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### What Americans Had: Differences in Standards of Living

EARLIER, LONGER DRAFT OF CHAPTER 6, .....

Americans have long been loath to describe their country in terms of social class. Compared to the British, for example, Americans are far less likely to say that their society is composed of “haves” and “have nots.”<sup>1</sup> In many respects, American culture is exceptionally egalitarian; early foreign visitors remarked on the political equality among Americans – at least, among free, white men – and for generations travelers have noted – occasionally in horror – how little deference “common” people give to their “betters.”<sup>2</sup> But America’s egalitarian style and democratic rights have coexisted with profound economic inequality. Indeed, America in 2000 was the most economically unequal nation in the developed world; it had the widest spread in wealth between haves and have-nots.<sup>3</sup> This economic division not only challenges our self-image – in 2003, three-fifths of Americans thought that “money and wealth should be more evenly distributed” – it has further consequences. Nations and communities with relatively wide disparities in material standards of living tend also to have relatively high rates of social problems, civic alienation and discontent, and low rates of economic growth.<sup>4</sup>

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1. For example, in 1998, Gallup asked national samples of Americans and Britons: “Do you yourself think that [America/Britain] is divided into haves and have-nots, or don’t you?” Twenty-six percent of Americans and 73 percent of Britons said “yes, divided” (Gallup Report #275 [August], p. 8). In early 2003, 41 percent of Americans agreed (Ludwig, “Is America Divided Into Haves and Have Nots?”).

2. We refer to not only the classic “visitors,” such as de Tocqueville and Trollope, but many others as well. For overviews, see, e.g., Woodward. *The Old World’s New World*; Simmons, *Star-Spangled Eden*; and Handlin and Handlin (eds.), *From the Outer World*.

3. The distinctiveness of the United States is well-documented. A recent report is Gottschalk and Smeeding, “Empirical Evidence on Income Inequality in Industrialized Countries.”

4. More evenly: Ludwig, “Is America Divided?” On consequences, see, e.g., Williams and Collins, “US Socioeconomic and Racial Differences in Health;” Hagan and Peterson, *Crime and Inequality*; Harper and Steffensmeier, “The Differing Effects of Economic Inequality and Black and White Rates of Violence;” Muller, “Democracy, Economic Development, and Income Inequality;” Kenworthy, *Egalitarian Capitalism*; Hagerty,

In this chapter, we examine differences in Americans' standards of living in 2000 and how those differences evolved over the twentieth century. We look at annual incomes, financial assets, consumption, and Americans' subjective assessments of their wealth. For income, assets, and consumption, we first contrast the better-off to the less well-off. We then compare the living standards of Americans of different ages, ancestries, educational levels, and locations and how those contrasts changed over the century. We find that Americans became increasingly similar in their living standards through much of the century, but that this trend stalled and then reversed around 1970. Afterwards, Americans became increasingly divided economically and, surveys show, sensed that widening division.

### **Living Standards in 2000**

Rich and poor Americans have little personal contact with one another. British travel writer Jonathan Rabin captured it in his depiction of the “air people” and “street people” of New York City.<sup>5</sup> The air people live high above the street in condominium buildings guarded by doormen and work in offices similarly elevated and guarded. The street people include the homeless but also the hard-pressed; they live in buildings that require them to walk in, walk up, and be wary. They work exposed to the street too, in construction, maintenance, and service jobs. Air people meet street people in the theater district when the well-dressed and well-coiffed exit from shows that they have paid perhaps hundreds of dollars to see and search out the taxis and limousines that will carry them back to their homes in the air. On the sidewalk, they must work their way past panhandlers pleading for the “spare change” they need to afford a bed for the

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“Social Comparisons of Income;” and Fischer et al., *Inequality by Design*. Some of these claims – notably those about the association between inequality in a community and ill health – have stirred methodological debates. Burtless and Jencks, “American Inequality and Its Consequences,” present a more cautious appraisal. A good source on these issues is Neckerman (ed.), *Social Inequality*. The briefest summary of what we know is that inequality surely does no good and probably does some ill to a community and a nation.

5. Rabin, *Hunting Mr. Heartbreak*.

night. These face-to-face encounters of people from the two ends of the income distribution are rare and perhaps melodramatic, but they highlight the reality of differences in living standards across all of America, not only in New York.

Just how different were those living standards in 2000? There are three ways to directly assess living standards: by income, wealth, and consumption.<sup>6</sup> Consider, first, *annual income*: In 2000, households whose incomes put them in the highest income one-fifth of American households averaged about \$140,000 each before taxes; the one-fifth right in the middle averaged \$42,000; and the lowest one-fifth averaged about \$10,000 each. A different calculation reveals that the American household which in 2000 sat at exactly the 80<sup>th</sup> percentile of income had about twice the income of the household right at the 50<sup>th</sup> percentile, and that one, in turn, had about twice the income of the household at exactly the 20<sup>th</sup> percentile of income. (These gaps were, of course, many times wider at the extremes, say the 90<sup>th</sup> versus the 10<sup>th</sup> percentiles.<sup>7</sup>) Are these large or small differences? By international standards, large: The United States in the 1990s had easily the widest income gaps of any advanced Western society.<sup>8</sup>

Inequality of *accumulated net wealth* – households' assets, such as savings, stocks, pensions, and value of homes, minus their debts – was even greater. In 1998, the wealthiest one-

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6. Our income data come largely from the IPUMS (Ruggles, et al., *Integrated Public Use Microdata Series*). Wealth and consumption spending data are largely from the Consumer Expenditure Survey (Harris and John Sabelhaus, Consumer Expenditure Survey Family-Level Extracts). Consumer goods data again come largely from the IPUMS.

7. For example, the household at the 95th percentile had an income in 2000 about 14 times that of the household at the 10th percentile (DeNavas and Cleveland, "Money Income in the United States: 2000").

8. The Luxembourg Income Study regularly tracks and compares income distributions in many nations. In its latest tabulations, the United States was substantially more unequal than other nations. For example, the ratio of the 80th to the 20th percentile in disposable income was, in 1997, 3.0 for the United States, 2.8 for the U.K. (1995), 2.4 for Canada (1997), 2.2 for France, and 2.1 for Germany (1994) (Luxembourg Income Study. 2001. "Income Inequality Measures." <http://lisweb.ceps.lu/keyfigures/ineqtable.htm>, accessed 9 October 2001). Even taking into account differences in living costs, the American variation was greater than that elsewhere. Indeed, while American affluent and middle-class had more buying power than families elsewhere did, American families with below-average incomes had less buying power than comparable families in most other advanced nations (Gottschalk and Smeeding. "Empirical Evidence on Income Inequality in Industrialized Countries;" Smeeding and Rainwater, "Comparing Living Standards Across Nations.") For a general discussion of American inequality in historical and cross-national context, see Fischer et al., *Inequality by Design*.

fifth of families had an average net worth of over \$1.1 million; the middle one-fifth owned, on average, \$61,000 in assets; and the least wealthy *two-fifths* of American families were worth \$1,000. The richest one-fifth owned 83% of all the family wealth in the country (the richest one out of a hundred alone owned 38%), while the poorest two-fifths of families owned 0.2% of the national wealth. And, as with income, wealth inequality was greater in the United States than in Europe.<sup>9</sup> If the dollar value of public services such as health insurance, child care, and higher education were included in a broader calculation of “wealth,” the United States would be even more exceptionally unequal.

Yet another way to think about standard of living is in terms of *consumer goods*. Almost everyone in 2001 owned a storehouse of products: All but a few households had full kitchen facilities and color televisions sets; 91 percent had a car or truck. Other goods appeared more often in affluent than in modest homes, but were still common. For example, 91 percent of households with incomes over \$50,000 had clothes washers, but so did 57 percent of those with incomes under \$15,000; 88 percent of the former had stereo equipment but so did 54 percent of the latter. Wider gaps showed up on other items, such as central air conditioning – 66 percent versus 33 percent – and dishwashers – 77 percent versus 18 percent.<sup>10</sup> Still, for some scholars, the near-universality of basic household goods such as refrigerators, cars, and televisions demonstrates that differences in how well Americans live are not as wide as differences among them in income or wealth.<sup>11</sup>

In the end, people’s material standards of living include, beyond money, wealth, and goods, something about the quality of life, indicated perhaps by longevity, health, and security.

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9. Wolff, “Recent Trends in Wealth Ownership”; Keister and Moller, “Wealth Inequality in the United States;” Spilerman, “Wealth and Stratification Processes.”

10. Numbers drawn and calculated from tables 946 and 947 of the *Statistical Abstract of the United States 2002*.

11. E.g., Cox and Alm, *Myths of Rich and Poor*.

At the end of the century, Americans varied notably in these respects as well. For example, people in households earning under \$10,000 suffered about 28 days per year of disability, compared to 10 for those with \$35,000 or more; and 17% of children were reported to be living in “food insecure” homes.<sup>12</sup> In the late 1990s, 66% of urban Americans with family incomes under \$15,000 reported that there were places in their neighborhoods they were afraid to walk at night, but only 42% of those with incomes over \$60,000 felt that way.<sup>13</sup> And once again, it appears that there is more variation among Americans in quality of life than among citizens of other western nations.<sup>14</sup>

### **Income Differences in the 20<sup>th</sup> Century**

The twentieth century was – with the notable exception of the 1930s – one of prodigious economic advancement. While working fewer hours, Americans easily quadrupled their real earnings.<sup>15</sup> But the pace of improvement varied for different groups of Americans. There were periods when the have-nots quickly closed the gap with the haves and periods when they fell further behind. The historical record on income variations in the twentieth century is patchy up to about 1960 – there is some evidence on wages, some on total household income, some on capital gains, some on taxes paid – and its interpretation debated. Nonetheless, the general trend is clear. Grossly summarized, the variation in family income narrowed through the first two-thirds of the

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12. Numbers drawn from tables 177, 211, and 233 of the *Statistical Abstract of the United States 2000*, which notes that “Food secure means that a household had access at all times to enough food for an active healthy life, with no need for recourse to emergency food sources or other extraordinary coping behaviors to meet their basic food needs.”

13. Calculated from the General Social Survey “Fear” item for 1998 and 2000. This comparison includes only respondents living in metropolitan areas. Overall, the percentages are 49% and 30%.

14. E.g., the *World Health Report 2000* calculated an index of “equality of child survival” based on local-area variability. The United States ranked 32nd in the world. See also literature on health inequality cited earlier.

15. Lebergott, *The Americans*, and Cox and Alm, “Time Well Spent,” provide overviews.

century; differences closed sharply around World War I, around World War II, and then closed slowly for a decade or so afterwards. (Major wars tend to contract incomes because they typically lead to wage controls, higher taxes, and concessions to organized labor. Other political events, such as programs for income security or health services, also shape these differences.) The net result was notably narrower ranges in income and wealth among Americans in the 1960s than in the 1900s.<sup>16</sup> In the last third of the century, however, those gaps clearly widened. The rough trend is illustrated in Figure 1, which displays what proportion of all the income Americans gained in a year that went to the lowest-earning 40 percent of American households, the next 40 percent of households, and the highest-earning 20 percent.<sup>17</sup> We can see how, until the 1970s, the highest earners yielded a substantial portion of national income to the 40 percent below them and a much smaller chunk to the bottom 40 percent. Then, the trends reversed so that the distributions returned to roughly the 1940 level. Why inequality widened since 1970 and to what effect has been fiercely argued. We will turn to a few of these debates after looking more closely at the trends of the last half-century.

– figure 1 about here –

*Family and Individual Incomes 1950 to 2000.* We start with the total income provided by all the related members living in a household.<sup>18</sup> (In Chapter X, we describe the trends in individuals' job earnings.) We use incomes before taxes, so the patterns reflect neither the tax breaks that the wealthy received in the 1980s nor the tax credits the poor got through the earned

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16. Key references include Williamson and Lindert, *American Inequality*; Soltow, "Wealth and Income Distribution;" Lebergott, *The American Economy*; Piketty and Saez, "Income Inequality in the United States, 1913-1998;" Goldin and Katz, "Decreasing (and Then Increasing) Inequality in America;" Plotnick et al., "The Twentieth-Century Record of Inequality and Poverty in the United States."

17. The pre-1970 numbers are estimates provided by Lebergott, in *The Americans*, p. 498; the rest are from Census Bureau Historical Income Table H-2 (on-line). The percentage gained by the top *five* percent ranged a high of 36% in 1900 to a low of 16% in 1980 and up to 22% in 2000.

18. We exclude those living in group quarters and unrelated individuals sharing a household with a family. For a household of only non-relatives, the head is included as a resident of a one-person household.

income tax credit in 1996. Then, we take inflation into account by correcting for the cost of living in each year, so that all the numbers are in 1999 dollars. Because we are interested in people's standards of living, we also adjust the income figures for the size of the family. Since at least the popularity of the book *Cheaper by the Dozen* (1948; not to be confused with a later movie of the same name), we've known that the financial demands on families do not increase steadily as the size of the family increases; two children are not twice as expensive as one child. A common way to measure income as a family's standard of living is to divide dollars by the square root of the number of household members.<sup>19</sup> The result, the *adjusted family (or individual) income*, is a number for each American representing the living-standard value of his or her family's annual income. It can also be interpreted as the *adjusted per-person income* or what some economists call *equivalent personal income*. There is one more technical issue before we look at the trends: arithmetic comparisons versus ratio comparisons.

The simplest way to compare any two numbers is to subtract one from another. In 1999, the adjusted family income for the household at the 80<sup>th</sup> percentile was about \$47,600 and for the 20<sup>th</sup> percentile household \$12,700, an arithmetic difference of about \$35,000. But the consensus among economists is that the appropriate comparison is to calculate the difference as a ratio: the 80<sup>th</sup> percentile had  $47,600/12,700 = 3.7$  times the income of the 20<sup>th</sup> percentile. Although the issues are complex, the basic logic is that the subjective value that someone gets by going from \$0 to \$1,000 is greater than that of going from \$1,000 to \$2,000 and that, in turn, greater than the next \$1,000, and so forth. (Appendix A to this chapter discusses the issue in more depth.) Where this choice makes a substantive difference in interpretation, we will point it out.

Now, we turn to the data. Figures 2A and 2B show what happened in the last half of the

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19. See Atkinson et al., *Income Distributions*; Smeeding, "Changing Income Inequality." Although our adjustments are far less complex than those other scholars make (note especially, Slesnick, *Consumption and Social Welfare*), they do take into account the basic reality that needs increase with number, but at a negatively accelerating rate. And, since family size is highly associated with stage in the life-cycle (Slesnick, p. 148), this adjustment captures much of the life-cycle variation as well. This allows us to roughly hold constant changes in the demographic profile of the American population.

twentieth century. Panel A displays how that the adjusted family income changed for the median American – that is, the American at the 50th percentile (the heavy, middle line) – and how it has changed for the relatively affluent, the American at the 80th percentile (top line), and the relatively moneyless, the American at the 20th percentile of adjusted family income (bottom line).<sup>20</sup> The median American’s adjusted family income grew rapidly from 1950 to 1980, but did not grow much afterwards. And, the gaps among the three levels of income seem, by visual inspection, to have widened. Panel B reinforces that impression by displaying the 80/20 ratio for each year. In 1949, an American at the 80th percentile received \$4.00 for every dollar that the 20th-percentile American received in adjusted family income; in 1969, the ratio had dropped to almost \$3.13 on the dollar; and in 1999, it was back up to almost \$3.75 on the dollar.

Proportionally, then, the difference between the affluent and the near-poor narrowed for 20 or 25 years after mid-century, and did so because the latter’s incomes grew proportionally faster than affluent Americans’ incomes. From the mid-1970s onward, the two groups diverged as most Americans fell further behind the affluent. Why family incomes diverged in the last quarter-century is a matter of heated debate in the academic journals and even in the general press. Some point to the influx of poor immigrants, but the reversal occurred even among native-born Americans.<sup>21</sup> Most of the answer lies in the patterns of men’s earnings: in the later decades, high-earning males substantially extended their advantage over low-earning ones. We leave

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20. Many analyses of inequality look at the 90th versus 10th percentile comparisons. We use 80/20 for a couple of reasons. One is that Jon Stiles (of our project) found inconsistencies between Census and Current Population Survey data at the low end, originating in the fact that the CPS found proportionally more respondents at the very low income levels. Also, the 80/20 is consistent with our other analyses in this book.

21. To 1970, there was little difference between native-born and foreign-born in median adjusted family incomes or in the 80/20 ratios for each group. (For children, native- or foreign-born refers to the nativity of the head of household.) Starting in 1970, probably as a result of heavy Latin immigration, foreign-born income falls behind. Among the native-born alone, the 80/20 ratio actually starts rising earlier, in the 1960s.

	1949	1959	1969	1979	1989	1999
<i>Median Adjusted Family Income</i>						
Among the Native-Born.....	\$ 9,600	14,700	20,400	24,200	25,600	27,000
Among the Foreign Born.....	\$10,600	15,500	19,300	20,300	21,500	22,100
<i>Ratio of 80th to 20th Percentile Adjusted Family Income</i>						
Among the Native-Born.....	3.88	3.40	3.64	3.82	4.26	4.24
Among the Foreign-Born.....	3.97	3.30	3.11	3.26	3.56	3.68



discussion of that process to Chapter X. Beyond earnings, changes in family structure and living arrangements compounded wage trends. More women went farther in school, married men who also were well-educated, and took well-paying jobs. Two-career couples moved farther ahead of couples in which the woman was a homemaker or worked part-time and ahead of single individuals. Also, wealthy families rode the stock market upward in the 1990s, earning investment income.<sup>22</sup>

Whatever the explanations for what has been labeled the “U-turn” of Figure 2B, it is clear that Americans at the end of the twentieth century were more divided by income than they had been for a generation and also that this increasing divergence reversed at least two prior generations’ worth of convergence. (The same is true, we will see later, with regard to family wealth.) But not all kinds of Americans were equally affected by this increasing variation in incomes; the most dramatic exception is the elderly.

Thanks largely to Social Security and Medicare, income differences among the elderly dropped from an 80/20 ratio of \$8.70 to the dollar in 1949 down to a ratio of 4.64:1 in 1969 and continued to drop slightly afterwards. In contrast, younger Americans, notably those in families with children, experienced the sharpest “U-turn”; income differences narrowed before 1970 but sharply widened after 1970 as low- and modest-income young families fell further behind high-income young ones. The 80/20 ratio for children rose from 2.9:1 in 1969 to 3.9:1 in 1999, a substantial increase in inequality for child-rearing families.<sup>23</sup>

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22. See, for example, Lichter, “Poverty and Inequality Among Children.” Campbell and Allen, “Identifying Shifts in Policy Regimes;” Kenworthy, “Do Social-Welfare Policies Reduce Poverty?;” Chevan and Stokes. “Growth in Family Income Inequality;” Karoly and Burtless. “Demographic Change, Risings Earnings Inequality.”

23. This table contrasts the trends in income inequality of the elderly and of children:

	1949	1959	1969	1979	1989	1999
<i>Ratio of 80th to 20th Percentile Adjusted Family Income</i>						
Among the Elderly.....	8.69	4.86	4.64	3.62	3.83	3.68
Among Children 0-17.....	3.63	3.04	2.88	3.29	3.84	3.93

Some economists and policy makers have criticized the formula used to adjust seniors’ social security checks for inflation – saying that the formula exaggerates inflation’s effects and thus raises their incomes too rapidly. Our inflation adjustor is the “research series;” if the Social Security Administration used it instead of the formula they do, Social Security benefits would not have risen as fast and inequality among seniors might have increased

*Differences Between Groups.* We have described the narrowing and widening of income differences between those of high income and those of low income over the twentieth century. Now we turn to income differences between other categories of Americans, categories defined by traits such as education, race, and region. The concern addressed here is whether these divisions among Americans have been increasingly or decreasingly accentuated by differences in income. Has, for example, the income gap between blacks and whites widened or narrowed?

We start with education. Distinctions by education are important, because scholars believe that educational attainments increasingly determine people's incomes and this emerging economic reality lies behind the recent growth in inequality (see Chapter X).<sup>24</sup> Figure 3 shows the median adjusted family income for Americans by their level of education (or, for children, by the education of the head of their household). The figure shows dramatic changes, especially since 1980, as college graduates did increasingly well and those with less than a B.A. stagnated or fell behind. From 1950 to 1980, the median person in all three groups with less than a college degree stayed about a constant distance behind the median college graduate. Prior to 1970, college graduates took home \$1.30 for every dollar that went to those with some college, about \$1.50 for every dollar of high school graduates' income, and about \$2.05 for every dollar of high school dropouts' income. After 1980, all three of the less-educated groups fell significantly further behind the college graduates. By the end of the century college graduates took home roughly \$1.50, \$1.90, and \$2.95 compared to a dollar for Americans with some college, just a high school

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during the years of greatest inflation (1974-75 and 1977-81.)

24. So, for example, Bruan, "Multiple Measures," reports that variation in states' levels of educational accomplishment is the strongest predictor of variation among states in income.

degree, and high school dropouts respectively.<sup>25</sup> (One characteristic of the poorly-educated needs to be kept in mind: Over the period, an increasingly high proportion of poorly-educated men had been in jail, making their chances of well-paid employment quite slim.<sup>26</sup>)

-- Figure 3 about here --

We see that after 1980, college graduates opened up a yawning financial gap between themselves and other Americans. But that is not the whole story. Even among Americans of the same educational attainment, say, within the group of college graduates, the difference low- and high-income households, between the 20th percentile and the 80th percentile, broadened after 1970.<sup>27</sup> The reasons probably lie in the details of occupational attainment – for example, the increasing value of advanced degrees (see Chapter X) – and other changes, such as the increasing tendency of couples with similar educational attainment to marry one another.<sup>28</sup>

As income differences between less- and more-educated Americans have widened since 1950, income differences between other groups have narrowed. Figure 4 shows what happened to the incomes of whites and blacks. Although, arithmetically, the median white’s advantage over the median African American grew – that is, the difference between the adjusted family income of the median white and the median black grew from around \$6,000 to about \$10,500 – proportionally the racial disparity shrunk considerably. In 1950, the median European American

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25. The specific figures for the ratio of the median college-graduate’s adjusted family income to the median of each other educational group are:

	1949	1959	1969	1979	1989	1999
<i>Ratio of Median Coll. Grad. to...</i>						
Less than H.S. Graduation.....	2.12	1.96	2.04	2.11	2.78	2.95
High School Graduate.....	1.43	1.45	1.50	1.43	1.75	1.89
Some College.....	1.25	1.25	1.30	1.28	1.43	1.51

26. By one estimate, in 1999, about 15% of white men aged 30 to 34 who had dropped out of high school had ever been imprisoned, and about 60 percent of similar black men had. Their chances of quality jobs, especially the black men’s, were slim. See Western and Petit, “Beyond Crime and Punishment.”

27. Among college graduates, the 80/20 ratio increased from 2.47 in 1970 to 2.98 in 1999. Similar substantial increases occurred within other educational groups.

28. E.g., Matthijs. "Intermarriage and Homogamy.”

had an adjusted family income of 2.41:1 that of the median African American; by 2000, the ratio was 1.58:1.<sup>29</sup> In particular, lower-income blacks cut the difference between themselves and lower-income whites. Over the half-century, low-income blacks made the most rapid advance between the two major racial groups, coming closest to closing the gap with low-income whites.<sup>30</sup> (Hispanics, however, fell farther behind whites, consistent with the fact that the foreign-born fell increasingly behind the native-born.<sup>31</sup>)

– figure 4 about here –

Southerners rapidly caught up with Americans from other regions between 1950 and 1980. In 1950, non-Southerners received about \$1.70 for each dollar Southerners received; by 1980, the gap shrank to about \$1.15. (Even as an arithmetic difference, the gap had narrowed.<sup>32</sup>)

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29. The ratio of median adjusted family income of whites to that of blacks and others was:

	1949	1959	1969	1979	1989	1999
<i>Ratio of European-American to...</i>						
African American.....	2.38	2.17	1.85	1.72	1.67	1.58
Other.....	1.96	1.30	1.16	1.14	1.08	1.12

“Others” gained even more ground, as their disparity relative to whites fell from \$1.96 in 1949 to \$1.12 in 1999, but that change is hard to interpret, given that who the “others” were changed after 1965, especially with a strong influx of middle-class families from Asia.

30. Between 1949 and 1999, the adjusted family income of the 20th percentile black increased 480%; the incomes of average and wealthy blacks about 415%. All levels of whites increased about 290%.

31. The conclusion about Hispanics is not based on the adjusted data but on median family incomes collected by the Current Population Survey and reported by Bureau of the Census (*Statistical Abstract 2000*, table 743.) Between 1972 and 1999, the median non-Hispanic white family’s inflation-adjusted income rose 23 percent, while that of the Hispanic family rose 3 percent, with a rise in the advantage of non-Hispanics over Hispanics from \$1.40 to \$1.70. Adjusting for family size might mute this widening gap some, but not enough to negate the point. As to the foreign-born: In 1949, the median native-born American’s adjusted family income was 90 cents per dollar of the foreign-born’s (who was likely be an older European-American immigrant); by 1990, the median native-born’s income was \$1.20 to that of the (now increasingly likely to be Latin or Asian) foreign-born’s dollar.

32. In 1949, the median Southerner received \$4400 less than others (than the average of the medians of the other regions); in 1979, it was \$3600; and in 1999, it was \$3400.

Then, after 1980, there was little net change in the relative position of Southerners.<sup>33</sup> Looking at the variation in incomes *within* regions yields a dramatic contrast: Between 1950 and 1970, both low- and moderate-income Southerners made unusually strong gains on high-income Southerners. Indeed, most of the convergence between lower- and higher-income Americans in the immediate post-war era was due to rapid advances by Southerners of modest income.<sup>34</sup>

Similarly, rural Americans improved their relative standing to city-dwellers, especially during the first thirty years after the war. In 1950, the median city resident had an adjusted family income of \$1.58 to the dollar of the median American living outside metropolitan areas; in 2000, the number was \$1.11. Outstripping both groups, however, were the suburban residents. In 1950, there was little difference between metropolitan Americans who lived inside or outside the center cities; the suburban/city ratio was 1.03; by 2000, it was 1.50. (The suburban-nonmetropolitan gap shrank from 1950 to 1980, but then widened back to its original width.) In other words, in 1950, Americans living in metropolitan areas, be it in the center or on the outskirts, made about the same amount of income, and considerably more than non-metropolitan Americans; by 2000, non-metropolitan residents had caught up with center-city residents, but both were considerably

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33. In 1999, the median Northeasterner earned \$1.20 on the Southerner's dollar. The West fell notably behind the Northeast and Midwest after 1980, most likely in connection to the inflow of low-income immigrants. The median incomes are below:

	<u>1949</u>	<u>1959</u>	<u>1969</u>	<u>1979</u>	<u>1989</u>	<u>1999</u>
<i>Median Adjusted Family Income</i>						
Northeast.....	\$11,100	\$16,600	\$22,300	\$24,800	\$29,700	\$28,000
Midwest.....	\$10,600	\$15,400	\$21,200	\$25,200	\$25,600	\$27,000
South.....	\$ 6,600	\$11,200	\$17,000	\$21,400	\$23,100	\$23,400
West.....	\$11,400	\$16,600	\$21,700	\$25,000	\$26,600	\$25,000

34. Another way to view this change is this: Between 1949 and 1969, the 20th, 50th, and 80th percentile in each region all roughly doubled their adjusted family income, except in the South. There, the 50th percentile increased 2.5 times and the 20th percentile increased 3.3 times.

behind suburbanites.<sup>35</sup>

These geographical developments are best explained by the migration of both people and business. Much of American industry in the northern cities closed down or left town; some companies and much financial investment moved to the South and to smaller areas, bringing good jobs into agricultural regions. In the same era, especially before 1970, Americans with relatively few skills marketable in a modernizing economy left the rural south for the center cities of the North. And well-off Americans in the center cities moved – or their well-educated children moved – from the cities to the suburbs.<sup>36</sup> (This geography is discussed in more detail in Chapter X.)

*Conclusion.* Through most of the twentieth century, the income gap between those with less and those with more was closing, as was the income gap between blacks and whites, southerners and northerners, and rural and urban Americans. In the last three decades or so, however, differences widened between very well-off and less well-off Americans. Critically, income differences by educational accomplishment grew substantially. The increasing importance of a college degree for garnering high-paying jobs probably explains much of the widening spread in American workers’ earnings (Chapter X). Other developments, such as more single-parent families, more two-career couples, increased immigration, and a lagging minimum wage, also contributed to growing income inequality.<sup>37</sup> The lines that divided the well-to-do and

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35. Analysis of non-metropolitan, center-city, and suburban differences is complicated by missing data for many cases after 1980 (because of census confidentiality rules). Nevertheless, the general trends are strong enough to be reliable. The figures are:

	1949	1959	1969	1979	1989	1999
<i>Median Adjusted Family Income</i>						
non-metropolitan	\$ 7,613	\$12,255	\$17,125	\$19,900	\$20,153	\$20,860
metropolitan center city	12,061	15,948	20,182	22,111	22,979	23,148
metro. outside center city	12,382	17,807	23,996	27,251	31,726	34,641

36. See Kim, “Economic Integration and Convergence: U.S. Regions, 1840-1987,” plus subsequent discussion in *Journal of Economic History* 59(3), 1999, pp. 773-88.

37. For general discussion, see, e.g., Karoly and Burtless, “Demographic Change, Risings Earnings Inequality;” Danzinger and Gottschalk, *America Unequal and Uneven Tides*; Hout, Arum, and Voss, “The Political Economy of Inequality in the Age of Extremes.”

those of modest income shifted: By 2000 black versus white, South versus North, rural versus urban, and also older versus younger adult<sup>38</sup> all mattered less in determining income than they had earlier in the century, while suburban versus city and, especially, education mattered considerably more.

### Wealth

Wealth, although tied closely to income, is a different, deeper dimension of people's standards of living. Many Americans with a low annual income have considerable wealth – for example, retirees with homes, pensions, and stocks – and many Americans with a high annual income have little wealth – for example, self-employed professionals or entrepreneurs who are having a good year but are carrying large debts.<sup>39</sup> Differences among Americans in wealth do not simply mirror differences in income. Furthermore, variations in wealth have their own consequences.

A person's wealth, or "net worth," is composed of his or her assets – a home, savings accounts, stock portfolios, bonds, insurance, and similar possessions that can be cashed out – minus their debts, such as mortgages and consumer loans. Researchers differ about whether to include *potential* assets, such as future social security and pension pay-outs, and personal possessions such as appliances and furniture. Edward Wolff, a leading scholar, focuses only on those assets that can be easily converted to money at close to their real value to the owner.<sup>40</sup> We follow his lead. Also, some items which compose wealth, such as houses and cars, play a double

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38. In 1949, Americans 30-to-44-years old made \$1.82 for each dollar made by those 65 years old. In 1999, the disparity was down to 1.30:1.

39. Keister, *Wealth in America*, reports a correlation of .25 between wealth and income when income from investments is excluded.

40. Wolff, "Recent Trends in Wealth Ownership, 1983-1998." See also Davies and Shorrocks, "The Distribution of Wealth."

role: people both “consume” them and hold them for possible cash or collateral value. In the next section, we will look at consumer goods; here, our focus is on the liquid or potentially liquid assets people hold.

Such liquid assets are important above and beyond than annual incomes. Most of the critical moments in people’s lives depend on their assets or their parents’ assets, more than on their annual incomes: going to college or to post-graduate studies, paying for life ceremonies such as weddings and funerals, buying a house, living decently during the lean early years of a career, coping with periods of unemployment, covering medical emergencies, launching children onto their own career paths, and retirement. Also, people’s sense of financial security probably rests at least as much on their assets as on their pay checks. Looking at wealth can tell a different story about the diversity of living standards in America than does looking at income. For example, we saw that blacks made great progress in catching up to whites in annual income, but there remains a much larger racial divide in terms of wealth. In the mid-1990s, the median white received \$1.60 in adjusted family income for every dollar the median black received, but the median white family had \$8.30 of net worth for every dollar the median black family had in net worth. (Taking homes out of the equation yields a white:black, the ratio of 33:1.) If it were not for the fact that data on people’s wealth are much harder to obtain than are data on income – the latter are included in almost every government and private poll, the former only in occasional and difficult surveys – social scientists would probably have studied wealth much more. Researchers are largely constrained to a relatively few recent data sets.<sup>41</sup>

Differences between rich and poor are also much greater in wealth than in income. As we saw, in 2000, the American at the 80th percentile of income had an adjusted family income of \$3.75 to the dollar of the American at the 20th percentile. But the American household at the

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41. On the importance of wealth compared to income, see, e.g., Conley, *Being Black, Living in the Red*. Estimate of black net worth: Wolff, “Racial Wealth Disparities,” table 7. See also Keister, *Wealth in America*; and Spilerman, “Wealth and Stratification Processes.



80th percentile of wealth had effectively an *infinite* net worth relative to that of the 20th percentile household, because the least wealthy one-fifth of Americans had fewer assets than debts -- that is, one would have to divide by zero or a negative number to estimate the difference. Even compared to the *median* family, the 80th percentile's wealth advantage stands out; the household at the 80<sup>th</sup> percentile had \$6.70 on the 50<sup>th</sup> percentile's \$1 of wealth (compared to an annual income ratio of \$1.80 to \$1).<sup>42</sup>

The major reason that differences in wealth are several times wider than income differences is that income differences can accumulate year after year as high-earning families put savings into assets that both earn money and appreciate over time, while low-earning families make so little that their debts compound over time. High interest rates typically amplify financial assets while inflation wears away the buying power of wages. Gifts and bequests from parents to children allow this process of compound growth to stretch over generations, not just over one lifetime. By one informed estimate, about 40 percent of wealth accumulation is the result of inheritances or inter-vivos gifts.<sup>43</sup> Wealthy parents also help their children in other ways up the ladder to affluence, such as buying them a good education and providing a security net for risky business or career ventures they undertake. Beyond these major components, families' decisions about how to save and invest, their financial skills, the number of earners they have, how long those earners have worked, and other personal traits contribute to variations in wealth – as well,

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42. Wolff, "Recent Trends," notes that in 1998, 18% of households had zero or negative net worth. The 80/50 ratio is interpolated from his table 2. Another way to assess the difference is to ask what proportion of all the national income or wealth is held by what proportion of the population. In 1998, the top 20% of American households took in 56% of the national income, but held 83% of the nation's wealth. (The top 5% of American households received 31% of all the income, but held 59% of all the wealth.)

43. Forty percent: Davies and Shorroks, "The Distribution of Wealth." Keister's analysis of the determinants of net assets among Americans in their 30s, "Family Background and the Racial Wealth Gap," shows that, holding constant all sorts of personal and family characteristics, parents' incomes and receiving an inheritance significantly increased respondents' wealth. Conley, "Capital for College," shows that parental assets, net of their income and other factors, improved their children's chances of attending and graduating college. See, also, Keister, *Wealth in America*. Note: Wolff, "Inheritance and Wealth Inequality, 1989-1998," found that bequests and gifts *reduced* inequality in his data, because what low-income people received was *proportionately* greater relative to their current wealth than was true of wealthier recipients. Wolff, however, qualifies this finding methodologically in various ways and points out that, given poorer persons' lower savings rates, their inheritances were less likely to promote future wealth.

certainly, as good or bad luck.<sup>44</sup>

*Wealth at the End of the Century.* In 1998, the median American household was worth \$61,000; without the equity of its home, the median household was worth \$18,000. But the median, as we just noted, hides tremendous variation. (We use 1998 Consumer Expenditure Survey data because it is the last data set in the century we could use.<sup>45</sup>) At the top, American households ranking between the 80<sup>th</sup> and 90<sup>th</sup> percentiles were worth an average of over \$340,000, those in the top *one* percent, over \$10 million. At the lower end, 18 percent of American households had zero net worth or were in the red (and setting aside equity in houses, 26 percent were at or below zero).<sup>46</sup>

The average American's wealth is largely tied up in his or her house, which in 1998, had a equity value, adjusted for family size, of about \$62,000. But there was quite a range of values. At the bottom were the roughly one-third of Americans who were not homeowners and therefore had no home equity. Near the top, at the 80<sup>th</sup> percentile, Americans had houses worth about \$315,000. The household at the 80<sup>th</sup> percentile of the home equity distribution had \$2.27 for every dollar of the *median* household and infinite, of course, compared to the equity-less 20<sup>th</sup> percentile.<sup>47</sup> The differences in *liquid* wealth were simply vast. The 20<sup>th</sup>-percentile saver in the United States in 1998 lived in a household with nothing in *savings* accounts; the average person

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44. For a review of factors that influence wealth accumulation – in the context of the black-white gap – see Scholz and Levine, “U.S. Black-White Wealth Inequality.”

45. For analysis of the Consumer Expenditure Survey, we draw on the Bureau of Labor Statistics data sets prepared by the National Bureau of Economic Research. The last one available was for 1998. The Consumer Expenditure Survey is a study conducted by the U.S. Bureau of Labor Statistics which asks respondents (about 5,000 each administration before 1999) to provide detailed information on their assets and their spending, using both detailed interviews and diaries as procedures (see <http://www.bls.gov/cex/home.htm>). The version of the data we used is drawn from extracts of the survey developed by the Congressional Budget Office and available from the National Bureau of Economic Research (Harris and Sabelhaus, Consumer Expenditure Survey Family-Level Extracts). Although the CES began in 1980, we start with 1984 in part because that is when the sample became national rather than urban only and in part because other procedural changes made pre-1984 data hard to compare with later data.

46. Wolff, “Recent Trends,” tables 1 and 3.

47. The income figures here are slightly different than those discussed in the previous section, because they come from the CES survey.

had savings, adjusted for family size, of \$7.34; and the 80<sup>th</sup>-percentile saver had an account with \$2,075. For funds in *checking* accounts, the family size-adjusted amounts were \$0, \$147, and \$1,038 for the 20<sup>th</sup>, median, and 80<sup>th</sup> respectively. And the gaps in *stock and bond* assets were even greater than these, because most Americans had none.

*Family Wealth 1900 to 2000.* Economic historians have creatively unearthed various sorts of evidence to track the distribution of wealth in earlier periods, including estate tax returns and wills. Most of this evidence records only the assets of considerable value, such as houses, works of art, and farmland. It is therefore easier to track the assets the richest Americans held than the assets (or debts) of most Americans. Nonetheless, researchers agree that the concentration of wealth declined during the middle of the century, dropping most sharply during wars and during the New Deal era and continuing into the 1960s and perhaps 1970s.<sup>48</sup> Then, as with annual income, wealth differences widened in the last two or three decades of the century, primarily because stock values and capital gains from selling stocks soared to the profit of the wealthy. At the other end of the scale, more Americans ran up larger debts in those same years as governments deregulated the home loan and credit card industries. The variations among Americans in wealth widened so much that, by one estimate, it was as gaping in 1990 as it had been in 1774, on the eve of the American Revolution.<sup>49</sup>

The wealth difference between black and white Americans has been of particular interest. Although that difference was notably wide in 2000, it actually narrowed during the century, particularly from 1960 to 1980. Racial differences in rates of home ownership, the major part of most families' wealth, shrunk as black male heads of households caught up some with whites.

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48. See Shammass, "A New Look at Long-Term Trends in Wealth Inequality;" Soltow, "Wealth and Income Distribution;" Picketty and Saez, "Income Inequality;" Spilerman, "Wealth and Stratification Processes;" and Lindert, "Three Centuries of Inequality"; Keister, *Wealth in America: Trends in Wealth Inequality*.

49. Keister, *Wealth in America*; Spilerman, "Wealth and Stratification Processes;" Smith, "Why is Wealth Inequality Rising?;" Wolff, "Recent Trends." On debt, see especially, Sullivan et al., *The Fragile Middle Class*. 1774: Shammass, "A New Look."

They were behind in ownership rates, by 27 points (39 to 66 percent) in 1960, but by only 20 points (52 to 72 percent) in 1980. The value of the blacks' homes rose faster than the values of white homes.<sup>50</sup>

While home ownership can be traced over several decades, the details of other wealth are harder to track. We can look briefly at a few categories of assets, drawing from the Consumer Expenditure Surveys for 1984 through 1998. (Data collected before 1984 are not comparable.) All numbers are adjusted for family size as well as inflation. Take saving accounts: Americans' savings dropped sharply in this period, from a median of about \$140 to one of about \$5. One reason seems to have been that people shifted their savings strategies to housing and to stocks and bonds. Inequality in savings grew. In 1984, households at the 80<sup>th</sup> percentile of saving banked \$106 for every \$1 that the *median* household banked; by 1987, the ratio was 283:1, as average savers' accounts plunged to nearly zero. (Twentieth-percentile savers were at zero throughout.) Median checking accounts stayed level between 1984 and 1998, at about \$150. But, wealthier Americans' checking accounts grew. In the mid-1980s, the 80<sup>th</sup>-to-median ratio was about 6.4:1; in the late 1990s, it was about 7.7:1. (Again, the 20<sup>th</sup> percentile had zero.) The big category for inequality is stocks and bonds. Between 1984 and 1998, both the 20<sup>th</sup>-percentile American and the median American had *no* stock and bond assets. The American at the 80<sup>th</sup> percentile of stock and bond ownership, however, saw the value of his or her portfolio increase dramatically, from \$80 to \$870. The wealthy gained so much on the stock market that they allowed their savings accounts to shrink substantially.<sup>51</sup> We now know that some of this paper wealth disappeared in the bear market of 2002, but the gain was sufficient to widen the wealth

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50. See Collins and Margo, "Race and Home Ownership, 1900 to 1990" (the independent effect of race dropped from 15 to 9 percentage points); Wolff, "Racial Disparities"; Scholz and Levine, "U.S. Black-White Wealth Inequality."

51. Between 1980 and 1998, the real value of the 80<sup>th</sup> percentile's savings dropped by about half. Smith, "Why is Wealth Inequality Rising?," estimates that each additional dollar in capital gains led Americans to reduce savings by 18¢.

gap nonetheless. The volatility of stocks and bonds explains much of the widening divisions among Americans in wealth, but the divergence in fortunes included other assets, as well, even housing values. The asset-friendly tax cuts of the 1980s, the increase in consumer debt we mentioned earlier, and perhaps the growing number of single-parent households also help explaining that era's widening wealth gap between rich and average Americans.<sup>52</sup>

Wealth difference between demographic groups also widened in the last couple of decades of the century. The closing of the black-white gap in home ownership we noted earlier stalled. In 1980, 70 percent of whites lived in owner-occupied homes versus 49 percent of blacks; in 2000, 74 percent of whites were owners, but the proportion of blacks who were had slipped slightly to 48 percent.<sup>53</sup> The median value of white owners' homes (adjusted for inflation and family size) rose from a ratio of under 1.5 to 1 of the median black's value in the mid-1980s to over 1.5:1 in the late 1990s.<sup>54</sup> In both decades, the median black American had no savings, checking, or stock assets. Differences among age groups also widened: Both the housing equities and the savings of the median American over 44 pulled away from those of younger adults.<sup>55</sup> Americans who came of age in the 1980s and '90s fell financially behind the positions that their older siblings and their parents had at the same stage of life.<sup>56</sup> This misfortune is all the more

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52. See, e.g., Smith, "Why is Wealth Inequality Rising?"; Wolff, "Recent Trends in Wealth Ownership, 1983-1998;" Keister and Moller, "Wealth Inequality in the United States." Some analysts note changes in family size, but our estimates control for that.

53. U.S. Bureau of the Census, "Supplemental Survey Data Report," 2002. These numbers are a bit different than earlier ones reported, because those referred to households headed by blacks. See, also, Denton, "Housing as a Means."

54. Calculated from the CES (three-year moving averages).

55. For example, in the mid-1980s, the house of the median American 65 years old or over was worth about \$1.10 to the dollar house value of the median American aged 30-to-44; in the late 1990s, that had risen to nearly \$1.15. For savings, checking, and stocks, the holdings of the elderly are too marginal and fluctuate too much from year to year for similar calculations. But we can compare the savings of 30-to-44-year-olds with those of 45-to-64-year-olds. In the mid-1980s, the median 45-to-64-year-old had \$0.95 in savings compared to the median 30-to-44-year-old, but by the late 1990s, that was up to about \$1.50. In checking accounts, however, the 30-to-44-year-olds gained by a couple of cents relative to the 45-to-64-year-olds. Generally, the older drew further away from the younger. (Source: CES, three-year moving averages.)

56. E.g., Levy, *Dollars and Dreams*; Duncan and Smith, "The Rising Affluence of the Elderly."

striking given that the younger generation had more schooling than their elders and for that reason alone – wealth differences by education widened in the 1980s and ‘90s<sup>57</sup> – they should have gotten richer faster than their elders.

In sum, wealth differences among Americans narrowed considerably through most of the twentieth century; that trend stalled and then reversed in the last decades. Then, the wealthier became yet wealthier compared to those of modest means and gaps opened further between black and white, old and young, and especially between different educational groups. Some of this divergence can be attributed to the 1990s stock market boom, but the breadth of the development – from house values to the amounts in people’s checking accounts – point to other sources, too, such as the widening inequality in incomes, the rise in consumer debt, changes in marriage patterns, and new tax policies.

### **Consumption**

We have described American economic diversity by looking at how much money Americans make in a given year and how much wealth they have accumulated over a lifetime, but critics of such research argue that the best way to assess people’s standards of living is not by their pay stubs or bank accounts, but by what they spend and what they have. They note, for example, that many people under-report, accidentally or not, their incomes and wealth. In a 1988 national survey of spending, for example, respondents who reported incomes under \$5,000 also reported spending, on average, over four times as much money as they said they earned. These

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57. Between the mid-1980s and the late 1990s the median adjusted house value for high school graduates grew from about 1.2:1 of that of the median high school dropout to about 1.4:1, and in turn, the adjusted value for the median college graduate grew from about 1.5:1 of the high school graduate to about 1.6:1. (These numbers are for urban residents only and all cases coded as “no formal education” are dropped, because in 1987-88, the CES had treated missing data as zero years of education and lumped those cases in with those who had not graduated high school.) Similarly, the ratio of median college graduates’ savings to median high school graduates’ savings increased from about 12:1 about 1983 to over 200:1 in the late 1990s; the ratio for money in a checking account rose from 3:1 to 5:1. There is no point comparing the financial assets of high school graduates to high school dropouts; the median high school dropout had no savings or checking account.

discrepancies arise because some welfare recipients hide income, because middle-class families report themselves as less well-off than they are, because some wealthy people overlook a few of their sources of income, and because people borrow.<sup>58</sup>

Indeed, people typically live above or below their immediate means; they base their spending on long-term calculations. A young professional couple may, for example, spend more than they earn early in their careers because they can reasonably anticipate rapid increases in earnings (and perhaps inheritances, too); a middle-aged couple may restrain their spending to ensure their long-term health care (or to leave an inheritance).<sup>59</sup> Some of the reckoning works out. If a student's borrowing for a college education or newly-wed's borrowing for a house pay off, if the economy does well, and if perhaps parents pitch in, borrowers get out of debt. For others, borrowing is a repeated act of hope or desperation. If the investment or the economy sours, if kin are also strapped and even become the borrowers, if the indebted's ship never comes in, they never get out of the red.<sup>60</sup> Whether they are rationally distributing their purchases over time or thinking wishfully about their future incomes, the poor borrow and the rich save; young families go into debt and retirees spend down their assets. Consequently, Americans differ less in what they consume than in their incomes and wealth.

Yet another reason for looking at spending rather than income or wealth is the increasing value Americans received for their dollars over the century. For example, in 1909, the average worker in manufacturing had to labor a half-hour to afford a pound of bread and almost an hour

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58. 1988 survey: Brown, *American Standards of Living*, pp. 372, 461; see also Lebergott, *Consumer Expenditures*, Ch. 1.. On the validity issue, see also -- for the poor -- Edin and Lein, *Making Ends Meet*, and, more generally, the Census Bureau (to be added)

59. For general discussions of income versus consumption, see, e.g., Slesnick, "Consumption, Needs and Inequality" and *Consumption and Social Welfare*; Federman et al., "What Does it Mean to be Poor?"; Jencks and Mayer, "Do Official Poverty Rates..."; Jorgenson, "Did We Lose the War on Poverty?"; Cox and Alm, *Myths of Rich and Poor*; and Cutler and Katz, "Rising Inequality?"

60. On debt, see, e.g., Sullivan et al., *Fragile Middle Class*. On kin ties: Goldstein and Warren, "Socioeconomic Reach and Heterogeneity in the Extended Family."

to afford a half-gallon of milk (delivered to the door); in 1970, his grandson needed to work five minutes for the bread and 12 minutes for the milk. Moreover, the quality of the bread and milk – freshness, cleanliness, and variety – improved considerably. If we want to know how standards of living changed, goes the argument, we should look at how much people spend and what people buy.<sup>61</sup>

*End of the Century.* If we do, we see narrower differences than we saw for income. In 1998, Americans at the 80<sup>th</sup> percentile in income received (adjusted for family size) \$3.75 on the dollar of the 20<sup>th</sup> percentile American (Figure 2B). However, the American who *spent* at the 80<sup>th</sup> percentile bought only \$2.50 of goods and services for each dollar spent by the 20<sup>th</sup> percentile spender, a much smaller gap. (The estimates here are also for 1998.) Drawing again on the Consumer Expenditure Survey and again adjusting for the size of the family,<sup>62</sup> we see in the table below that the 20<sup>th</sup> percentile spender reported buying about \$2,000 worth of food a year and the 80<sup>th</sup> percentile spender bought about \$4,300 worth, for a ratio of 2.13 to 1. There is only so much one can spend on food and there is only so little one can get by on, so the differences there are not great. As we move to housing, then clothing, and finally recreation, however, we see that the differences in spending widen. For recreation, the 80<sup>th</sup> percentile spender payed out \$5.39 to the dollar of the 20<sup>th</sup> percentile spender.

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61. Calculations of work time based on Bureau of the Census, *Historical Statistics*, pp. 170, 210, and 213.

62. As for income and wealth, we divide by the square root of the size of the family. Slesnick, *Consumption and Social Welfare*, shows how sensitive trend analyses of consumption are to estimates of household “need.”



Table 4.1. Adjusted Family Spending on Categories of Goods, by Percentile Rank, 1998.

	20 <sup>th</sup> P'ile	50 <sup>th</sup> P'ile	80 <sup>th</sup> P'ile	Ratio 80th:20th
Food	\$2,023	\$3,047	\$4,307	2.13
Housing	2,886	4,593	8,060	2.79
Clothing	305	678	1,249	4.10
Recreation	408	1,031	2,201	5.39

Notes: Source is Consumer Expenditure Survey. Numbers represent family spending divided by the square root of the size of the family.

Even though the consumption differences are noticeably smaller than the income or wealth differences, we should note that in the 1990s, twenty percent of American families reported failing to pay for some essential expense, such as a utility bill, rent, or a doctor's fee. About ten percent of American households reported some "insecurity" in having enough food and about four percent reported some hunger – and these counts do *not* include the homeless. At the same time, there were also Americans at the other end whose extravagant spending on mansions, yachts and jewelry inspired 1990s books such as *Luxury Fever* and *The Overspent American*.<sup>63</sup>

Ownership of basic consumer goods is also more evenly spread than income or wealth. Virtually every American household had, for example, a refrigerator and a color television set, and 90 percent had a car or truck. On other items, there was more variation. Nearly 80 percent owned washing machines, and a bit more than half owned dishwashers, computers, or cell

63. Failing to pay: Bauman, "Extended Measures of Well-Being." Food insecurity and hunger: *Statistical Abstract* 2000, table 233.

phones.<sup>64</sup> The best way to think about most of such goods is that their ownership follows a pattern of diffusion. When a new item appears, such as television or computers, first only some people – usually those who are well-off or are *avant-garde* or both – get it. Then, because prices drop and familiarity increases, ownership spreads or “diffuses” across the population until virtually everyone has it. In this process, differences in ownership rates first widen and then narrow.

Thus, what ownership tells us about differences in standards of living depends on where that good is in its diffusion history. For the basic items – not only refrigerators and automobiles, but also indoor plumbing and television – there was considerable homogeneity in 2000. The wealthy may have driven BMWs and watched high-definition television, while the working class drove old Escorts and watched on 17-inch screens, but both groups had the commodities. Skeptics in the debate over poverty in America point out that most of those who are defined by their *income* as poor do own such goods. Their critics respond that, socially and psychologically, poverty is a relative matter. The poor may have indoor plumbing, but if their children lack computers they remain socially disadvantaged. We’ll return to these issues after looking at the historical trends in consumption.

*Long-Term Trends.* Consumption expanded dramatically – indeed, probably, at an historically incomparable scale – for all Americans between 1900 and 2000. But has that meant narrowing or widening differences in standards of living?

Consider, first, *spending* patterns. One way to assess changes in living conditions is by looking at how people apportion their spending. When people live on the margin, they spend most of their money on the basics and the most basic is food; when people do well, they spend some of their money on discretionary extras and one of the most discretionary is recreation. Therefore, trends in the proportion of people’s spending that goes to recreation versus food

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64. *Statistical Abstract 2003*, tables 996, 997. (These numbers are for 2001; the prior data were for 1997.)

indicate changes in standards of living.<sup>65</sup> Over the twentieth century, Americans spent less of each consumer dollar on food – half as much at the end than at the beginning – and more on recreation – twice as much. See Figure 5. (The figure draws on two different sources: occasional surveys which asked respondents how they spent their money and national economic data which track what products are bought and sold.<sup>66</sup>) A key driving force in the downward food line was, of course, the sharply dropping cost of food, as we noted earlier. Much of the money Americans saved on food went to feeding the family car, which by the end of the century took about as much of the household budget as food did. The same household survey data also speak to class differences in spending patterns. They suggest, as did the income and wealth data, that class differences in spending narrowed through the middle part of the century until 1973 and then that

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65. Dora Costa, in “American Living Standards,” develops an economic model for using recreational spending as a mark of living standards. We use a simpler but similar procedure.

66. The household survey numbers are drawn from Jacobs and Shipp, “How Family Spending Has Changed,” and refer only to urban wage-earning and clerical families. (This makes it difficult to integrate recent Consumer Expenditure Survey data.) “Recreation” refers to “entertainment and reading.” The national accounts data through 1955 are drawn from the U.S. Bureau of the Census, *Historical Statistics*, pp. 316-21, and Bureau of the Census, *Statistical Abstract 2003* (CD-Rom edition), table 667. Although various details make each source somewhat different than the other and make comparing the two types of data complex, the overall trend lines are clear.

class differences stopped narrowing or reversed.<sup>67</sup>

-- Figure 5 about here --

The Consumer Expenditure Survey provides detailed information on how Americans spent money over roughly the last 15 years of the twentieth century.<sup>68</sup> The proportions spent on

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67. The numbers referred to are presented below. Our calculations are simple but nonetheless suggestive. We use Brown's, *American Standards of Living*, summaries of household expenditure studies from 1918 through 1988 and her distinctions among white, urban laborers, wage-earners, and salaried workers. The table below shows how much each group, on average, spent on food and recreation over the century, adjusted in two ways: (a) we correct for cost of living, using the Bureau of Labor Standards' "inflation calculator" (<http://stats.bls.gov/>), which is for urban costs; and (b) we divide each spending amount by the square root of the average size of family for that class in that year. Part one of the table shows the dollar amounts and part two the ratios between groups.

*Annual amount spent on food and recreation, by class and year, in 2000 dollars and adjusted for mean size of family.*

	Food			Recreation		
	Laborers	Wage	Salaried	Laborers	Wage	Salaried
1918	\$2483	\$2740	\$3443	\$220	\$310	\$597
1935	2697	3121	4106	403	529	1260
1950	4181	4692	5371	860	1131	1485
1973	3882	4108	4986	1691	1974	2754
1988	3554	3951	4595	2130	2622	4275

*Ratio of spending between class groups, by type of spending and year.*

	Food			Recreation		
	Sal:Wage	Wage: Lab	Sal: Lab	Sal:Wage	Wage:Lab	Sal:Lab
1918	1.26	1.10	1.39	1.92	1.41	2.71
1935	1.32	1.16	1.52	2.38	1.31	3.13
1950	1.14	1.12	1.28	1.31	1.31	1.73
1973	1.21	1.06	1.28	1.39	1.17	1.63
1988	1.16	1.11	1.29	1.63	1.23	2.01

We draw the reader's attention to the following: Differences in food spending changed modestly, although they did narrow between salaried workers and laborers between 1918 and 1950. Differences in recreational spending changed more, with the gaps narrowing substantially to 1973 and then widening by 1988.

68. A few additional notes on the use of the CES in this context: We use the CES as re-coded and organized by the National Bureau of Economic Research. We use only data from 1984 on, even though earlier data are available, because the data in the first few years are not comparable to later years. And we use only the urban sample of the CES to make the data more comparable to the long-term series presented immediately ahead of it.

food and recreation, which we use as indicators of standard of living, changed little over that short period. For example, the spending gap between the high spenders on recreation and the low spenders on recreation barely widened.<sup>69</sup> Black-white differences on food spending narrowed noticeably and on recreational spending narrowed marginally. Differences by the education of the head of household stayed roughly the same. We can say that the long-term convergence of black and white living standards, as measured by spending, continued into the 1990s (the end of that decade was especially beneficial to blacks) and that class differences in standard of living that had widened after 1970 stayed about the same after the mid-1980s.<sup>70</sup>

Several scholars have examined late twentieth-century spending more comprehensively than we could here, with particular attention to trends in inequality of spending. Their findings differ, but these conclusions seem fair: Inequality in consumer spending declined from World War II to about 1973. From then to 2000, spending inequality grew again but at a slower pace than did income or wealth inequality (perhaps because non-affluent Americans began borrowing more than they had). The boom of the late 1990s tempered the trend toward more consumption inequality.<sup>71</sup>

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69. Around 1986, the 80<sup>th</sup> percentile (defined as the person in a household whose spending on recreation as a percentage of all spending was at the 80<sup>th</sup> percentile) spent 4.2 percent more on recreation than the 20<sup>th</sup> percentile (five-year-moving average); around 1996, the difference was 4.5 percent. Differences had not narrowed. In that sense, the century-long convergence was at least stalled.

70. Whites' percentage of spending devoted to food stayed at about 13 percent from the mid-1980s to the mid-1990s; blacks' percentage dropped from 18.5 percent to 16 percent. Both groups' spending on recreation increased very slightly, leaving the difference the same. Slesnick, *Consumption and Social Welfare*, Ch. 6, finds a drop in consumption inequality by region from 1947 to 1973 and essentially no trend through 1995. He thus rejects the claims of widening inequality that were based on income trends. We should note, however, that Slesnick's calculations seem notably sensitive to his assumptions. (For example, he calculates that the percentage of elderly who were poor dropped from about 13% in 1947 to 0.6% in 1995; few scholars would credit that 0.6%.) Krueger and Perri, "Does Income Inequality Lead to Consumption Inequality?," find that consumption inequality increased in the 1980s but almost leveled off in the 1990s, in part, they suggest, because people increasingly borrowed money to offset fluctuations in their incomes. Johnson et al, "United States Inequality Through the Prisms of Income and Consumption," esp. table 3, also find that spending inequality grew in the 1980s and leveled off in the 1990s.

We look next at what people *owned*. The single most critical “good” Americans have, which is also their single greatest asset, is a home. The proportion of American families who owned their own homes jumped up in the middle of the century. We see that in Figure 6, the nearly horizontal line. A bit under half of American households owned their homes in the first part of the century; that jumped to over 60 percent by 1960 and stayed about there afterwards.<sup>72</sup> Other consumption items, however, followed a much more dramatic path. Three traced in Figure 6 – and summarized together in the gray line – diffused in a similar way: having an inside toilet, a telephone, or an automobile. Each was rare in 1900 and became nearly universal by 2000 (with a stall during the Depression for telephones and cars). The computer, introduced late in the century, is showing a similar albeit more rapid diffusion as the earlier technologies.<sup>73</sup>

-- Figure 6 about here --

As noted earlier, when new products such as these begin to diffuse, differences in ownership widen and later shrink. This can be seen in comparing blacks’ and whites’ rates of product ownership. (While little historical data compares the Americans’ ownership of goods by education, occupation, or income, the nation has long gathered many statistics differentiated by race.) In 1890, 14 percent of whites and five percent of blacks had toilets – a 9 point difference; by 1940, the difference had widened as blacks lagged 37 points behind (63 percent versus 26 percent); but by 2000, flush toilets were effectively universal, so the difference was about zero. In 1900, virtually no one had cars, a gap of zero; 1935, about 60 percent of white families had cars, but only about 20 percent of black families did – a 40-point gap; in 1999, 95 percent of whites

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72. Ownership is heavily conditioned by the age of the head of the household and by marital status. For Americans aged 45-64, the prime earning years, the historical trend line is the same except that it is shifted upward, with ownership rates leveling off at about 80% in the last third of the century. The trend diverged for married-couple households and other households after 1960; rates for the married rose into the low 80% range in 1990s, compared to about 65% for all households combined.

73. These numbers and those below are drawn from census data (*Historical Statistics, Statistical Abstract 2003*, and/or Lebergott (*The American Economy*, pp. 272, 289-90), with a few estimates calculated by interpolation or modeling (e.g., the early estimates for telephones is based on the number of telephones per household). The racial breakdowns are from pp. 99 and 290 of Lebergott. For more on the diffusion of the automobile and telephone, see Fischer, *America Calling*.

and 80 percent of blacks had vehicles, down to a 15-point gap.<sup>74</sup>

In the last few decades of the twentieth century, Americans became much more similar to one another in access to such goods. In 1960, rural residents, blacks, the poorly educated, and Southerners were notably less likely than other Americans to have full plumbing facilities in their homes; by 1990 the differences were gone.<sup>75</sup> Unlike plumbing, telephone ownership did not become universal, but the differences among groups still shrank. For example, a roughly 30-point difference between whites and blacks and between college graduates and high school dropouts in having telephone service in 1960 became around a 10-point difference in 1990. The gap in automobile ownership between high school graduates and high school dropouts shrank from 9 in 1960 to 4 points in 1990.<sup>76</sup>

Thus, at the dawn of the twenty-first century Americans were all pretty similar in their ownership of nineteenth- and early twentieth-century inventions. Certainly, wealthier Americans had more bathrooms, newer cars, and so on, but almost everyone had the minimum. Even television, a mid-twentieth-century invention, was universal, meaning, for example, that almost everyone could share a common experience such as watching the Superbowl in color. But does this mean that standards of living had generally converged? Does it mean that the expansion of differences since about 1970 that we found in income and wealth – and perhaps, in spending – is contradicted when we look at consumption of goods? Not necessarily.

Look, first, at the personal computer. Over the last quarter of the century, ownership of this new technology increasingly *divided* Americans. Figure 7 shows the pattern by education. As

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74. The estimates are from the IPUMS, except for 1999, which is from the Annual Housing Survey (United States Bureau of the Census, *Annual Housing Survey*).

75. For example, in 1960 only 71 percent of Southerners, compared to 93 percent of Northeasterners, had full plumbing; in 1999, about 99 percent of both did.

76. These numbers come from the IPUMS data set and refer to individuals living in households with such facilities. The 1990 data on cars are adjusted to reflect the counts of cars found in 1960, 1970 and 1980 data by subtracting out estimated “truck-only” households.

ownership spread, it did so furthest and fastest among the more educated. A difference of 13 points in ownership in 1984 between college graduates and high school graduates grew to a 34 point difference in 1998. Similarly, ethnic differences widened in computer ownership; even regional differences widened a small amount.<sup>77</sup> Chances are that the future of computers will resemble that of telephones; as telephones became virtually universal, class differences became virtually negligible. (Later, in Chapter X, we will apply the same logic to the diffusion of cultural values.) Nonetheless, the brief history of the personal computer underlines the point that, as old goods lose their power to mark distinctions, new products emerge which provide those distinctions.<sup>78</sup>

-- Figure 7 about here --

Consider, second, home ownership, as displayed earlier in figure 6. Ownership rates stayed relatively flat, 44 to 48 percent, between 1900 and 1940, rose rapidly between 1940 and 1960 largely thanks to New Deal-era government assistance to young adults, and then stayed relatively flat again at about 66 percent. Even among people at their peak years for capital accumulation, those 45 to 64, ownership rates leveled off at about 80 percent. Ownership rates did *not* converge by social class and, indeed, widened somewhat in the latter decades. In 1960, for example, college graduates were 4 percentage points likelier to own their dwellings than high school graduates (72 percent versus 68 percent); in 2000, they were 5 points likelier (73 percent versus 68 percent).<sup>79</sup> There are a few key differences between owning homes and owning, say, televisions. For one, as we noted earlier, homes are simultaneously investment and consumption. As investment, their relative advantage varies. In the nineteenth and perhaps early part of the

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77. Computer ownership data come from six supplements of the Current Population Survey. The 1974 date for zero computers is based on the introduction of the Altair, considered the first PC.

78. See discussion of consumption as comparative distinction in, for example, Douglas and Isherwood, *The World of Goods*; Rainwater, *What Money Buys*; Frank, *Luxury Fever*; and McCracken, *Culture and Consumption*.

79. The 1960 numbers are from the IPUMS; the 2000 numbers from the Consumer Expenditure Survey web site.



twentieth century, home ownership was a conservative investment strategy that working-class rather than middle-class families often pursued. For another, the real price of homes has not followed the price history for other commodities. Goods such as telephones and automobiles spread in great measure because their real costs declined; the same is true of manufactured goods generally. Housing, however, continued to rise in cost. For example, between 1983 and 1999, the cost of televisions declined by 45 percent, the cost of interstate telephone calls dropped by 28 percent, and the cost of new cars rose by 28 percent, but the cost of home ownership rose 88 percent. Between 1918 and 1988, Americans' spending on shelter (in constant dollars) roughly tripled.<sup>80</sup> With larger-package goods, such as homes, and probably health care and higher education as well, costs do not decline much as a result of scale increases and, thus, access does diffuse as much. The basics become more available to more people – basic shelter with heat and water, simple vaccines, community college – but the ante is always going up.

Finally, there is an entirely different realm of consumption we have not reviewed: *public* goods. When they search for a new house, for example, would-be home buyers carefully weigh aspects of the neighborhood such as the local schools, traffic, health facilities, and safety. Have Americans converged or diverged in such public consumption? What about shared resources, such as clean air and water? We have not found reliable or consistent data that would allow us to speak confidently about such trends in public consumption.<sup>81</sup> (One effort to estimate

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80. On the history of home owning, see, for example, Tobey et al, "Moving out and Settling In;" Tobey, *Technology as Freedom*, Ch. 4; Chevan, "The Growth of Home Ownership;" Harris, "Working-Class Home Ownership;" Luria, "Wealth Capital and Power;" Thernstrom, *The Other Bostonians*. The recent price changes are from table 770 of Bureau of the Census, *Statistical Abstract 2000* (CD-Rom version; the cost of home ownership is calculated as "rental equivalent" and does not include insurance). The 1918-88 comparison is from Brown, *American Standards of Living*, p. 455. Many have noted that, over the years, the size and quality of housing Americans could buy increased; in per-footage or per-amenity terms, housing costs may not have increased so much (e.g., Cox and Alm, "Time Well Spent"). This point does not negate the comparison, however. First, the same is true for other commodities (e.g., the speed, safety, and comfort of automobiles has improved dramatically). Second, rising standards also raise the cost of a minimum "housing package" people can buy. Because of legal, market, and cultural "floors," buyers cannot realistically buy, say, two-room houses without running water, electricity, or standard ceiling heights.

81. The Annual Housing Survey provides respondents' ratings of various aspects of their neighborhoods over a quarter-century. (The Annual Housing Survey, renamed American Housing Survey in 1983 -- annual from 1973 to 1981 and biannual afterwards -- is conducted by the Bureau of the Census for HUD. It covers about 5,000 households in major metropolitan areas. Over four waves, 46 metropolitan areas are covered, with about a dozen in

and add “public consumption,” such as the use of schools and roads, into households’ incomes reports an increase in inequality between 1989 and 2000.<sup>82</sup>) But any full accounting would need to look at the distribution of such “consumption” as well as of private goods, such as televisions, cars, and shoes.

The evidence we do have on consumption suggests that over the course of the century, more and more Americans shared in what is now seen as a “middle-American” lifestyle, with basic facilities, new appliances, and other goods, especially private ones, that are part of the “good life.” But there are suggestions in the evidence as well that this economic convergence seemed to stall – and perhaps even reverse as did the convergences of income and assets – in the last quarter or so of the twentieth century. Equalization stalled not only in terms of several objective counts, such as spending patterns, but also in the sense that much of consumption is relative: As some goods become universal (e.g., televisions), lines of division appear around newer goods (e.g., computers). It is also important that *how* Americans differed changed. Regional and black-white differences largely narrowed, but differences by education generally widened.

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any given survey. Because of this sampling procedure and because of various changes in procedures, year-to-year and even decade-to-decade comparability is difficult.) The AHS, for example, asked respondents a series of questions about neighborhood conditions, one of which was whether it had crime. “Yes” answers rose strongly from 17 percent in 1974 to a peak of 24 percent in 1991 and then dropped rapidly to 14 percent in 1999 – roughly in tune with nationwide crime statistics. During the rise, black-white differences and city-suburban differences widened; during the dramatic decline in crime of the 1990s, racial and place differences stabilized, but educational differences still widened. (The General Social Survey asked a similar question: whether respondents felt that there was anywhere in their neighborhoods that they were afraid to walk. Between 1973 and 2000, the percentage who said “No” varied from a low of 52 to a high of 63, with little net change over the quarter-century. The results differed some from those of the Housing survey, but once again, educational groups seemed to diverge over the quarter-century in a similar way: High-school dropouts were slightly less likely to feel secure and high school graduates more likely.) Other results are mixed, however. For example AHS respondents’ ratings of their neighborhoods’ and homes’ quality seemed to converge. This is a limited exercise and more comprehensive research needs to be done on the distribution – and changes in the distribution – of public goods.

82. Wolff et al., “Household Wealth, Public Consumption and Economic Well-Being.” This heroic effort to estimate individual households’ use of public goods is unable to take into account within-state differences in the value of goods such as roads or health care, and thus, whether, say, the closing of public clinics in particular locations is widening inequality.

## Subjective Affluence

Ultimately, income, wealth, and consumption presumably matter because having more of each gives people “better” lives; the money provides, in the economists’ language, the means to achieve “utility.” Ironically, for all the attention given the careful tracking of dollars, the effect of dollars on utility is not well-established. Some scholars have studied the correlation between individuals’ incomes and how “happy” or “satisfied” they report themselves being. While vaudevillian Sophie Tucker was no doubt right when she said, “I’ve been rich and I’ve been poor. Believe me, honey, rich is better,” the relationship is not linear. It appears that, for people in well-off nations, going from no money to some money increases happiness; beyond that lots of money makes less difference in happiness. But the connection is not well understood. Why then not try to directly assess people’s “utilities,” their subjective sense of well-being, investigating whether their subjective well-being has diverged in recent decades the way their material well-being has? People’s ratings their overall well-being depends, of course, on many factors. For instance, married people, healthier ones, and those with more friends are generally more upbeat. Here, we focus on how Americans perceived their *economic* well-being.<sup>83</sup>

In the last few years of the 1990s economic boom, Americans were divided in their subjective assessments: 30 percent told the General Social Survey that they were satisfied with their families’ financial situations, but 25 percent said they were not (the rest said they were “more or less” satisfied); similarly, about a fourth rated their financial situations as above “average” and about a fourth as below average.<sup>84</sup> The changes in these proportions over the prior

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83. Tucker: 1945, quoted by *The Columbia World of Quotations*, 1996. Hout. “Money and Morale,” explores the following topics in greater depth. On happiness correlates, see earlier discussion in appendix concerning the non-linearity of the connection between money and utility. See, also, Lane, *The Loss of Happiness*, for an extensive review – albeit somewhat overstated – of the evidence that money does not buy happiness.

84. These are responses to the General Social Survey’s items SATFIN (“So far as you and your family are concerned, would you say that you are pretty well satisfied with your present financial situation, more or less satisfied, or not satisfied at all?”) and FINRELA (“Compared with American families in general, would you say your family income is far below average, below average, average, above average, or far above average?”), combining the 1998 and 2000 samples.

28 years are telling.

Between the early 1970s and the end of the century, the percentage of Americans who rated their family incomes as “average” declined pretty steadily from about 57 percent to about 48 percent, and the percentage who rated themselves either below or above average grew by a few points, suggesting a widening gap. The percentage of all Americans who reported being satisfied with their families’ financial situations did not change much over the 28 years, but, as we shall see, the experience of the affluent and poor differed notably. Similarly, the Pew organization asked respondents in 1992 and 2001 whether they were satisfied that they could afford the housing, cars, vacations, and similar things that they wanted. The affluent respondents in 2001 were more satisfied than were the affluent in 1992, but low-income respondents were at the same level. Thus, the polarization of income and wealth we tracked earlier is matched by a polarization in Americans’ perceptions of their own incomes.<sup>85</sup>

We see this in more detail in the two panels of Figure 8. The first uses GSS respondents’ ratings of how their families’ financial situations compared to the average, from 1, far below, to 5, far above average. The second uses respondents’ ratings of how satisfied they were with their families’ financial situations, from 1, not at all satisfied, to 3, satisfied. We divide the respondents according to their adjusted family incomes into the top 20 percent, the middle 60 percent, and the bottom 20 percent of American incomes. The points in the graph show the average rating of each group in each year; the lines “smooth” the pattern using the same loess technique we described in Chapter X. We observe that differences by income grew over time, making the gap between poor and affluent significantly greater by 2000 than in the early and middle 1970s.<sup>86</sup> In a more detailed report on these data, one of us demonstrates that this

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85. Pew Research Center, “Economic Inequality Seen as Rising.”

86. The statistical estimates show that, with respect to comparisons, the slope of the top-20 trend is significantly different than that of the other two groups. (The bottom-20 trend line is not significantly steeper than the middle-60 line.) On satisfaction, the slopes of all the lines are significantly and substantially different from one another.

polarization is a robust finding (it is not, for example, due to the poor in 2000 being more often Latino or single parents than in 1972). Also, people's ratings of their "happiness" follow the same general pattern – the affluent got happier over the last three decades of the century, the others did not.<sup>87</sup>

– Insert Figures 8a and 8b here --

Other surveys also suggest that Americans became increasingly aware of this growing inequality since the 1970s. When the Harris poll asked respondents whether they felt that "the rich get richer and the poor get poorer," the proportion saying "yes" rose between 1972 to the early 1990s and then declined. Similarly, the Gallup poll we noted at the beginning of this chapter which asked Americans if they thought of the nation "as divided into 'haves' and 'have-nots,'" reveals a trend between 1988 and 2000: the proportion who said "yes" increased from 26 percent to 38 percent.<sup>88</sup> In sum, Americans sensed the widening inequalities in the last decades both in their own lives and in their perceptions of the country.

## Conclusion

Although Americans at the end of the century were aware of widening economic differences among them, Americans have generally worried less about economic inequality than have citizens of other affluent nations and have certainly been less willing to have the government redress inequalities. What Americans care more about is that everyone have an equal opportunity to get wealthy.<sup>89</sup> It fits their optimism; even in the job-tight year of 2003, one-third of

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87. Hout, "Money and Morale."

88. Rich and poor: Harris Poll as reported in Ladd and Bowman, *Attitudes Toward Economic Inequality*, p.99, and Lexis-Nexis reports. Have-nots through 1998: Gallup Poll, "Social Audit: Haves and Have-Nots" ([www.gallup.org](http://www.gallup.org)); Lexis-Nexis for the 2000 figure; in 2004, it was 37%).

89. Sources on American ideas about economic equality include Hochschild, *What's Fair*, Rainwater, *What Money Buys*, Gans, *Middle American Individualism*, Smith, "Social Inequality in Cross-national Perspective," Kelley and Evans, "The Legitimation of Inequality," and Verba and Orren, *Equality in America*. On attitudes toward redressing

Americans (and half of young Americans) thought it likely that they would become rich.<sup>90</sup> In a similar vein, some analysts argue that increasing inequality matters little so long as opportunities to advance also increase. However, the evidence suggests that upward mobility did *not* increase and may even have decreased in the last few decades of the twentieth century.<sup>91</sup>

The economy at the end of the twentieth century was a major source of social division in the United States. Americans differed more from one another economically than socially or culturally. The cornucopia of America's productivity has distributed consumer goods widely, so that differences in consumption, while real, are not as wide as differences in annual income or accumulated wealth. Over most of the twentieth century, the least well-off in America – notably the rural, Southern, and black poor – made the greatest economic gains and contributed the most to narrowing differences. But, differences widened noticeably in the last three decades of the century; even Americans' subjective sense of their economic well-being diverged. In particular, the wealthy and the college-educated drew farther away from the rest. The two world wars, the Great Depression, and the New Deal welfare state had combined to substantially level economic distinctions by mid-century. But the new economy, the new family patterns, and the new politics that emerged in the 1970s re-widened economic divisions among Americans.

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inequality, see these sources and Ladd and Bowman, *Attitudes*, passim. From 1978 through 2000, the General Social Survey asked adults to place themselves on a 7-point scale from supporting the position that "government should reduce income differences" (coded 1) to supporting the position that it should not (coded 7). Respondents' average position on EQWLTH was 3.8 in 1978-80, 3.5 in 1990-91, and 3.9 during the boom years of 1998-2000.

90. Gallup Poll: Moore, "Half of Young People Expect to Get Rich." The median respondent defined rich as an income of \$122,000 and assets of \$1 million.

91. Bradbury and Katz. 2002. "Issues in Economics: Are Lifetime Incomes Growing More Unequal?". See, also, Johnson, et al., "United States Inequality," on consumption inequality. Also, there is evidence that the college attendance of youth became more strongly tied to their parents' affluence over these years, which would dampen mobility (Kane, "College-Going and Inequality").

## Appendix A: Income Ratios or Income Differences?<sup>92</sup>

Scholars have developed many statistical measures of inequality. The standard procedure is to use some version of a ratio measure – such as the difference in logged dollars, or the proportion of total dollars garnered by each quintile, or some yet more complex measure, such as Gini or Theil coefficients – that essentially treats the comparison proportionally; and all of these show a trend toward a more equal distribution of income before 1970 and a steady trend toward a less equal one between 1970 and at least the middle 1990s.<sup>93</sup> Why ratio measurement is the standard is not obvious. There is some intuitive appeal to instead using an arithmetic difference. For example, we can express the change in the 80<sup>th</sup> versus 20<sup>th</sup> percentile differences show in Figure 2A arithmetically and calculate that in 1949 an American at the 20th percentile (and his or her family) would have had to work an additional 1,300 hours in a production manufacturing job to close the 80/20 gap, but to do so in 1999 would have required roughly 2,400 more hours of work. By this measure, inequality widened from 1960 on.<sup>94</sup> Our efforts to pin down the logic behind the consensus on using ratio measures, as we did in Figure 2A and beyond, have not been fully successful. Different sources and different authorities provide different rationales.

Some authorities prefer the ratio measure because of the empirical observation that income and wealth data are right-skewed, or because research suggests that there are declining marginal returns to additional dollars, or because statistical models assuming proportionality better fit the data. Others prefer it because of the formal requirement that the inequality measures be “scale invariant” (not changing if all the measures are multiplied by a constant), or some other technical consideration.<sup>95</sup>

Amiel and Cowell introduce popular opinion to the issue. In questionnaires administered to 4,000 college students from a few countries, they found that only about half clearly endorsed the notion of scale independence, i.e., proportionality.<sup>96</sup> Fewer endorsed translation independence. But many believed that evaluations of differences rest on the initial level of affluence. When incomes are low, absolute increases promote equality; when incomes are high, proportional ones do. (The students also failed to conform to other basic principles in economic models of inequality, a noteworthy problem considering that these were largely economics students.)

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92. We thank Sheldon Danziger and Frank Levy for discussing these concerns with us.

93. On household income measures, see Bureau of the Census, “Supplemental Income Inequality Tables,” Table IE-6, [www.census.gov](http://www.census.gov), accessed 2001.

94. Virtually all that increase in the work-hour gap occurred between 1970 and 1990. These calculations are based on average hourly earnings for all employees in manufacturing. The 1950 to 1970 figures are drawn from annual earnings in manufacturing (reported in U. S. Bureau of the Census. *Historical Statistics*, p. 166), divided by 2,000 annual hours, and the 1980 through 1998 (proxy for 2000) figures are drawn from weekly earnings in manufacturing (reported in the 2002 *Statistical Abstract*, table 682) divided by 40 weekly hours. The intermediate estimates are 1960: 1,260; 1970: 1,310; 1980: 1,700; 1990: 2,200.

95. For discussions along these lines, see, e.g., Sen, *On Economic Inequality*; Allison, “Measures of Inequality;” and Cowell, “Measurement of Inequality.” One voice of dissent is Kelley and Klein, “Revolution,” p. 80, n. 3. Cowell (“Measurement,” pp. 121-2) considers two different ways of linking income growth to inequality. Under one conception, the same level of inequality would be sustained if parties all received the same absolute increase in income (“translation independence”); under the other if they received the same proportional increase in income (“scale independence”). But, Cowell essentially ignores the choice and pursues proportional models.

96. Amiel and Cowell, *Thinking About Inequality*.

In the end, the key rationale for assessing the differences, such as these between the 20th and 80th percentile Americans, in ratio terms is psychological: the more dollars someone has, the less each new dollar “means.” A thousand-dollar raise to someone earning \$100,000 means less – psychologically and practically – than that it does to someone with a \$10,000 income; it may mean only 1/10 as much perhaps to the wealthier than to the poorer person. The rationale for ratio comparisons is also based on the assumption that humans judge fairness as a ratio; we see people’s desserts as “just desserts” when they are rewarded proportionally to their efforts.<sup>97</sup> In this chapter, we adopt the conventional approach, measuring differences in dollar income and wealth as proportions.<sup>98</sup>

One modest contest between these two standards of comparison – arithmetic difference versus ratio – can be constructed by looking at trends in black and white family incomes. A difference measure – white median income minus black median income – shows that the income gap between blacks and whites widened between 1970 and 1998 (by 5 percent), while by a ratio measure – black median income divided by white median income – shows that the gap shrank (by 14 percent). How did African Americans’ subjective evaluations of their financial position change? From 1972 through 2000, the General Social Survey asked respondents to rate their families’ financial positions compared to the “average.” Over those years, African American respondents became somewhat *more* positive about their financial situations. (The proportion saying that their families’ situation was below average dropped from about 50% in the mid-1970s to about 40% at the end of the century, and the proportion saying above average grew from about 5% to over 10%.) If we assume that answers to this question capture economists’ notion of “utility,” then the perceptions of American blacks was more consistent with the ratio measure.

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97. On declining marginal returns to income, see, e.g., Diener, “Individualism and Income;” Argyle, “Causes and Correlates of Happiness;” Frey and Stutzer, *Happiness and Economics*; and Frank, *Luxury Fever*, Ch. 5. Key sources on measuring equality seem to take declining returns for granted – e.g., Sen, *On Economic Inequality* (p. 28): “It is possible to argue that the impact [of a transfer from someone with more money to someone with less] should be greater if the transfer takes place at a lower income level, and a transfer from a person with an income of £1,000 to one with £900 should be greater than a similar transfer from a man with £1,000,100 to one with £1,000,000.” On how lay people judge these matters, see, e.g., Jasso, “On the Justice of Earnings;” and Rainwater, *What Money Buys*.

98. Later, when we look at compare groups by measures of consumption, which are (e.g., the proportion who own a car), we use differences in ratios rather than ratios of ratios.



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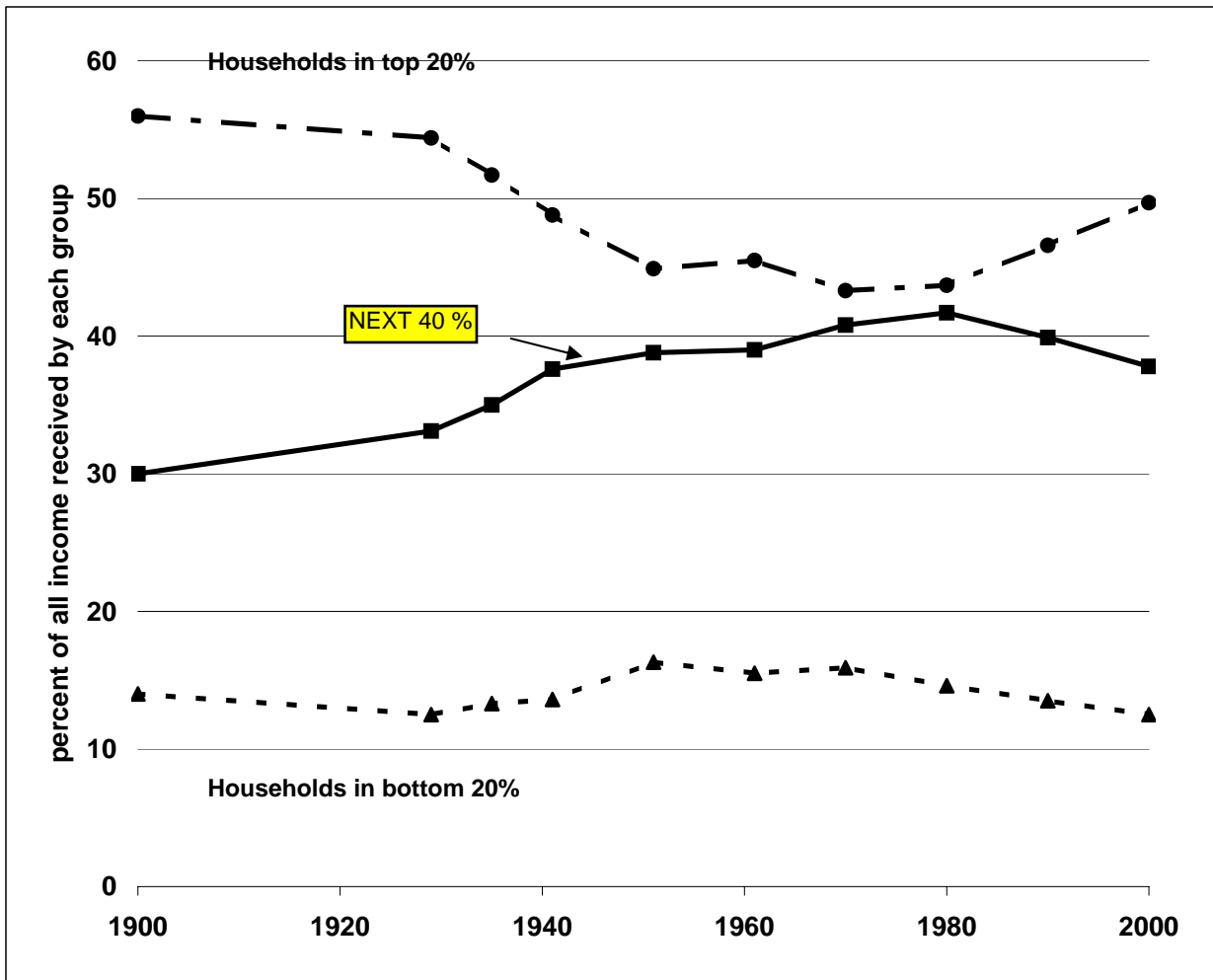
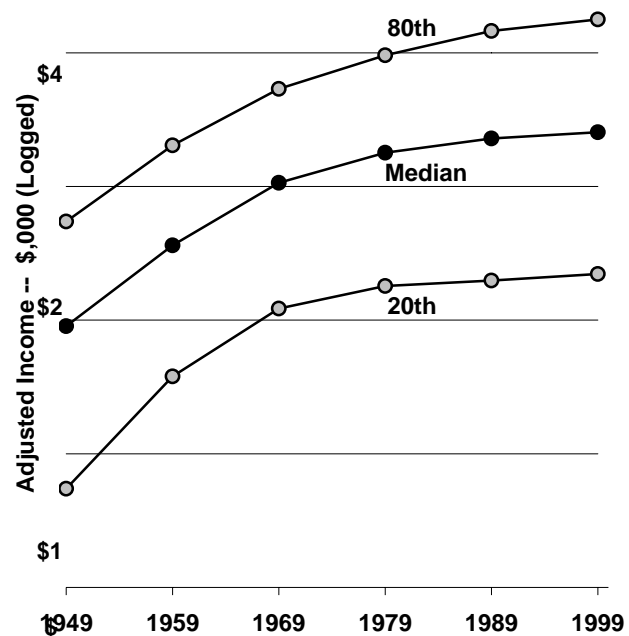


Figure 1. The Percentage of All Income Received by Each Income Group, 1900-2000.  
 Sources: Lebergott, *The Americans*, p. 498, and U.S. Census Bureau.



A. Adjusted Family Income (natural logarithm)



B. Ratio of 80th to 20th Percentile

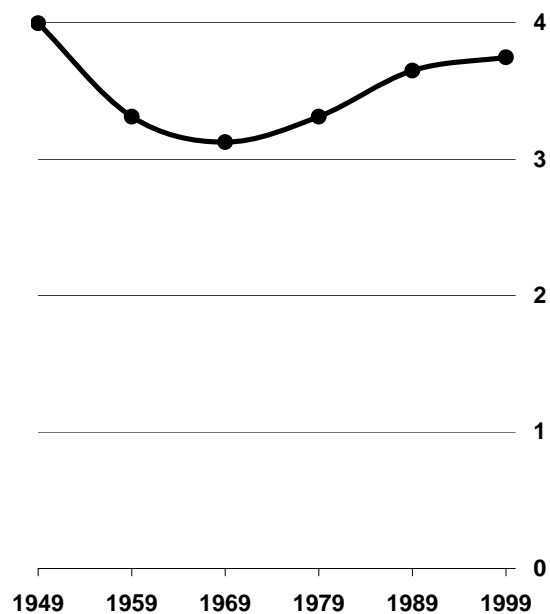
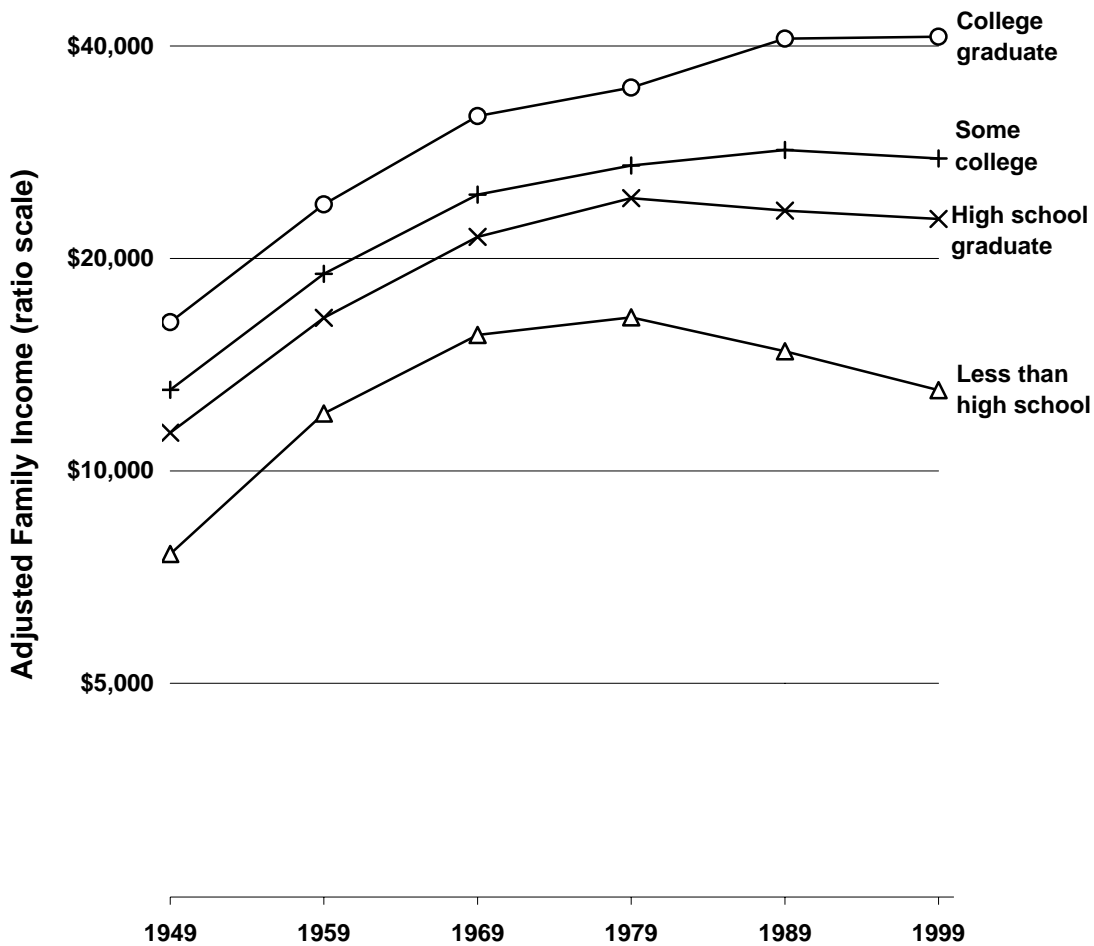


Figure 2. Adjusted Income of Families and Individuals--20th, 50th, and 80th Percentiles-- and the Ratio of the 80th to the 20th Percentile.

Note: Incomes are adjusted for inflation using the Consumer Price Index (research series) and for family size by dividing by the square root of family size.

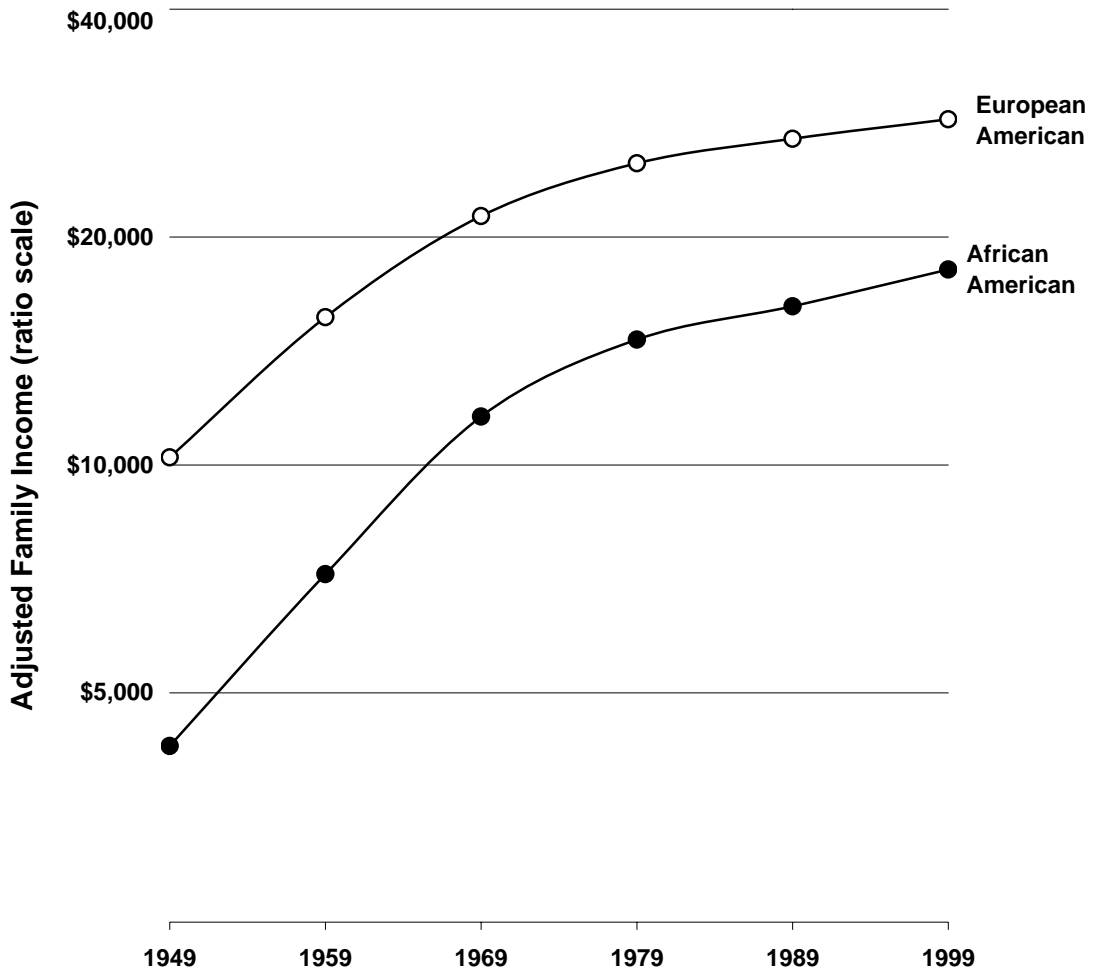
Source: IPUMS.



**Figure 3. Median Adjusted Family Income, by Education of Person**

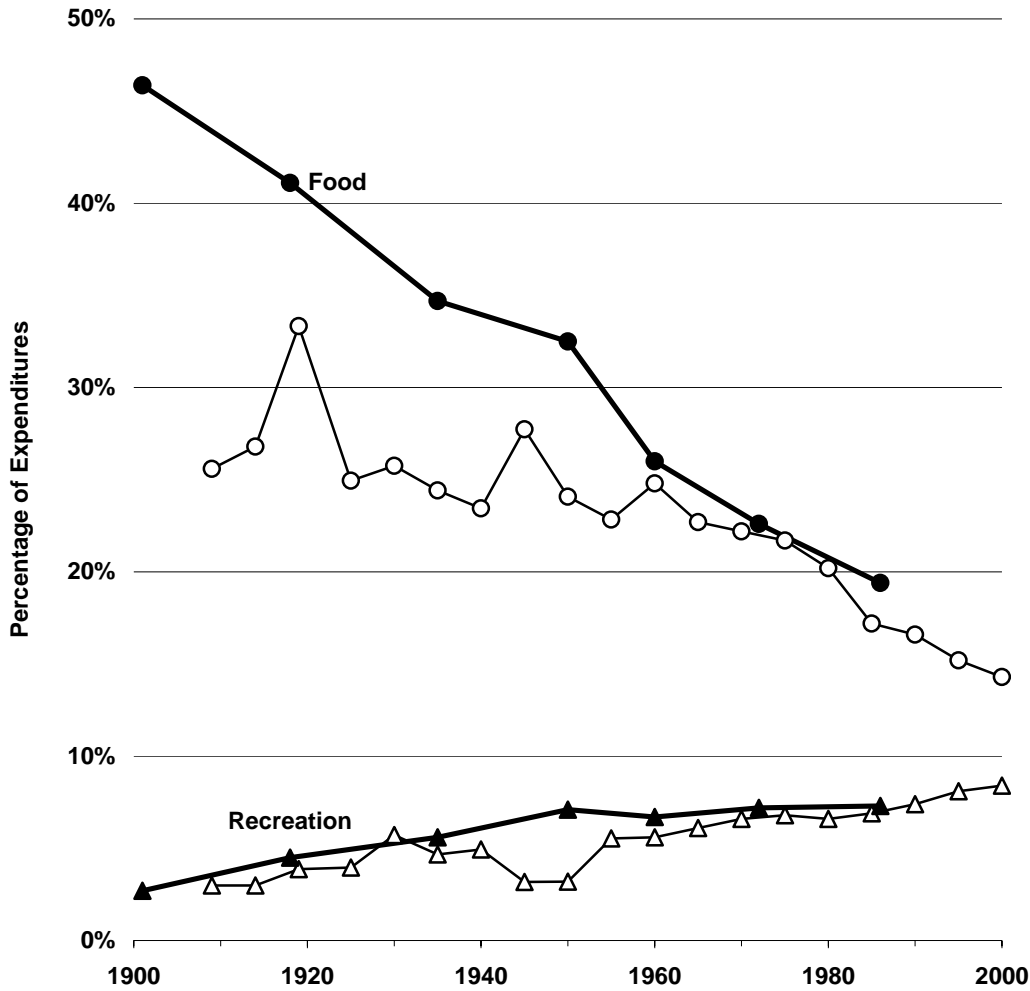
Note: for children, educational level is that of head of household.

Source: IPUMS.



**Figure 4. Median Adjusted Family Income, by Ancestry**

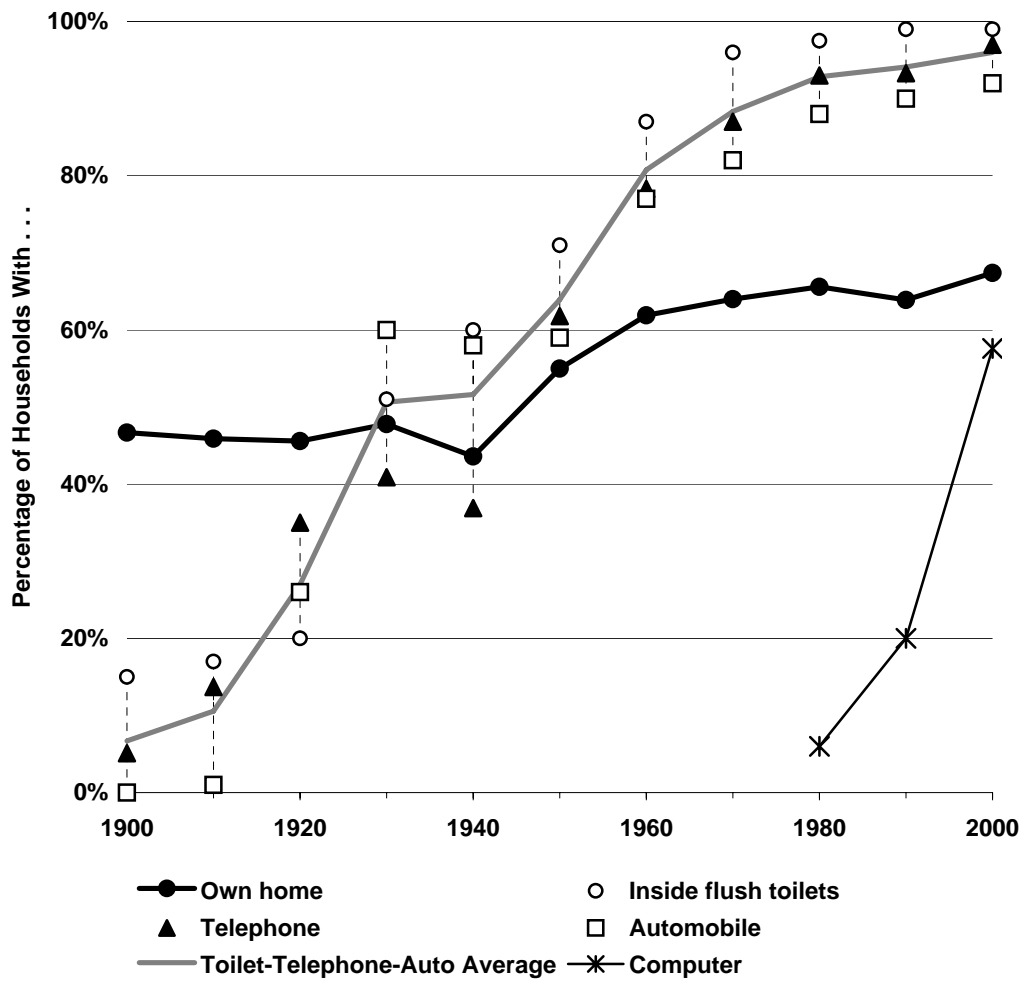
Source: IPUMS.



**Figure 5. The percentage of consumers' spending on food (upper lines) and on recreation (lower lines) 1901-1998**

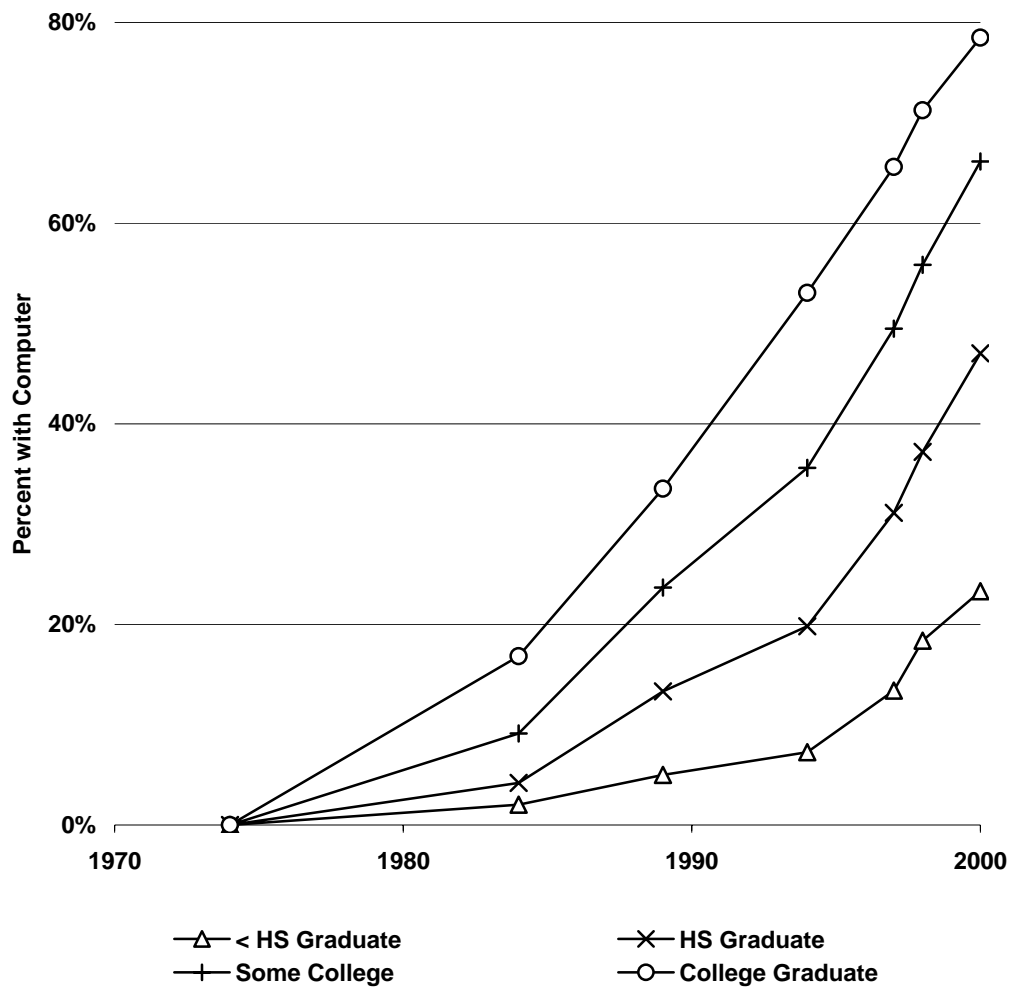
Note: Urban household surveys of wage and salaried workers (heavy lines) and national accounts data (thin lines).

Sources: National accounts: *Historical Statistics*, pp. 316-21; Statistical Abstract 2003, table 667 excel. Households: Jacobs and Shipp, "Family Spending."



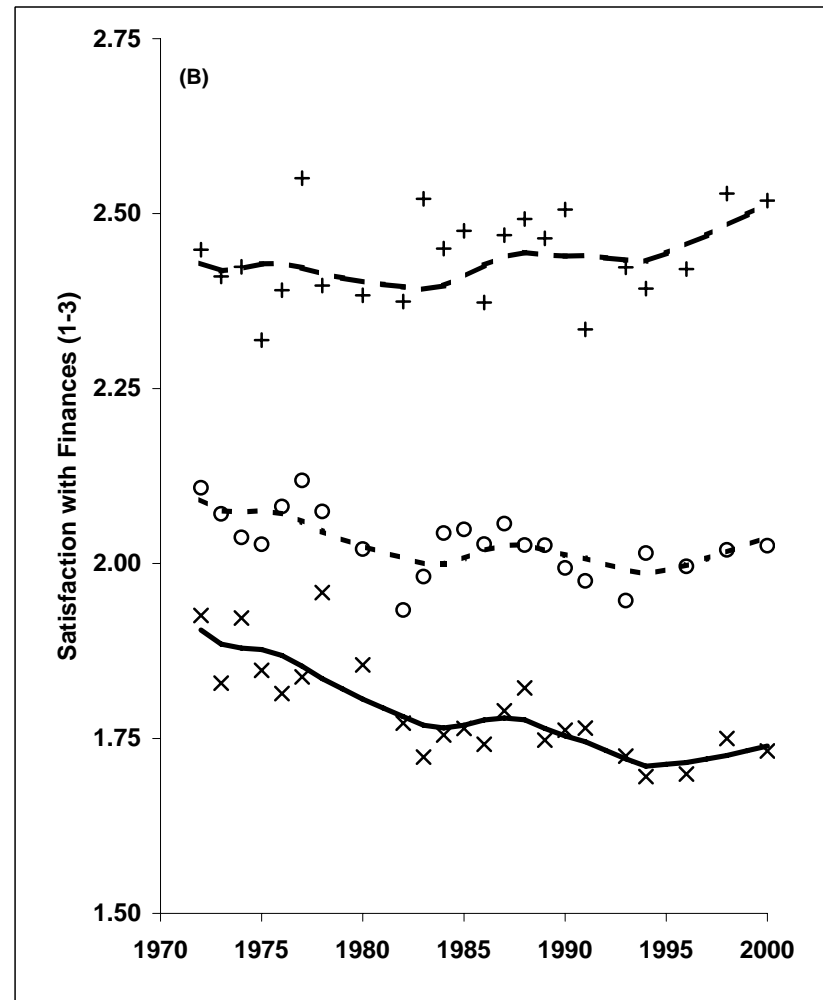
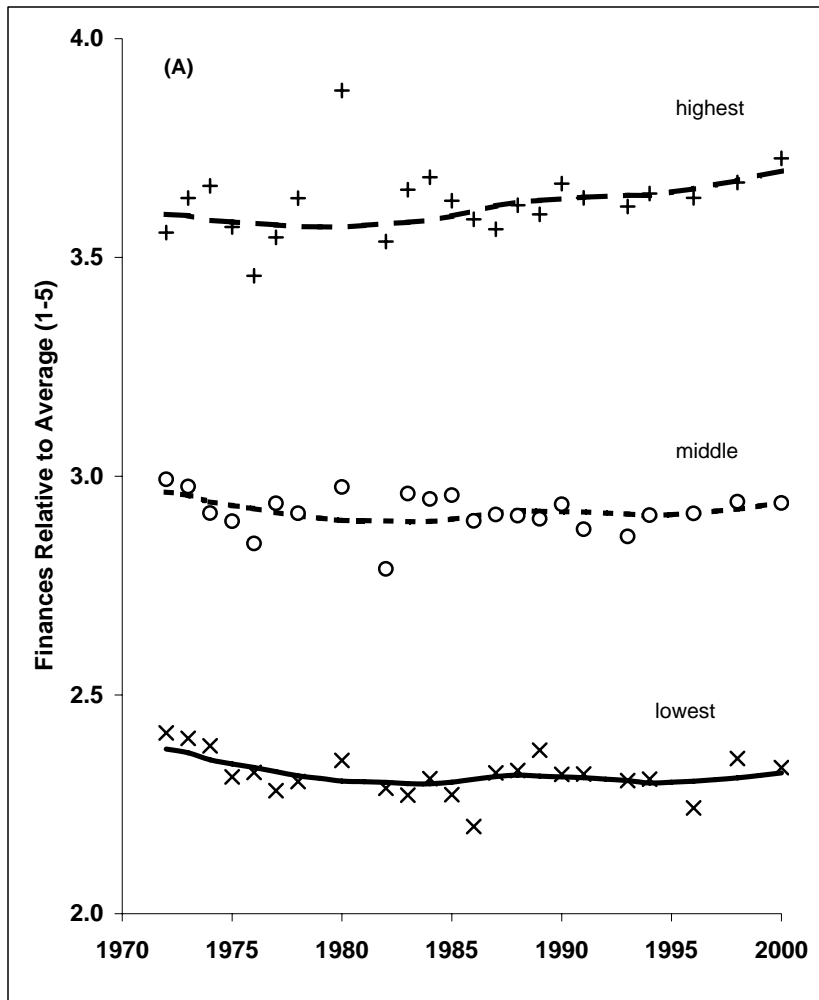
**Figure 6. Percentage of Households with Specified Commodities, 1900-2000.**

Sources: Bureau of the Census, *Historical Statistics*; Lebergott, *The American Economy*; <http://factfinder.census.gov>; *Statistical Abstracts*; and interpolations.



**Figure 7. Percentage of Americans with a Computer in the Home, by Education (or Education of Head of Household), 1974-2000**

Source: 1984-2000 -- Current Population Surveys.



**Figure 8. Subjective Assessments of Family's Financial Stituation, by Level of Income: (A) How it Compares to the Average; (B) How Satisfied Respondent is with It.**

Source: General Social Surveys, 1972-2000.