoor are compared to similarly circumstanced black married-couple families (see Table 2A).

*Female-headed families account for 51 percent of all poor families, and for 56 percent of all those poor families with an income deficit of \$8,000 or more.*<sup>3</sup> There is no need to differentiate here between mean family income and median family income.

Four other findings from the 2002 report on poverty are noteworthy. First, there is an income gap of more than \$72,000 between white married-couple families which are living above poverty and poor female-headed families whether white or black. Second, black married-couple families which are above poverty have incomes more than \$55,000 greater than the incomes of both poor black female-headed and poor white female-headed families. Third, there is little difference -- about \$100 per month -- between poor white female-headed families and similarly circumstanced black families. Fourth, comparing 2001 to 2000, the family income gap widened by about \$4,250 between nonpoor white married-couple families and nonpoor black married-couple families.

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

### **Three Remedies**

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

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

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<sup>2</sup> Strictly speaking, a female-headed family is one in which there is a female householder and no husband present.

<sup>3</sup> The Census Bureau publishes the income-deficit information using ten income intervals. The tenth interval is "\$8,000 or more."

on the premise that greater economic equality contributes to a heightened sense of unity and oneness in business and throughout society.

The statistics on poverty for 2001 point to three remedies. The first remedy is a year-round full-time job. Only 3.2 percent of the families with at least one year-round full-time worker were living in poverty. Among poor female-headed families, 82 percent had no year-round full-time workers.

The second remedy is two or more wage-earners in a family. Only 2.1 percent of the families with two or more workers were officially classified as poor. For families with two or more persons working year-round full-time, the rate of poverty was 0.6 percent. In poor families headed by a female, only 7.0 percent had two or more workers, and virtually *none* had two or more year-round full-time workers.

The third remedy is a husband and wife living together. The rate of poverty for married-couple families in 2001 was 4.9 percent. If there is one worker in a married-couple family, the poverty rate is 9.5 percent. With two or more working in a married-couple family the rate drops to 1.6 percent. Among female-headed families with no workers, the poverty rate is 66.1 percent. With two or more workers, the rate of poverty for female-headed families is 6.5 percent.

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

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

### **Concluding Remarks**

From the very beginning, poverty in the U.S. has been defined officially as the annual cost of the goods and services required to support a minimal standard of living. It is most often called an absolute standard, but is better described as a minimal-living standard. In 2001, for instance, the annual cost of the goods and services for a family of four with no children under age 18 to live at a minimal standard of living was \$18,267. This definition has been attacked from the very beginning on grounds that poverty is properly defined not in terms of some minimal-living standard but in terms of what a person or family has relative to what others have. This definition yields what is called a relative standard which usually is constructed from information regarding income distribution. For that reason, it is better described as an income-distribution standard.

The income-distribution standard may be rendered into a specific poverty measure by defining as poor all persons or families at the lower end of the distribution, such as in the lowest 10 percent, 15 percent, 20 percent, or everyone below one-half of the median income of all persons or families. Proponents of the income-distribution standard largely have been silent in recent years such that not once in an open letter to the Census Bureau did more than 40 well-known poverty specialists recommend incorporating income distribution in the official poverty definition or developing a separate income-distribution standard.<sup>4</sup>

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

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

Information on the family income gap is no substitute for an accurate estimate of the numbers of persons and families who are living in poverty. However, it is an important complement to those numbers and adds significantly to our understanding of poverty. The family income gap is noteworthy in that it avoids one of the major criticisms of typical income-distribution standard, that is where to draw the line differentiating the poor from the nonpoor. Is poverty to be defined and measured in terms of all persons or families in the lowest 10 percent of the income distribution? The lowest 15 or 20 percent? Or is it income below one-half of the median income of all persons or families? That issue has not been resolved because defining poverty depends importantly though not entirely on the values of the person who does the defining. For that reason, agreement among those who define and measure poverty is critical.

The income gap between poor families and nonpoor families is not arbitrary. It represents the actual dollar disadvantage of the typical poor family, and it demonstrates that at a time when there

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<sup>4</sup> See [www.ssc.wisc.edu/irp/povmeas/povlet.htm](http://www.ssc.wisc.edu/irp/povmeas/povlet.htm).

have been fewer families in poverty every year since 1980, the ones in poverty have been falling further behind those in much better financial circumstances. The family income gap is unique in that it incorporates both income distribution and minimal living in one standard, thus constructing a single standard which reflects at once human individuality and human sociality. Further, because the family income gap is based on the official minimal-living (absolute) standard of poverty employed by the Census Bureau, any improvements made in constructing the official poverty thresholds or in how family income is defined and measured are automatically included in the Census Bureau's estimates of the family income gap. Thus, there is very little additional cost in supplying the yearly estimates, and improving those estimates is literally cost-free.

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**Table 1A. Mean Family Income Gap:  
Difference Between All Poor Families and All Nonpoor Families, 1988-2001**

	Current Dollars	Constant Dollars 2001=100	Income Surplus, Percent of Total Difference
1988	\$ 37,155	\$ 55,623	87.2
1989	39,898	55,983	87.8
1990	41,056	55,631	87.4
1991	41,963	54,564	86.9
1992	43,374	54,751	86.7
1993	46,543	57,043	87.2
1994	48,423	57,866	87.4
1995	49,801	57,872	87.9
1996	52,310	59,045	88.0
1997	55,613	61,365	88.1
1998	58,245	63,283	88.6
1999	60,814	64,647	89.0
2000	63,247	65,047	89.2
2001	65,072	65,072	88.9

**Table 1B. Median Family Income Gap:  
Difference Between All Poor Families and All Nonpoor Families, 1988-2001**

	Current Dollars	Constant Dollars 2001=100	Income Surplus, Percent of Total Difference
1988	\$ 29,505	\$ 44,170	85.8
1989	31,156	44,498	86.3
1990	32,167	43,589	85.4
1991	33,068	42,998	85.2
1992	34,084	43,024	85.1
1993	34,651	42,468	84.6
1994	36,096	43,135	85.0
1995	37,035	43,037	85.5
1996	39,133	43,180	85.8
1997	40,997	45,237	86.0
1998	43,166	46,900	86.6
1999	45,082	47,923	87.2
2000	46,326	47,644	87.3
2001	47,426	47,426	87.2

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

**Table 2A. Mean Family Income Gap:  
Difference in Income between Poor Families and Nonpoor Families, 2000 and 2001  
(current dollars)**

	<b>2000</b>	<b>2001</b>
All families .....	\$ 63,247	\$ 65,072
All white families .....	64,992	66,847
All black families .....	46,029	45,987
Nonpoor white married-couple families compared to:		
poor white female-headed families .....	\$70,251	\$ 72,466
poor black female-headed families .....	70,436	73,634
nonpoor black married couple families .....	12,978	17,230
Nonpoor black married-couple families compared to:		
poor white female-headed families .....	\$57,273	\$ 55,236
poor black female-headed families .....	57,458	56,404
Poor white female-headed families compared to:		
poor black female-headed families .....	\$ 185	\$ 1,168

**Table 2B. Median Family Income Gap:  
Difference in Income between Poor Families and Nonpoor Families, 2000 and 2001  
(current dollars)**

	<b>2000</b>	<b>2001</b>
All families .....	\$ 46,326	\$ 47,426
All white families .....	47,968	48,823
All black families .....	32,834	34,153
Nonpoor white married-couple families compared to:		
poor white female-headed families .....	\$53,325	\$ 54,293
poor black female-headed families .....	53,320	55,998
nonpoor black married couple families .....	9,578	9,290
Nonpoor black married-couple families compared to:		
poor white female-headed families .....	\$43,747	\$ 45,003
poor black female-headed families .....	43,742	46,708
Poor white female-headed families compared to:		
poor black female-headed families .....	\$ -5	\$ 1,705

Source: U.S. Census Bureau.