

## Income Distribution Trends in Minnesota

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- Most measures show that household income distributions in Minnesota and the United States have become more unequal since 1980.
- Earnings of full time, year round workers have become more unequal.
- With some exceptions, growth in income and earnings has outpaced inflation.
- Poverty appears to have increased since 2000.
- National data show a more unequal distribution of wealth now than in the 1990s.

Debates over income inequality have become common in recent years. Some claim we are entering a new “Gilded Age” with growing numbers of millionaires ignoring the problems of those struggling to make ends meet. Others argue that measures of inequality are flawed or exaggerated. Yet others argue that greater wealth, even if concentrated among a relatively small number of people, benefits all by encouraging investment and thus economic growth.

This report does not attempt to address all the issues raised in the vast literature on economic inequality. The goal here is to employ some widely-used measures to show trends in the U.S. and Minnesota and thus to establish benchmarks for tracking changes in the future. The U.S. Census Bureau’s American Community Survey provides a major new source to examine annual developments in poverty, income and income distribution.

### Trends in Poverty

Decennial Census data for the United States show marginal changes in poverty between 1980 and 2000. The poverty rate in the 2000 Census, 12.4 percent, was slightly lower than in 1990 but the same as in 1980. The American Community Survey data shows slightly higher poverty levels in 2005 than in the 2000 Census, suggesting poverty is on the rise. Data from another source, the Current Population Survey, similarly demonstrates a small increase in the national rate poverty since 2000.

In Minnesota, poverty fell between 1990 and 2000 but appears to have increased since then. The percent of Minnesotans below the poverty line was estimated to be 9.2 percent in 2005 (with a range of 8.9 to 9.5 percent), compared to 7.9 percent in the 2000 Census. The Current Population Survey also shows an upward trend since 2000 in Minnesota, but the changes are not statistically significant. Minnesota’s poverty level remains lower than the national average.

**Poverty Levels, U.S. and Minnesota  
1980, 1990, 2000 and 2005  
Percent below selected poverty levels**

	United States		Minnesota	
	Percent	90% Confidence Interval	Percent	90% Confidence Interval
<b>1980 Census (1979 Income)</b>				
Below 50% of the poverty level	4.9	0.0	3.5	0.1
Below 100% of the poverty level	12.4	0.0	9.5	0.1
Below 125% of the poverty level	16.8	0.0	13.3	0.1
Below 200% of the poverty level	31.7	0.0	26.9	0.1
<b>1990 Census (1989 Income)</b>				
Below 50% of the poverty level	5.8	0.0	3.4	0.1
Below 100% of the poverty level	13.1	0.0	10.2	0.1
Below 125% of the poverty level	17.5	0.0	13.9	0.1
Below 200% of the poverty level	31.0	0.0	26.5	0.1
<b>2000 Census (1999 Income)</b>				
Below 50% of the poverty level	5.6	0.0	3.2	0.0
Below 100% of the poverty level	12.4	0.0	7.9	0.1
Below 125% of the poverty level	16.5	0.0	10.9	0.1
Below 200% of the poverty level	29.6	0.0	21.6	0.1
<b>2005 American Community Survey (Previous 12 months income)</b>				
Below 50% of the poverty level	5.7	0.1	3.9	0.2
Below 100% of the poverty level	13.3	0.1	9.2	0.4
Below 125% of the poverty level	17.7	0.1	12.6	0.4
Below 200% of the poverty level	31.3	0.1	23.6	0.5

1980 Census: For the U.S., data for 100% and 200% of poverty are from Characteristics of the Population, General Social and Economic Characteristics United States Summary, PC80-1-C1  
Data for Minnesota and U.S. 50% and U.S. 125% of poverty are from the Integrated Public Use Microdata Series, <http://usa.ipums.org/usa/index.shtml>

For Minnesota, 1980 data for 100%, 125% and 200% of poverty are from Characteristics of the Population, Detailed Population Characteristics, Part 25, Minnesota, PC80-1-D25.

1990 Census, 2000 Census and 2005 American Community Survey data are all from American FactFinder

<http://factfinder.census.gov/home/saff/main.html>

The number of Minnesotans in extreme poverty, below 50 percent of the poverty line, grew from about 154,000 in the 2000 Census to about 194,000 in 2005. In 2005, 3.9 percent of Minnesotans were below 50 percent of the poverty line, compared to 5.7 percent nationally. Although the U.S. rate remains higher, the national percentage of people living in extreme poverty has not changed significantly.

## Poverty Rates from the Current Population Survey U.S. and Minnesota

	United States		Minnesota	
	Percent	90% Confidence Interval	Percent	90% Confidence Interval
1980	13.0	0.3	8.7	1.30
1981	14.0	0.3	10.9	1.40
1982	14.0	0.3	13.3	1.50
1983	15.2	0.3	12.1	1.63
1984	14.4	0.3	9.1	1.30
1985	14.0	0.4	12.6	1.80
1986	13.6	0.3	12.5	1.80
1987	13.5	0.3	11.3	1.70
1988	13.0	0.4	11.6	1.70
1989	12.8	0.3	11.2	1.70
1990	13.5	0.3	12.0	1.70
1991	14.2	0.4	12.9	1.80
1992	14.8	0.3	13.0	1.80
1993	15.1	0.3	11.6	1.71
1994	14.5	0.3	11.7	1.69
1995	13.8	0.3	9.2	1.44
1996	13.7	0.3	9.8	1.47
1997	13.3	0.3	9.6	1.45
1998	12.7	0.3	10.3	1.49
1999	11.8	0.3	7.3	1.26
2000	11.3	0.2	5.7	0.78
2001	11.7	0.2	7.4	0.77
2002	12.1	0.2	6.5	0.72
2003	12.5	0.2	7.4	0.76
2004	12.7	0.2	7.0	0.85
2005	12.6	0.2	8.1	0.91

Source: U.S. Bureau of the Census, Current Population Survey

### Trends in Household Income Distribution

The Gini index or coefficient, a standard measure of income dispersion, shows that national household income has become more unevenly distributed over the past 40 years. The U.S. Census Bureau, which tracks this figure annually in the Current Population Survey, shows a gradual lurch upward between 1967 and 2005. The change between 2004 and 2005 was not statistically significant.

### United States Household Income Gini Coefficients from the Current Population Survey

Year	Gini Coefficient	Year	Gini Coefficient
1967	0.397	1987	0.426
1968	0.386	1988	0.426
1969	0.391	1989	0.431
1970	0.394	1990	0.428
1971	0.396	1991	0.428
1972	0.401	1992	0.433
1973	0.400	1993	0.454
1974	0.395	1994	0.456
1975	0.397	1995	0.450
1976	0.398	1996	0.455
1977	0.402	1997	0.459
1978	0.402	1998	0.456
1979	0.404	1999	0.458
1980	0.403	2000	0.462
1981	0.406	2001	0.466
1982	0.412	2002	0.462
1983	0.414	2003	0.464
1984	0.415	2004	0.466
1985	0.419	2005	0.469
1986	0.425		

Source: Income, Poverty and Health Insurance Coverage in the United States Current Population Reports, P60-231  
U.S. Census Bureau, U.S. Department of Commerce  
<http://www.census.gov/prod/2006pubs/p60-231.pdf>

Decennial census data reveal a trend towards more unequal household incomes in both Minnesota and the nation between 1980 and 2000. The 2005 Gini coefficients based on the American Community Survey show little change between 2000 and 2005. Comparisons between Census and the 2005 American Community Survey data should be made with caution, since the income data is collected differently. For example, the 2000 Census asked about income in the previous calendar year, while the ACS asks about income in the 12 months preceding the survey.

## **Gini Coefficients for Household Income, United States and Minnesota 1980, 1990, 2000 and 2005**

	<b>United States</b>	<b>Minnesota</b>
1980 Census	0.399	0.385
1990 Census	0.432	0.406
2000 Census	0.460	0.422
2005 American Community Survey	0.460	0.425

Source: Integrated Public Use Microdata Series  
<http://www.ipums.org/>

The Gini index is a measure of inequality. It ranges between 0 and 1, with 0 indicating a totally equal distribution and 1 indicating that one household has all the income. It is computed by using the shares of aggregate income received by households at various levels in the distribution, e.g. percentiles. For more information see:  
<http://www2.census.gov/prod2/popscan/p60-204.pdf>

Another way of looking at income distribution trends is to examine the growth in income at different percentiles. National data show income growing faster at higher levels than at lower levels in each time period. For example, between 1990 and 2000, incomes of households at the 10<sup>th</sup> percentile grew 45 percent, while incomes at the 95<sup>th</sup> percentile went up 61 percent.

In Minnesota, the results are more equivocal. From 1990 to 2000, growth at both the top and bottom of the income range was considerable and was higher than the growth for the middle levels of income. This may mean that Minnesota was less affected by the trend to growing inequality, but sampling variation could also be a factor. The 2000 to 2005 data show a marked trend to higher income growth at the 90<sup>th</sup> and 95<sup>th</sup> percentiles than at lower income levels, though as noted earlier caution should be used in comparing 2000 and 2005 data.

Income growth at all levels exceeded inflation in both Minnesota and the United States during the 1980 to 2000 period. Thus although incomes at the lower levels may have grown less than incomes at the higher levels, households at all points on the income spectrum saw gains in inflation-adjusted incomes. This positive trend may have halted since 2000, though caution should be used in interpreting the trends since. The data suggest an erosion of real income at all levels below the 95<sup>th</sup> percentile of income between 2000 and 2005.

## U.S. and Minnesota Household Income at Selected Percentiles of the Income Distribution 1980, 1990, 2000 and 2005

Income Percentile	1980 Census	1990 Census	2000 Census	2005 American Community Survey	Percent change			
	United States	United States	United States	United States	1980 to 1990	1990 to 2000	2000 to 2005	1980 to 2005
10th	\$4,005	\$6,900	\$10,000	\$10,800	72.3	44.9	8.0	169.7
25th	\$8,610	\$15,000	\$22,000	\$23,000	74.2	46.7	4.5	167.1
50th (Median)	\$16,800	\$29,526	\$41,900	\$45,000	75.8	41.9	7.4	167.9
75th	\$26,810	\$48,900	\$70,500	\$78,900	82.4	44.2	11.9	194.3
90th	\$38,515	\$72,600	\$110,600	\$124,500	88.5	52.3	12.6	223.3
95th	\$48,450	\$93,300	\$150,000	\$177,500	92.6	60.8	18.3	266.4
	<b>1980 Census</b>	<b>1990 Census</b>	<b>2000 Census</b>	<b>2005 American Community Survey</b>				
	<b>Minnesota</b>	<b>Minnesota</b>	<b>Minnesota</b>	<b>Minnesota</b>				
10th	\$4,385	\$7,706	\$12,800	\$13,400	75.7	66.1	4.7	205.6
25th	\$9,205	\$16,076	\$25,800	\$28,000	74.6	60.5	8.5	204.2
50th (Median)	\$17,685	\$30,226	\$46,800	\$51,410	70.9	54.8	9.9	190.7
75th	\$27,310	\$48,199	\$74,670	\$83,900	76.5	54.9	12.4	207.2
90th	\$38,345	\$69,150	\$110,980	\$127,410	80.3	60.5	14.8	232.3
95th	\$47,790	\$87,620	\$145,000	\$199,900	83.3	65.5	37.9	318.3
Consumer Price Index	72.6	124.0	166.6	192.1	70.8	34.4	15.3	164.6

Census data is based on income in the preceding calendar year. American Community Survey data is based on income in the 12 months preceding the survey.

Sources: Income data from Integrated Public Use Microdata Series (IPUMS)

<http://www.ipums.org/>

Consumer price index from U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (1984=100)

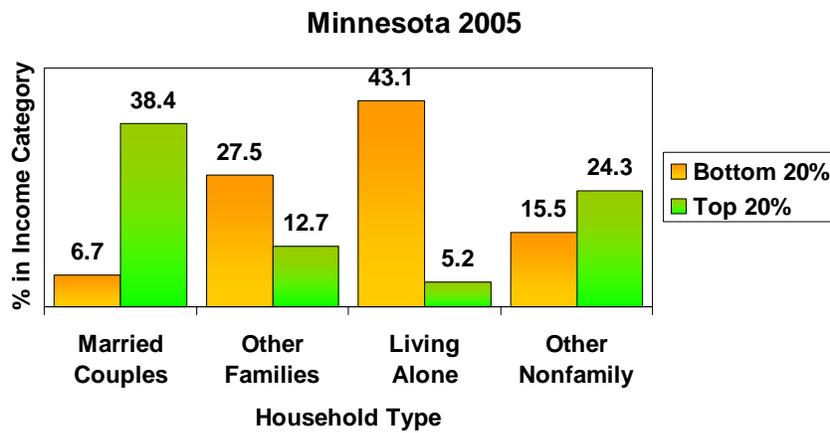
<http://www.bls.gov/cpi/home.htm>

2005 value is the average of 2004 and 2005.

### Differences Between High and Low Income Households

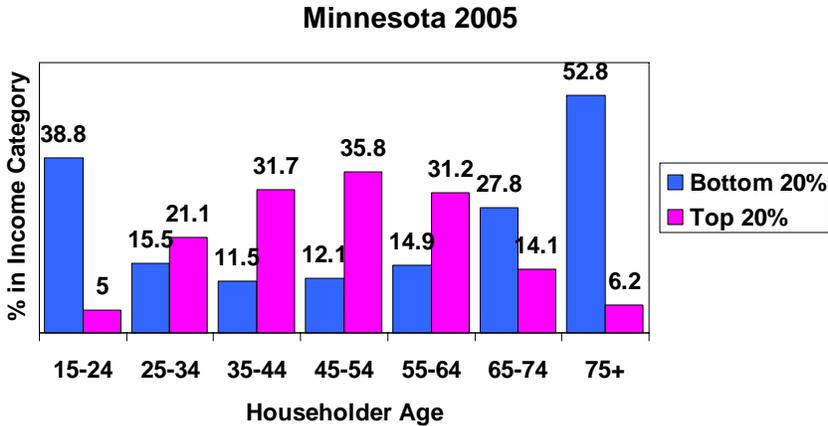
The demographic characteristics of higher income households are very different than those of lower income households. Higher income households are more likely to contain married couples and to have more than one earner. People who are ages 45 to 54, white, not Latino, native born and have a college degree are more likely to be in the higher income groups, as are people who live in the suburbs of the Twin Cities. People under age 25 and over age 75, residents of parts of Minneapolis, and nonwhites and Latinos are most likely to be living in low income households.

## Married couples more likely to be in higher income categories



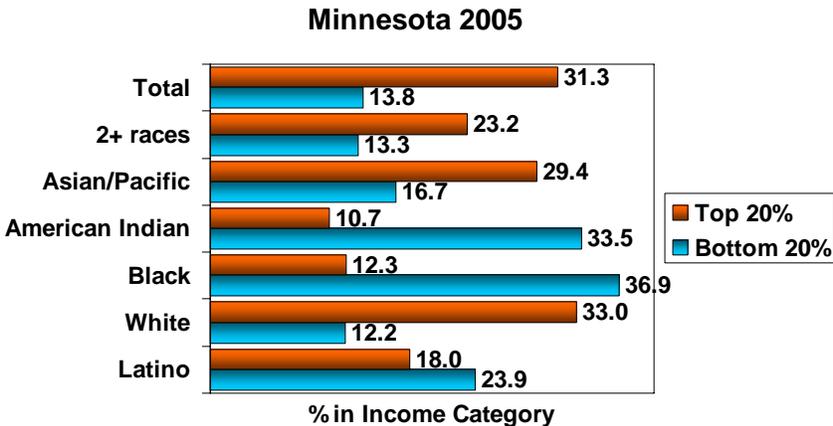
American Community Survey Public Use Microdata Sample.

# Youngest and Oldest Are Most Likely to Be in Lower Income Categories



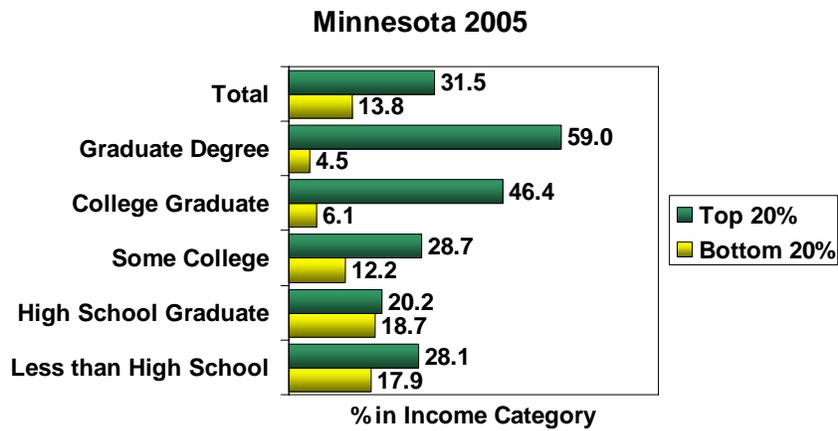
American Community Survey Public Use Microdata Sample

# Nonwhite and Latino Minnesotans Are Most Likely to Be in Lower Income Categories



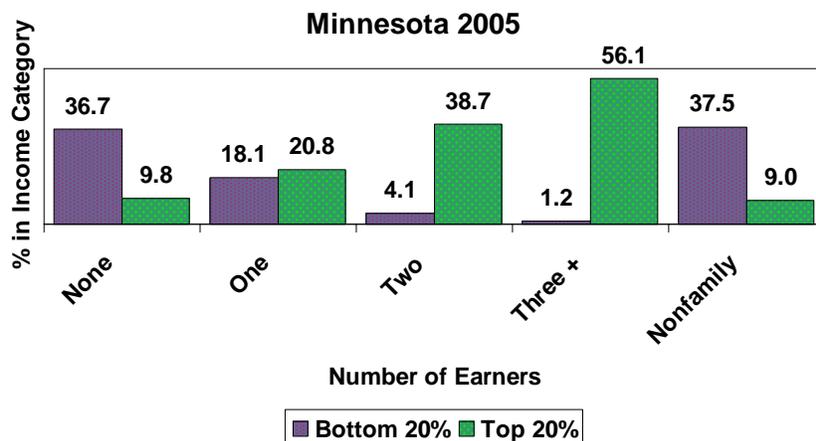
American Community Survey Public Use Microdata Sample. Race/ethnicity of householder

## More educated people are most likely to be in high income households



American Community Survey Public Use Microdata Sample. Characteristics of Individuals by household income.

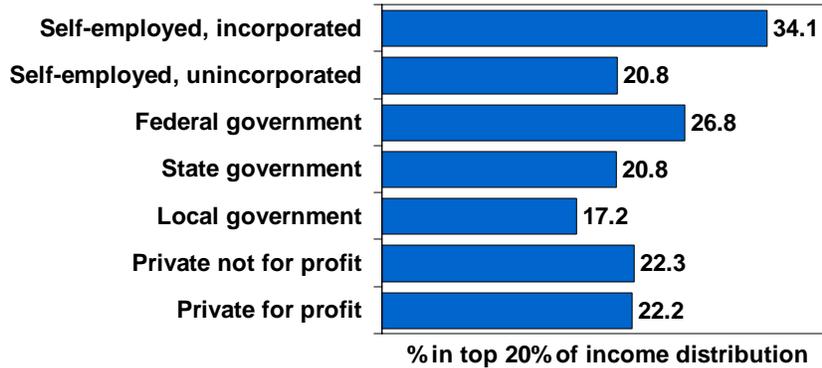
## Families with more earners are likely to be in the higher income categories



American Community Survey Public Use Microdata Sample. Number of earners is calculated only for family households.

## People self-employed in incorporated businesses most likely to be in top of income distribution

Minnesota 2005



American Community Survey Public Use Microdata Sample. Household income of employed people.

Households in the higher percentiles of income distribution tend to get most of their money from earnings. Low-income households rely more on Social Security and less on wages and salaries. This is consistent with the age data, indicating that many low income households consist of older, retired people.

### Trends in Distribution of Earnings

The distribution of earnings – wages, salaries and self-employment income – for year round, full time workers has in general become more unequal. Gini coefficients rose for all earners and for men and women in both Minnesota and the U.S. between 1980 and 2005. The distribution of wages is more unequal for men than for women, probably because more men have very high earnings.

## Gini Indices for Earnings of Full Time, Year Round Workers U.S. and Minnesota, Decennial Census and American Community Survey Data

		United States		Minnesota		
	Total	Males	Females	Total	Males	Females
1980 Census	0.344	0.326	0.277	0.343	0.321	0.273
1990 Census	0.366	0.365	0.308	0.353	0.351	0.285
2000 Census	0.396	0.405	0.343	0.368	0.377	0.310
2005 American Community Survey	0.398	0.405	0.358	0.374	0.378	0.335

Includes workers ages 16+ who were employed 50 or more weeks in the previous year (previous 12 months in the American Community Survey) and usually worked 35 or more hours per week.

Source: Integrated Public Use Microdata Series

<http://www.ipums.org/>

An examination of the data on earnings distribution shows that while the distribution overall has become more unequal, there are some counterbalancing trends. For example, the gap between male and female earnings has shrunk. Among full time, year round workers, the ratio of median female earnings to median male earnings rose from .57 in the 1980 Census to .76 in the 2005 American Community Survey. As more women earn higher incomes, the spread between the top and bottom of the female earnings distribution has grown. This is probably a major reason why Gini coefficients for earnings have risen faster for women than for men.

During some time periods, incomes of earners at the bottom of the distribution have grown more than incomes at the median. In general, however, earnings have shown bigger gains at the top of the distribution than at either the middle or the bottom. Gains in earnings outpaced inflation for the 1980 to 2000 period, but since 2000, evidence suggests lagging real income for those at the bottom of the distribution.

**U.S. and Minnesota Earnings at Selected Percentiles of the Earnings Distribution**  
**Full Time, Year Round Workers**  
**1980, 1990, 2000 and 2005**

Income Percentile	1980 Census	1990 Census	2000 Census	2005 American Community Survey	Percent change			
	United States	United States	United States	United States	1980 to 1990	1990 to 2000	2000 to 2005	1980 to 2005
10th	\$6,005	\$10,000	\$14,400	\$15,891	66.5	44.0	10.4	164.6
25th	\$9,005	\$15,000	\$21,000	\$24,448	66.6	40.0	16.4	171.5
50th (Median)	\$14,005	\$23,850	\$32,000	\$37,691	70.3	34.2	17.8	169.1
75th	\$20,055	\$35,000	\$50,000	\$58,064	74.5	42.9	16.1	189.5
90th	\$28,615	\$50,000	\$75,000	\$90,661	74.7	50.0	20.9	216.8
95th	\$36,005	\$66,500	\$100,000	\$134,464	84.7	50.4	34.5	273.5
	<b>Minnesota</b>	<b>Minnesota</b>	<b>Minnesota</b>	<b>Minnesota</b>				
10th	\$6,005	\$10,800	\$16,500	\$18,336	79.9	52.8	11.1	205.3
25th	\$9,695	\$16,000	\$24,000	\$27,504	65.0	50.0	14.6	183.7
50th (Median)	\$14,505	\$24,000	\$34,000	\$40,747	65.5	41.7	19.8	180.9
75th	\$20,800	\$35,000	\$50,000	\$61,120	68.3	42.9	22.2	193.8
90th	\$28,170	\$49,900	\$73,000	\$88,624	77.1	46.3	21.4	214.6
95th	\$36,005	\$65,000	\$100,000	\$122,240	80.5	53.8	22.2	239.5
Consumer Price Index	72.6	124.0	166.6	192.1	70.8	34.4	15.3	164.6

Workers ages 16 and older employed 50 or more weeks in the preceding year and working 35 or more hours per week.  
 Census data is based on income in the preceding calendar year.  
 American Community Survey data is based on income in the 12 months preceding the survey.

Sources: Income data from Integrated Public Use Microdata Series (IPUMS)  
<http://www.ipums.org/>

Consumer price index from U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (1984=100)  
<http://www.bls.gov/cpi/home.htm>  
 2005 value is the average of 2004 and 2005.

## Trends in Wealth Distribution

Data on wealth is more difficult to find than data on income and earnings. Wealth – net worth minus liabilities – includes assets such as bank accounts, stocks and bonds, mutual funds, real estate (including homes), and personal property such as cars and jewelry. All sources agree that the distribution of wealth is much more concentrated than the distribution of income, with a small percentage of households owning a large share of all assets. Wealth data is generally available only at the national level.

Three major surveys that cover wealth trends are the Survey of Income and Program Participation (SIPP), conducted by the U.S. Census Bureau; the Survey of Consumer Finances (SCF), conducted by the Federal Reserve Board; and the Panel Study on Income Dynamics, a longitudinal survey housed at the University of Michigan. These sources vary considerably in their estimates of average household or family wealth. Because the SCF is better designed to represent high-income households, it is the major source cited here.

### Estimates of Net Worth, by Source and Year (National Data)

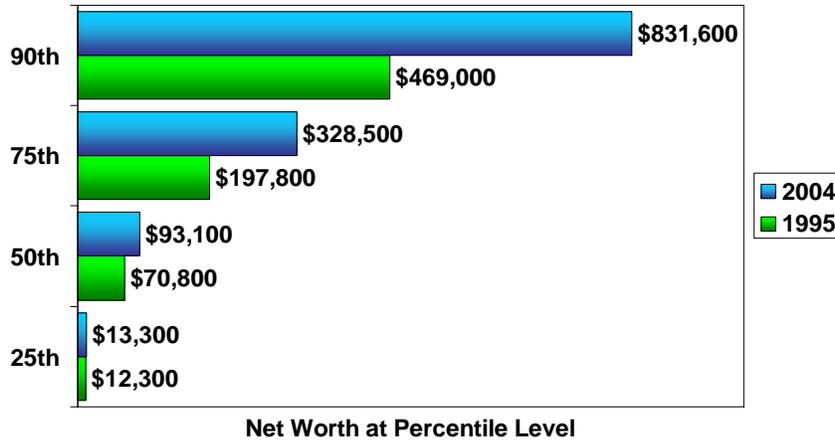
	Unit of analysis	Median Net Worth	Mean Net Worth
Survey of Consumer Finances, 2001	Families*	\$91,700	\$421,500
Survey of Consumer Finances, 2004	Families*	\$93,100	\$448,200
Survey of Income and Program Participation, 2000	Households	\$55,000	\$182,381
Panel Study of Income Dynamics, 2001	Families	\$64,300	\$257,800
Panel Study of Income Dynamics, 2004	Families	\$67,800	\$263,700

\* The definition of families in the Survey of Consumer Finances is similar to the Census Bureau definition of households. For example, 1-person households are included.

The Survey of Consumer Finances reports that wealth growth was slower between 2001 and 2004 than from 1998 to 2001. Stock ownership and the amount of stock owned declined, and debt increased. These negative trends were offset by rapid growth in the value of residential real estate. The result was a complex pattern of gains and losses in net worth.

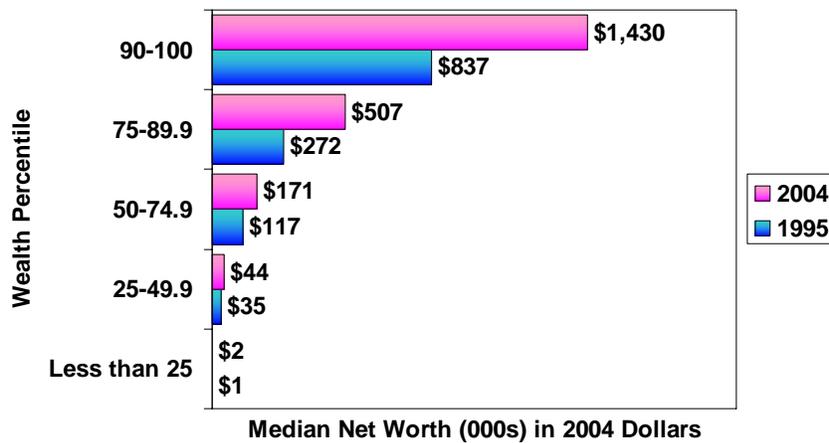
Long-run trends show considerable growth in wealth, particularly at the upper end of the distribution. For example, from 1995 to 2004 the median net worth of families over the 90<sup>th</sup> percentile grew \$593,400, or 71 percent, while median wealth below the 25th percentile went up by about \$5,000, a gain of 42 percent. In 1995, the median net wealth of the top 10 percent was 697 times as high as the median net wealth of the bottom 25 percent. By 2004, this ratio had grown to 841 to one.

## Wealth of American Households, 1995 and 2005



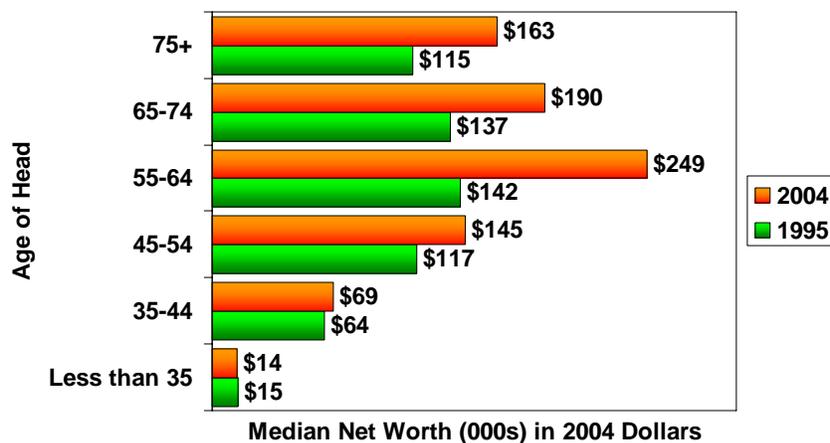
Survey of Consumer Finances, Federal Reserve Board

## Median Family Net Worth, by Percentile of Worth, U.S., 1995 and 2005



Survey of Consumer Finances, Federal Reserve Board

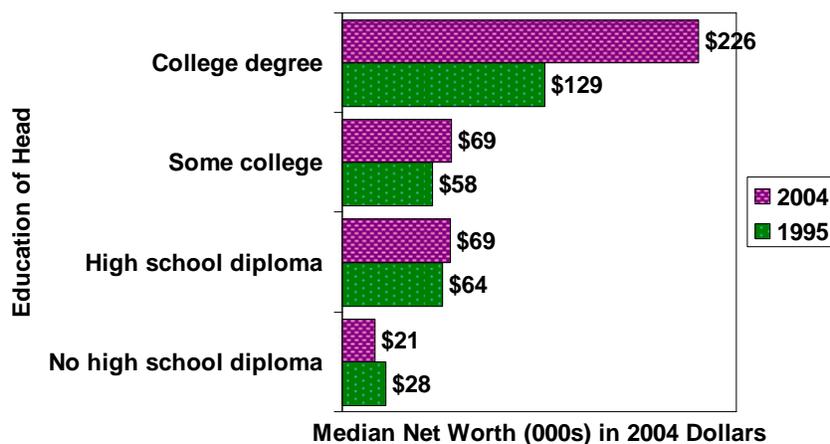
## Householders ages 55-64 have greatest net worth and greatest growth in net worth



Survey of Consumer Finances, Federal Reserve Board

There is a strong, though not perfect, relationship between income and net worth. Most wealthy households report high incomes. The factors that predict high income also predict wealth, though wealth tends to peak at a slightly later age than income. The 55- to 64-year-old age group had the highest median net worth in 2004. Education and race and ethnicity are also strongly related to wealth. The median net worth of college graduates is 10 times as high as that of people who did not finish high school. Families with a white householder had median assets 5.6 times as high as the median assets of families with a nonwhite or Latino head.

## College graduate householders have greatest net worth and greatest growth in net worth



Survey of Consumer Finances, Federal Reserve Board

## Common Criticisms of Income Distribution Measures

Studies of income distribution are sometimes criticized for ignoring important factors or trends. For example, whether or not people have employer-provided health insurance is an important determinant of economic well-being, but its value is generally not considered in calculating income, nor is the value of defined-benefit pension plans or Social Security considered in estimating household wealth. Self-employed people whose business had a bad year may appear at the bottom of the income distribution, or sometimes report negative incomes, even though they have substantial assets. Incomes of wealthier people are affected because capital gains are not counted as income.

Some critics argue that consumption is more relevant than income in measuring the standard of living, or that income should be examined after taxes, not before taxes. The Current Population Survey and American Community Survey collect data on before-tax income. Others argue that it does not matter if the distribution of income is becoming more unequal because real incomes generally have risen and people at all income levels can afford to buy more.

Another criticism is that the cross-sectional approach used in most studies of income distribution does not look at individual or household mobility. People often move from one income bracket to another, simply as part of a normal life cycle. Young people who have just finished high school or college generally have low incomes. As they gain experience, move up in the work world and get married, they usually move into higher income brackets and accumulate assets. Then, with retirement, incomes generally go down. Many events – illness, unemployment, a better job, or getting married or divorced – will cause people to move up or down the income ladder.

Data quality is another area of contention. For example, detractors say the Current Population Survey data may not adequately represent the very top of the income distribution because of censoring and top-coding. Using different years as a starting point can lead to different conclusions about the direction of the trend.

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