The Journal of Sociology & Social Welfare

Volume 19
Issue 1 *March*

Article 4

March 1992

# Changes in Poverty, Income Inequality and the Standard of Living During the Reagan Years

Robert D. Plotnick
*University of Washington*

# Changes in Poverty, Income Inequality and the Standard of Living During the Reagan Years

ROBERT D. PLOTNICK

University of Washington
Graduate School of Public Affairs
and
School of Social Work .

*The record of economic well-being in the 1980s belied Reagan's claim that Americans would be better off if they scaled back the welfare state and cut tax rates. Though the standard of living rose, its growth was no faster than during 1950–1980. Income inequality increased. The rate of poverty at the end of Reagan's term was the same as in 1980. Cutbacks in income transfers during the Reagan years helped increase both poverty and inequality. Changes in tax policy helped increase inequality but reduced poverty. These policy shifts are not the only reasons for the lack of progress against poverty and the rise in inequality. Broad social and economic factors have been widening income differences and making it harder for families to stay out of poverty. Policy choices during the Reagan Administration reinforced those factors.*

One overarching goal of the welfare state is to promote and ensure the economic well-being of its people. Since World War II the consensus view in the United States has been that this goal is best pursued by developing and expanding social welfare policies concerned with income maintenance, health care, housing, education and job training, labor market outcomes, and social services. The Reagan Administration challenged the consensus, arguing that the Nation's economic well-being would be promoted more effectively by scaling back and reorienting the modern social welfare state. Though Congress resisted the massive cutbacks of social welfare spending proposed by the Administration, it did acquiesce to substantial reductions relative to the trends of the 1960s and 1970s.

Did this shift in policy direction increase Americans' economic well-being, as Reagan's policy makers claimed it would?

Did it make us worse off? Or, despite the heated debates and political maneuvering, did it make little difference either way?

To assess the general level of economic well-being in a society, we need answers to a relatively small set of questions: What is the average level of economic well-being (the standard of living)? Has it been increasing? How many people have standards of living that are unacceptably low? That is, what is the level of poverty and what is its trend? How equitable is the distribution of economic well-being, and is it becoming more or less equitable? Because defining and measuring "equity" raise insuperable problems, analysts usually rephrase this last question in terms of the level and trend of inequality of economic well-being.

The first task of this article, then, is to describe the changes in poverty, inequality and the standard of living during the Reagan years, and compare them to trends of the prior 30 years. These are the broadest indicators of economic well-being and the ones most frequently used, but are hardly exhaustive. One might also want information on life expectancy, infant mortality, hunger, homelessness, leisure, and related social indicators. Because these three indicators omit important aspects of the quality of life, one must always keep in mind they are indicative of economic well-being, not human welfare.[1]

Poverty, inequality and the standard of living are products of complex social and economic forces. Many, such as the pace and nature of technological change, international economic trends, and demographic change, are largely outside the control of the public sector. Others, though, are not. Policy choices about the size and nature of cash and noncash income support programs, oversight and regulation of the labor market through minimum wage, antidiscrimination and other policies, the development of human resources through public education and job training programs, and the character of the tax system can significantly alter the distribution of income and level of poverty. Depending on their character, such policy choices can counteract market-driven and demographic influences on poverty and inequality, or reinforce them.

To what extent did the changes in social welfare policies during the 1980s produce the observed changes in poverty and inequality? To what extent were they products of more fundamental economic and social forces and, therefore, would have occurred regardless of who held the Presidency and set the domestic policy agenda? The article's second task is to address these questions.

## Economic Well-Being Before and After Reagan Took Office

### *The Standard of Living*

The quality of life depends partly on a person's consumption of material goods and services, but also on intangibles such as freedom, degree of security from crime and violence, the quality of family and personal relationships, and spiritual contentment. So, while we would like to know the trend in the average quality of life before the Reagan era, and how it changed in the 1980s, no one knows how to fully measure this concept. Instead, we examine the material standard of living.

Column 1 of Table 1 shows the trend in real median family income measured by the Census Bureau. The 1980 value is indexed to 100 as a convenient point of reference.

Although the trend in real median family income is a widely used indicator of the standard of living, it can be misleading for several reasons. A growing fraction of Americans have chosen to live alone, cohabit with partners or otherwise have living arrangements that do not count as "families" according to the Census Bureau definition. Looking at median family income ignores the trend in income among the increasing portion of the population living as "unrelated individuals." Also, because average family size has declined over time, in recent years the same real income can buy a higher standard of living for the typical family. The trend in median family income does not adjust for the decline in average needs.

To deal with these problems, column 2 shows the trend in real median income after three adjustments. First, all income receiving units are included, not only families. Second, the income of each unit is corrected with an "equivalency scale" that adjusts observed incomes for differences in the age structure and size of families. Third, instead of counting each unit's equivalent income once to derive the median, each person in the unit is

Table 1

*Trends in Real Median Income Under Alternative Measures of Income and Reporting Unit, 1950–1988 (1980 = 100)*

| | Census Bureau Family Income All Families | Adjusted Family Income, Person Weights, All Persons |
|---|---|---|
| 1950 | 54 | NA |
| 1955 | 65 | NA |
| 1960 | 74 | NA |
| 1965 | 86 | NA |
| 1970 | 99 | 87 |
| 1973 | 106 | 96 |
| 1975 | 100 | 93 |
| 1979 | 106 | 103 |
| 1980 | 100 | 100 |
| 1981 | 96 | 98 |
| 1982 | 95 | 97 |
| 1983 | 97 | 99 |
| 1984 | 100 | 102 |
| 1985 | 101 | 104 |
| 1986 | 105 | 108 |
| 1987 | 106 | 109 |
| 1988 | 106 | 112 |

NA = not available

Source: Column 1: U.S. Bureau of the Census (1990b, table 727). Column 2: Karoly (1990, table B.1).

assigned its equivalent income. The equivalency scale is the one implicit in the federal poverty thresholds (discussed below). The median is then computed over all persons. Each person, rather than each family, carries equal weight. As in Column 1, the 1980 value of median "adjusted family income with person weights" is indexed to 100. These data are not available for as long a period as the standard Census Bureau measure. (See U.S. House of Representatives, 1990, pp. 1070–1071 for explanation of the approach. Though an improvement compared to using median family income, this approach is still problematic because the income concept used in the series excludes noncash forms of income and does not deduct direct taxes.)

Real median family income grew steadily from 1950 to 1973 and nearly doubled over this period. The oil crisis of 1973 and ensuing recession produced a sharp decline by 1975, but incomes recovered by 1979. The severe recession which began in 1980 and continued during the early years of the Reagan Administration drove median family income sharply down in the early 1980s. Since 1982, median family income has gradually risen and in 1987 finally reached the level last experienced in 1973.

From 1950 to 1980, the average growth rate of real median family income was 2.1% per year. In contrast, during the eight years of Reagan's term the annual growth rate was only 0.7%. Compared to the prior 30 years, the Reagan era was not a prosperous one. On the other hand, it was far better than the trend from 1970 to 1980, when real incomes stagnated.

The evidence in column 2 leaves a rather different impression of the Reagan years and how they compare with the 1970s. The decline in income during the early 1980s appears less severe and the recovery looks much stronger. Real adjusted family income grew at a rate of 1.4% during the Reagan years, twice the rate in column 1. However, real adjusted family income also grew by 1.4% during the 1970s. Based on this income measure, then, the Reagan years did not produce an improvement in the growth rate of the standard of living compared to the prior decade.

Column 2 is probably closer to the "truth." Because its income measure is based on reports from the entire population, corrects for needs, and gives all persons equal weight, it better captures the trend in the standard of living for the median resident of the United States. Under either measure, though, one can reasonably conclude that on average people had higher incomes when Reagan left office than when he entered, but that the Reagan years did not increase the growth rate of the standard of living compared to its record over the three prior decades.

The 12% increase in living standards from 1980 to 1988 (from column 2) was not uniformly enjoyed by all types of families. For person in families with a married couple and children, real mean adjusted family income rose 14.3%. For those in families with a single mother and children, however, the real mean actually fell 1.3% Among the nonelderly childless, it rose 11.3%; among the elderly childless, it rose 13.0%.[2]

*Income Inequality*

Table 2 shows the trend in the distribution of income based on a simple summary measure of inequality: the ratio of total income received by the top 20% of the population to total income received by the bottom 20%. Of the many ways to measure income inequality: this one has the advantage of being available for the distribution of income among families as defined by the Census Bureau and for the distribution of adjusted family income with person weights. Thus, the columns in table 2 use the same concepts of income and reporting unit as the corresponding columns in Table 1.

Column 1 shows that income inequality among families exhibited little trend from 1947 until the early 1960s, declined modestly until the late 1960s, and increased modestly until 1980. The Reagan years witnessed a sharp increase in inequality without precedent since 1920 (Williamson and Lindert, 1980, pp. 76–77). The summary measure increased 18% between 1980 and 1988, to the highest value observed since 1947, when this data series began. And it was higher yet in 1989.

The data in column 2 tell nearly the same story. Inequality of adjusted family income rose slightly in the 1970s, and rapidly in the 1980s. In contrast to the pattern in column 1, inequality crested in 1986–1987 and dropped slightly in 1988. (Information for 1989 is not available.)

*Poverty*

The official measure of poverty is derived from a set of poverty lines which vary by household size, the age of the head of the household, and the number of children under 18. (Until 1981, sex of the head of household and farm/nonfarm residence were other distinctions.) The poverty lines are updated yearly by the percentage change in the Consumer Price Index, so they represent the same real purchasing power each year. For 1988 the average line for a family of four was $12,092. If a family's

Table 2

*Trends in Income Inequality Under Alternative Measure of Income and Reporting Unit: Ratio of Share of Top 20% to Share of Bottom 20%*

| | Census Bureau Family Income All Families | Adjusted Family Income, Person Weights. All persons |
|---|---|---|
| 1947 | 8.6 | NA |
| 1950 | 9.5 | NA |
| 1955 | 8.6 | NA |
| 1960 | 8.6 | NA |
| 1965 | 7.9 | NA |
| 1970 | 7.6 | NA |
| 1973 | 7.5 | 7.4 |
| 1977 | 8.0 | 7.9 |
| 1979 | 8.0 | 8.0 |
| 1980 | 8.2 | 8.3 |
| 1981 | 8.4 | 8.9 |
| 1982 | 9.1 | 9.7 |
| 1983 | 9.1 | 9.9 |
| 1984 | 9.1 | 10.0 |
| 1985 | 9.5 | 10.3 |
| 1986 | 9.5 | 10.3 |
| 1987 | 9.5 | 10.3 |
| 1988 | 9.6 | 10.0 |
| 1989 | 9.7 | NA |

NA = not available.

Source: Column 1, computed from data in U.S. Bureau of the Census (1989) for 1947–1987; U.S. Bureau of the Census (1990a, p. 30) for 1988-1989. Column 2, computed from data in U.S. House of Representatives (1990, p. 1092).

annual income falls below its poverty line, its members count as poor.

The official poverty definition measures income by counting cash income from all public and private sources, except capital gains. It does not take into account public or private noncash benefits such as food stamps, subsidized public housing or employer-provided health insurance, nor does it subtract taxes.

Table 3.

*Percentage of Persons in Poverty, 1959-1989*

| | Official Poverty Measure | Official Poverty Measure Adjusted for Selected Noncash Transfers and Taxes |
|---|---|---|
| 1959 | 22.4 | NA |
| 1965 | 17.3 | NA |
| 1969 | 12.1 | NA |
| 1974 | 11.2 | NA |
| 1979 | 11.7 | 9.9 |
| 1980 | 13.0 | 11.6 |
| 1981 | 14.0 | 13.2 |
| 1982 | 15.0 | 14.2 |
| 1983 | 15.2 | 14.6 |
| 1984 | 14.4 | 13.9 |
| 1985 | 14.0 | 13.5 |
| 1986 | 13.6 | 13.1 |
| 1987 | 13.4 | 12.6 |
| 1988 | 13.0 | 12.0 |
| 1989 | 12.8 | NA |

NA = not available

Source: Column 1, U.S. Bureau of the Census (1990a, p. 57); column 2, U.S. House of Representatives (1990, p. 1042).

Yet both noncash benefits and taxes affect a family's standard of living.

The first column of Table 3 shows the rate of poverty among persons according to the official federal poverty measure. In 1959 22.4% of Americans were poor. In the next decade the poverty rate declined dramatically to 12.1. After a small increase during the mild recession of the early 1970s, it decreased again to 11.1% in 1973, the lowest level ever observed. The level of poverty rose slightly in the mid and late 1970s but was less than 12% at the end of the decade. The economic downturn during the early 1980s drove poverty sharply up. It peaked at 15.2% in 1983, the highest rate since 1965. During the remainder of Reagan's term, poverty gradually declined as the economy expanded. By 1988 it had fallen merely 2.2 percentage points to 13.0%, higher than any year from 1968 to 1979 and equal to the 1980 level. A year later, the poverty rate was 12.8%, the same as in 1968, and 31.5 million persons were poor, 3.2 million more than in 1980.

Among major demographic groups, only the aged have made sustained strides against poverty. Their 1988 poverty rate of 12.0% was the lowest ever for this group and marked a decline of 3.7 percentage points from 1980, just before Reagan took office. Poverty among children, in contrast, soared to more than 22% in 1983 and was 19.5% in 1988. This rate was 5.6 percentage points greater than in 1969, the year when child poverty was lowest, and 1.2 percentage points greater than in 1980. Children are now the poorest age group in the United States, and have been since 1974.

Poverty among blacks was 31.3% in 1988, 1.2 percentage points lower than in 1980 but no lower than it was throughout most of the 1970s. Among Hispanics, 26.7% were poor in 1988, 1.0 percentage points greater than in 1980. And among whites, the 1988 poverty rate of 10.1% was virtually identical to the 1980 rate.[3]

Column 2 of Table 3 shows the recent trend in poverty using a modified measure of income in conjunction with the same official poverty lines. Means-tested noncash transfers from the federal food stamp, school lunch and housing programs are valued at their estimated private market cost and added to the income measure. Medical benefits are not included because there remains substantial disagreement about how to properly measure their value to low income persons. Federal income taxes and the employee share of federal payroll taxes are subtracted. (See U.S. House of Representatives, 1990, pp. 1038–1039 for further detail.)

Because low income persons receive most food and housing benefits and pay relatively few income and payroll taxes, these adjustments lower the poverty rate in each year by between 0.5 and 1.4 percentage points. They do not, however, significantly affect the trend during the Reagan years. the poverty rate still peaked in 1983, then declined slowly. One minor difference is that in 1988 it was slightly greater than in 1980. According to this measure, there were 29.2 million poor persons in 1988, 3.2 million more than in 1980. (Data for 1989 are not yet available.)

*Economic Well-Being During the Reagan Years: The Bottom Line*

A central tenet of Reagan's 1980 campaign was that Americans would be better off economically if they scaled back and reoriented the modern social welfare state, and cut marginal tax rates. Bowing to the ensuing political mandate, Congress launched a great experiment to test this claim by cutting back the expansion of social welfare expenditures and passing major tax cuts. How did it turn out?

Not very well. On the positive side, the standard of living rose. But its growth rate was no faster than during the 1950–1980 period, and persons in families with a single mother and children were, on average, worse off in 1988 than 1980. The gap between the most and least affluent widened substantially. Indeed, the gap widened so much that, even though real median income rose, the average real income of persons in the bottom fifth of the adjusted family income distribution *declined* by about 2% between 1980 and 1988 (U.S. House of Representatives, 1990, p. 1092).

The deterioration in economic well-being among lower income persons was best captured in the poverty statistics. The level of poverty at the end of Reagan's term was identical to its level in 1980. Throughout the Reagan years, poverty affected a larger percentage of Americans than in any year from 1968 to 1979.

If there is a "Big Tradeoff" between equality and efficiency (Okun, 1975), the efficiency oriented policies of the Reagan Administration, pursued at the expense of efforts to directly reduce poverty and income differences, might have been expected to pay off by producing more rapid growth in the standard of living. From this perspective, the record of poverty and inequality in the 1980s may not be surprising. What is surprising is the failure of median adjusted family income to rise faster than during the 1970s, a decade widely perceived as economically stagnant, and one when social welfare spending rose rapidly.

## Did Reagan's Policies Make Poverty and Inequality Worse?

This section presents evidence on the extent to which the changes in poverty and inequality can be attributed to changes in income maintenance and federal tax policy enacted during the Reagan years. The analysis concentrates on these policies because they directly affect the net incomes of many families. Other recent changes in social welfare policy have affected poverty and inequality by altering the distribution of market income. For example, federal policies on financial aid for college students affect attendance choices and, consequently, adult earnings. These more indirect effects are difficult to detect, have received little attention, and so will not be discussed.

### *Accounting for Changes in Poverty Between 1980 and 1988*

Three basic factors drive changes in poverty. Changes in real earnings and other private sources of income (market income) affect "market poverty," the number of persons who are poor if only their before-tax market incomes are counted. Second, because income support programs and taxes alter most families' market incomes, changes in these policies affect the number of poor after transfers and taxes are counted in income, given the level of market poverty. Third are demographic factors. Overall population growth would increase the number of poor even if the rate of market poverty and the impact of transfers and taxes on poverty did not change. Demographic shifts towards groups with higher (lower) than average rates of poverty would tend to increase (decrease) the overall level of poverty, other things equal.

Table 4 shows how much of the 3,184,000 increase in the number of poor persons between 1980 and 1988 can be accounted for by each of these components.[4] The measure of poverty is identical to that in column 2 of Table 3, which includes benefits from food and housing programs in income and subtracts major federal taxes.

A clear story emerges. Gains in market incomes during this period acted to reduce the number of poor by 973,000. The net effect of changes in federal tax policy was to further reduce the number of poor by 450,000 in 1988. The Tax Reform Act of 1986 eliminated income tax liabilities for nearly all poor persons and families and expanded the earned income tax credit. The

Table 4

*Sources of the Increase in the Poverty Population Between 1980 and 1988*

| Change in number of posttransfer, posttax poor due to: | |
|---|---|
| Market income changes | −973,000 |
| Social insurance program changes | 250,000 |
| Means-tested program changes | 1,734,000 |
| Federal tax changes | −450,000 |
| Average population growth | 2,163,000 |
| Demographic shifts and other | 460,000 |
| Total increase | 3,184,000 |

decline in poverty produced by these reforms was partly offset by increases in Social Security taxes.

Cutbacks in social insurance and means-tested transfer programs, in contrast, *raised* the number of poor by 1,984,000. Without this increase, the rate of poverty would have been 0.8 percentage points lower in 1988—below the 1980 value instead of above it. Cutbacks in means-tested benefits were responsible for the bulk of the increase. Controlling for changes in market incomes, government transfers and federal tax policy, simple population growth plus other demographic factors would have added 2,623,000 poor persons.

The cutbacks in welfare programs, especially AFDC and food stamps, were championed by the Reagan Administration as a means to reduce dependency and encourage work. Success in these objectives was minimal, and at the high cost of increasing poverty. The increase was particularly felt among persons in single parent families with children. The cutbacks pushed more than 1.1 million of them below the line and raised their rate of poverty by 3.9 percentage points.

Though federal welfare policy changes under Reagan bear much of the responsibility for helping to increase poverty, the states are also partly responsible. During 1980–1988 most states allowed their AFDC benefits to fall in real terms, thereby further reducing the antipoverty effectiveness of this important element of the safety net.

*Accounting for Changes in Income Inequality*

Gramlich, Kasten and Sammartino (1900) have analyzed the impact of federal taxes and cash transfers on inequality of adjusted family income with person weights during the 1980–1990 period. (This is the same income concept as in column 2 of Table 2.) For 1990, they compare the pretax, pretransfer distribution of income to the posttax, posttransfer distribution to compute the impact of taxes and transfers on inequality. Then, the analysis holds the distribution of pretax, pretransfer income at its 1990 level and adjusts taxes and transfers to what they would have been if 1980 policies had remained in effect, but benefits and taxes had kept pace with the growth of other incomes. This procedure isolates the effects of policy changes from other economic and demographic changes between 1980 and 1990. The impact on inequality is then recomputed. Table 5 displays the key findings using the Gini coefficient, a measure of inequality ranging from 0 to 1, with smaller values indicating less inequality.

Table 5

*Impact of Federal Taxes and Transfers on Income Inequality (Measured by the Gini Coefficient)*

| | Pretax, Pretransfer Incomes | Posttax, Posttransfer Incomes | Decline Due to Transfers and Taxes |
|---|---|---|---|
| 1980 Market Incomes, Transfers and Taxes | .473 | .395 | .078 |
| 1990 Market Incomes, Transfers and Taxes | .523 | .463 | .060 |
| 1990 Market Incomes, 1980 Transfers and Taxes | .523 | .452 | .071 |

Source: Gramlich, Kasten and Sammartino (1990), tables 4, 8.

Comparing rows 2 and 3 shows that inequality of posttax, posttransfer income would be slightly less if the 1980 transfers and taxes had remained in place. The 1980 policies would have reduced the Gini coefficient by. 071; the actual 1990 policies reduce by. 060 or 15% less. Most of this decrease can be traced to a decline in the redistributive impact of federal taxes caused by large reductions in marginal income tax rates for persons with high incomes combined with increased payroll tax rates for low and middle wage earners. Again the message is clear: changes in tax and transfer policy during the Reagan years contributed to the increase in inequality.

On the other hand, these changes have played a relatively small role in the overall increase in inequality since 1980. The observed posttax, posttransfer Gini coefficient rose from .395 to .463, or by .068. With 1980 policies in place, the rise would still have been .057, only 16% less. The surge in inequality since the late 1970s owes far more to broad labor market and other economic factors than to shifts in tax and transfer policy.

*The Policy Verdict*

Did policies enacted during the Reagan Administration make poverty and inequality worse? Yes. Cutbacks in transfer benefits helped increase both poverty and inequality. Changes in federal tax policy helped increase inequality but, on balance, reduced poverty.

At the same time, it would be a serious mistake to attribute the lack of progress against poverty and the increase in inequality entirely to these policy shifts. The extent of poverty and inequality is determined by many social and economic force besides social welfare policy. Beginning in the mid to late 1970s and continuing throughout the 1980s, strong, poorly understood market and demographic forces have been widening income differences in the U.S. and making it harder for families to stay out of poverty. Even if 1980 tax and income transfer policies had remained in place, the 1988 poverty rate based on adjusted income would have been 11.2%, 1.3 percentage points higher than it was in 1979. And the Gini coefficient for income inequality would have been. 057 higher in 1990 than in 1980.

No politically feasible set of transfer and tax reforms could have fully counteracted these market and demographic factors (Gramlich, Kasten and Sammartino, 1990, p. 18). Perhaps the policy response would have partly done so if persons holding traditional views of the welfare state's function had been in control. Instead, the temper of the times and the character of the Reagan Administration produced policy choices which reinforced those factors.

## Implications for Poverty and Inequality in the Future

The rise in inequality is receiving greater public recognition and has emerged as a target for Democratic politicians. These political developments, in concert with continued concern about the deficit, have, as of this writing, thwarted Bush Administration proposals to reduce the capital gains tax, and are creating pressure to modestly raise tax rates on high income persons. The disequalizing effects of the 1980s changes in the income tax, therefore, will probably not continue and may be reversed to a small degree.

Child support obligations will be more widely respected and enforced in the 1990s. This will help reduce poverty and welfare dependence among single parent families. In addition, the work-oriented welfare reforms of 1988 will become more widely implemented in the 1990s and are likely to make a small contribution towards reducing poverty among such families. There also appears to be increasing concern that ghetto poverty (the "underclass") and poverty among children can no longer be neglected. Major initiatives to address these problems have not yet been adopted, but may emerge in the next few years.

In a fiscally conservative climate, it may well be possible to reshape tax and social welfare policies in a manner that reduces the level and growth of spending while preserving or even extending their antipoverty and equalizing impacts. The Reagan Administration and Congress chose not to try. The recent past, however, does not necessarily portend the future. There are grounds for thinking that policy developments in the 1990s will not contribute to greater poverty and inequality, and may even help reduce them. If so, the American welfare state will return to its long-standing function of preserving and enhancing the economic well-being of its inhabitants.

## References

Gramlich, E., Kasten, R., & Sammartino, F. (1990). Growing inequality in the 1990s: The role of federal taxes and transfers. Ann Arbor, MI: University of Michigan.

Karoly L. (1990). The trend in inequality among families, individuals, and workers in the United States: A twenty-five year perspective. The RAND Corporation.

Okun, A. (1975). *Equality and efficiency: The big tradeoff*. Washington DC: The Brookings Institution.

U.S. Bureau of the Census. (1989). *Money income of households, families and persons in the United States, 1987*. Current Population Reports, Series P-60, No. 162. Washington DC: U.S. Government Printing Office.

U.S. Bureau of the Census. (1990a). *Money income and poverty status in the United States: 1989 (Advance data from the March 1990 Current Population Survey*. Current Population Reports, Series P-60, No. 168. Washington DC. U.S. Government Printing Office.

U.S. Bureau of the Census. (1990b). *Statistical abstract of the United States: 1990* (110th edition). Washington DC. U.S. Government Printing Office.

U.S. House of Representatives (1990). *1990 Green book: Background material and data on programs within the jurisdiction of the Committee on Ways and Means*. Washington DC: U.S. Government Printing Office.

Williamson, J. & Lindert, P. (1980). *American inequality: A macroeconomic history*. NY: Academic Press.

## Notes

1. Assessing economic well-being is not the same as assessing economic performance. The latter might consider employment and productivity growth, the unemployment, inflation and exchange rates, and other broad economic indicators. Taking the stance, though, that the main purpose of economic activity is to improve the material well-being of individuals, this article focuses on measures of economic well-being.
2. The disaggregated figures refer to the mean instead of the median. The trends would be nearly identical if medians were used. The discrepancy is because the means are taken from the U.S. House of Representatives (1990, pp. 1092–1093), but the median for all persons was taken from Karoly (1990, table B-1) because this source had a longer record of data on adjusted family income.
3. In 1989 the poverty rates for these groups were: children, 19.6; aged 11.4; blacks, 30.7; Hispanics, 26.2; whites, 10.0 (U.S. Bureau of the Census, 1990a, pp. 57–59).
4. The results in table 4 are derived using the method described in U.S. House of Representatives (1990 pp. 1051–1053). To statistically decompose the change into several components, the analysis treats each change independently. But in reality changes in one component affect the others. For example, transfers and taxes affect work effort, choice of living arrangements and family structure, and hence, the distribution of market incomes. Market income opportunities affect demographic choices and vice versa. Thus, the findings do not necessarily show the correct net effect of each factor in the decomposition. Despite this qualification, the findings are suggestive of the importance of the various factors.