CHAPTER 4: INCOME & POVERTY

In this chapter, we focus on family income. Family income is the total amount of money that comes into the family from all of its members from all sources including wages, rents, and investment returns. For working families, most income is earned at work. This chapter focuses on income data for Wisconsin families, how these have changed in recent years, and how they compare to national trends. Trends in median income are an indicator of the living standards and wellbeing of families in the middle of the income distribution of the state. Families with income insufficient to cover for basic needs are considered to be "poor" because their income falls below the federal poverty threshold. Poverty rates help see problems at the bottom of Wisconsin's income distribution. With both income and poverty, this chapter describes the living standards at the middle and the bottom of Wisconsin's income distribution.

In the last two years, middle-class, working families have seen an important increase in their income compared to previous years. While real income for families and households is still below the benchmark established in 2000, the effects of the Great Recession are fading as median income has now finally recovered to levels comparable the historic highs of the early 2000s . This picture is partially consistent with the story from previous chapters. While real wages have not increased by much, jobs have certainly expanded in the state and more people are working. Some workers are getting more income even when wages are stuck simply by securing more hours of work. Some families have more income because two workers have solid jobs.

But while this is a good trend for the median family, the struggle to make ends for poor families in Wisconsin remains acute. For them, stagnant wages and unstable jobs are forcing painful choices among necessities like food, rent, and health care. In 2015, 11.4 percent of Wisconsin residents and more than 18 percent of Wisconsin children lived in poverty. Just getting a job is not enough to overcome the problem. As we saw in the previous chapter, a quarter of Wisconsinites who live in households with a steady commitment to work do not earn enough to comfortably support their families.

Fast Facts

$5,384
Increase in WI median four-person family income from 2010 to 2015, 2015 dollars

18.3%
Share of children in WI who live in poverty, 2015

11.4%
Share of all Wisconsinites who live in poverty, 2015

FEDERAL POVERTY THRESHOLDS, 2015

$12,331 for one individual under 65

$16,337 for a family with one parent and one child

$19,096 for a family with one parent and two children

$24,036 for a family with two parents and two children

DEFINING AND MEASURING POVERTY

The current federal "poverty line," adopted more than 40 years ago, was constructed by multiplying a family's subsistence food budget by three. A lot has changed since the guideline was established, not least that food has fallen from one-third, to less than one-eighth of a family's budget. That shift means that the poverty threshold is more out of touch with family needs each year. We could measure poverty better and develop a threshold that takes into account increasing housing, transportation, and health costs and adjusts for regional cost-of-living differences. Some progress has been made toward implementing a new measure, but for now we report using the outdated poverty line. Although flawed, it does allow us to generate data on the very lowest-income Americans and to examine the status of those families over the past four decades.

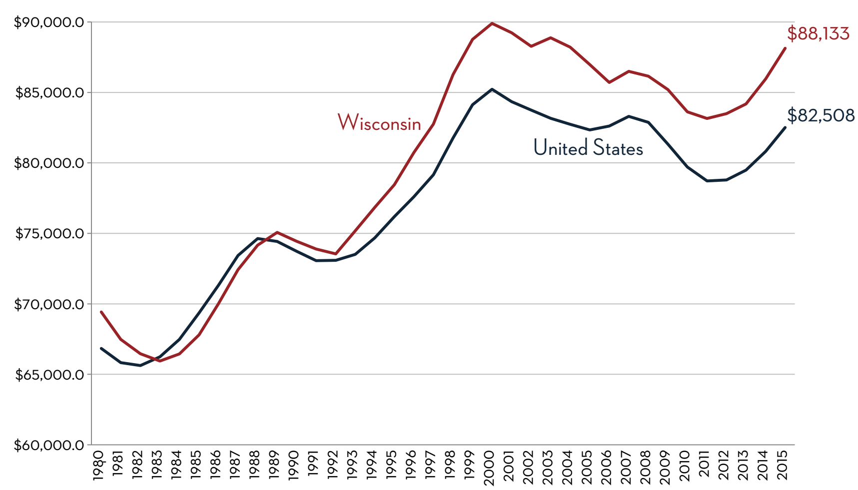
FOUR-PERSON FAMILY INCOME RECOVERING IN WISCONSIN

Figure 4.1 and Table 4.1 show median income data for four-person families from 1980 to 2015, adjusted for inflation. For more than two decades, Wisconsin median incomes have been higher than the national level, and both trends have roughly followed the same trajectory. In 2015, Wisconsin's four-person median income ($88,133) exceeded the national ($82,508) by a little less than $6000. Although every year is different, this gap has been widening in favor of Wisconsin in the last ten years.

Regardless of the comparison with the nation, however, Wisconsin median incomes had been falling since the beginning of the century, but a noteworthy change took place in the last two years when the state has seen a dramatic increase that puts it now less than $4000 below the level of 2000. This is welcome news and a trend worth watching. Hopefully there will be sustained income increases, rather than just a blip in the downward path that has been established for the state and nation in this new century.

figure 4.1

MEDIAN FOUR-PERSON FAMILY INCOME, WISCONSIN AND US, 1980-2015 *(three-year moving averages; 2015 dollars)*



EPI analysis of CPS and ACS data. Data series changes from CPS to ACS in 2004-2005.
Note: Last data point corresponds to the actual income in 2015 (not averaged).

Adjusting for inflation, the state median income for four-person families in 2015 is higher compared to 2013, and substantially higher compared to 2010, when the negative impact of the Great Recession was most evident in families' incomes. Compared to 2013, last year's median income for a family of four members is almost $4400 higher. Compared to family income in 2000, when the state posted the highest median family income year in its history, 2015 median incomes are $3700 lower in Wisconsin, and about $3200 lower in the United States.

Like Wisconsin, other states in the Midwest posted slow income growth in the 1980s and surged in the 1990s (Table 4.1). Iowa was hit the hardest during the 1980s, while Wisconsin, Michigan, Ohio, Minnesota, and Illinois fared better. In the 1990s, these same states posted growth rates significantly higher than national growth. Family income in Wisconsin, Illinois, and Indiana grew more slowly than other states in the Midwest, although they still grew faster than the national rate.

The years since 2000 have been devastating throughout the Midwest. The recovery of the last two years has helped, but the scarring effects of the previous decline are still hard-felt. Michigan and Indiana remain far below the median income level of 2000, at about $13,000 and $9000 below, respectively. Iowa has experienced some recovery. And Minnesota, in particular, shows a strong economy with an edge of more than $3000 in median income above the 2000 level, and almost $9000 above the level of 2010. This, it should be noted, follows a path of strong growth in the 1980s and, especially, in the 1990s. Put in regional perspective, Wisconsin's losses were not as severe, and its recovery is slightly ahead of many neighboring states.

table 4.1

MEDIAN INCOME FOR FOUR-PERSON FAMILIES, WISCONSIN, US, AND PEER STATES, 1980-2015

2015 dollars

						CHANGE				
	1980	1990	2000	2010	2015	1980-1990	1990-2000	2000-2010	2000-2015	2010-2015
Wisconsin	$68,606	$75,917	$91,842	$82,749	$88,133	$7,311	$15,925	-$9,093	-$3,709	$5,384
UNITED STATES	$66,640	$72,874	$85,652	$79,107	$82,508	$6,234	$12,778	-$6,545	-$3,144	$3,401
Illinois	$71,761	$77,742	$93,758	$85,964	$90,080	$5,981	$16,016	-$7,795	-$3,678	$4,116
Indiana	$65,848	$69,795	$85,447	$73,159	$76,600	$3,947	$15,652	-$12,288	-$8,847	$3,441
Iowa	$66,399	$66,965	$79,724	$78,528	$82,481	$566	$12,759	-$1,196	$2,757	$3,953
Michigan	$69,406	$76,555	$94,616	$76,357	$81,951	$7,149	$18,060	-$18,259	-$12,665	$5,594
Minnesota	$69,548	$75,652	$97,111	$91,592	$100,494	$6,103	$21,459	-$5,519	$3,383	$8,902
Ohio	$68,190	$75,282	$85,684	$76,750	$82,005	$7,092	$10,402	-$8,934	-$3,679	$5,255

EPI analysis of CPS and ACS data; data series changes from CPS to ACS in 2004-2005

HOUSEHOLD INCOME: SLIGHT INCREASE SINCE 2010, BUT STILL BELOW 2000 LEVEL

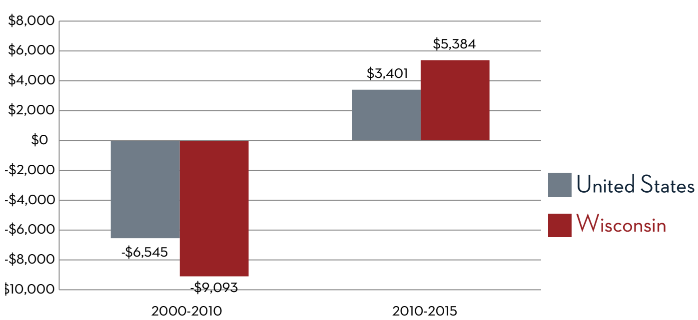
Before we turn to the changes in the income of households in the state, some definitions are in order. "Household" data include families living together, single person households, and housing units where unrelated people share a residence. In 2015, Wisconsin had 2,319,538 households and the median income of those households was $55,425 per year. Household income is much lower than four person family income for a number of reasons. Single individuals often have less income than families with multiple earners. Older retired people with fixed incomes have lower incomes than four person families as well. "Family" is a narrow definition referring to the co-residence of two or more related individuals, and "four-person families" are a subset of the family category. In general, "four-person families" have two adults in the unit and their income is higher because of the greater hours of work that they commit to the labor market. We include data for both four-person families (with the highest median income) and households (with lower income) to get a sense of distribution of income increases in the Wisconsin economy.

Figure 4.2 shows changes in both four-person family incomes and household incomes. From between 2000 to 2010, income declined for both families and households. But since 2010, income gains appear to be concentrated on four-person families. In those families where two adults at work often contribute to the total family income, we see income has grown by about $5400 in Wisconsin compared to $3400 in the nation. Considering all households, however, median income in the state now is barely above the level of 2010, whereas household median income in the nation is almost $3000 higher. So the good news in income growth has not reached broadly to all households. Wisconsin household income is lower than national household income: $55,425 in Wisconsin compared to $56,516 nationally. Worse, whereas the household median income in the country is just $1000 below the level of the year 2000, in Wisconsin household median income is still $6600 below the 2000 benchmark.

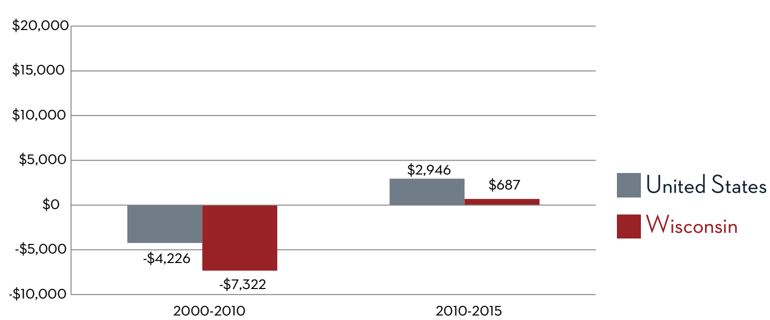
figure 4.2

CHANGE IN MEDIAN INCOME BY DECADE

Four-Person Families



Households



EPI analysis of CPS and ACS data. Note: The source from 2004-2005 changes from CPS to ACS.

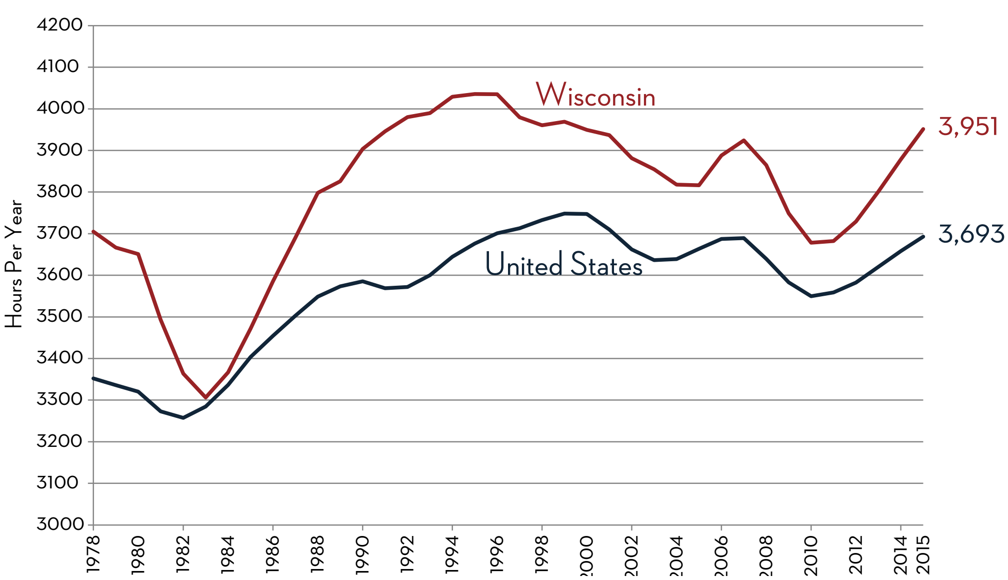
FAMILY HOURS OF WORK

We showed in previous chapters that the median wage in the state is very similar to the national median wage. How is it that here we show higher incomes in Wisconsin for four-person families? The reason for higher income in the state is that Wisconsinites commit more hours to paid work. Two-parent families in Wisconsin are more likely to work and work more hours per year than the average in the nation, providing higher income to families in the state. Data on family hours of work show Wisconsin families' additional hours spent in the labor market and also help explain both the decline and the recent recovery in income in the last few years.

Figure 4.3 shows average hours of work for families with two parents for both Wisconsin and the United States. Wisconsin families' additional hours of work are shown clearly in the entire period. The figure also shows how the 1980s recession represented first a convergence in the hours of work of families in Wisconsin and the nation, and then how Wisconsin families dedicated more hours to work to make up for declining incomes. For much of the late 1990s, Wisconsin's families committed nearly 4000 hours to the labor market, which is just under full-time work for both adults (2080 hours per year). The 2007 recession meant a decline in the work hours for all families, but the decline was more pronounced in the state compared to the national average. Since 2010 the opposite is true: two-parent families have committed more hours to work, and the increase has been more rapid for families in Wisconsin. Just like work hour declines are an indication of weak labor market conditions, more hours partially indicate labor market recovery: more adults getting more full-time jobs, more people transitioning from unemployment into work. The picture of increasing work hours is consistent with the trend of family income increase that we showed above.

figure 4.3

AVERAGE TOTAL FAMILY HOURS OF WORK, TWO-PARENT FAMILIES, WISCONSIN AND US, 1978-2015 *(three-year moving averages)*



EPI analysis of CPS data

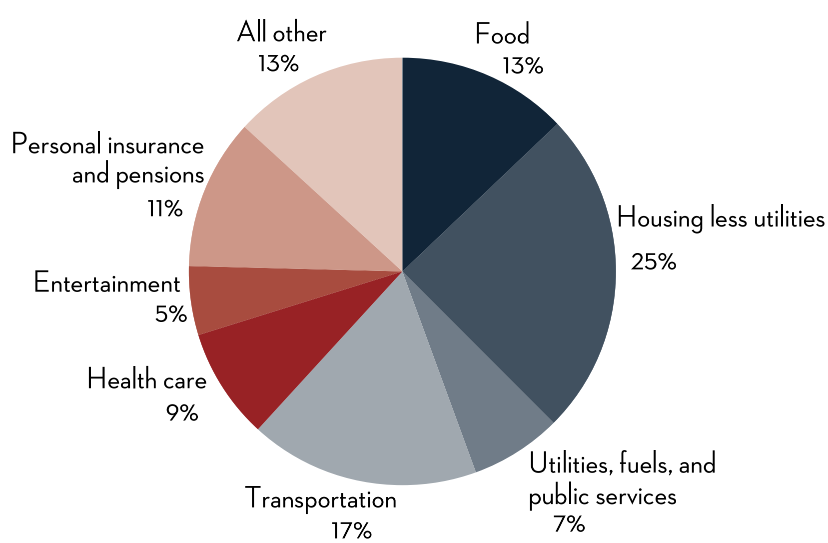
Family Expenditure Data Shows How Money is Spent

Data on annual expenditures provide an indication of how family/household income is spent. This is of interest in helping understand living standards of families and households and also in identifying relevant points for policy to support families and households. Figure 4.4 presents data for the Midwest region from the Consumer Expenditure Survey conducted by the Bureau of Labor Statistics. Data are not available at the state level. Consistent with previous years, housing is the largest single category for expenditure, accounting for a quarter of annual expenditures in the Midwest. Costs of transportation are the second largest category, accounting for 17 percent of expenditures in the region. Taken together, housing and transportation represent more than four of every ten dollars a family spent in the Midwest. Utilities, fuels, and public services account for another 7 percent of total household expenditures. Personal insurance and pensions represent a little more than 11 percent of total expenditures, and health care accounts for another 8 percent.

With income still below 2000 levels, families and households are still struggling. Reducing the cost of living is one direct way to support those caught in the economic bind. Public programs to make transportation more affordable and increase the energy efficiency of housing stock are two ways to put money back in the pockets of Wisconsin's working families. Reducing the cost of living in meaningful ways could increase security and stability for workers and families who need it most.

figure 4.4

SHARES OF AVERAGE ANNUAL HOUSEHOLD EXPENDITURES, MIDWEST, 2015 *(average total expenditure $55,071)*



BLS Consumer Expenditure Survey, 2015.

POVERTY IN WISCONSIN

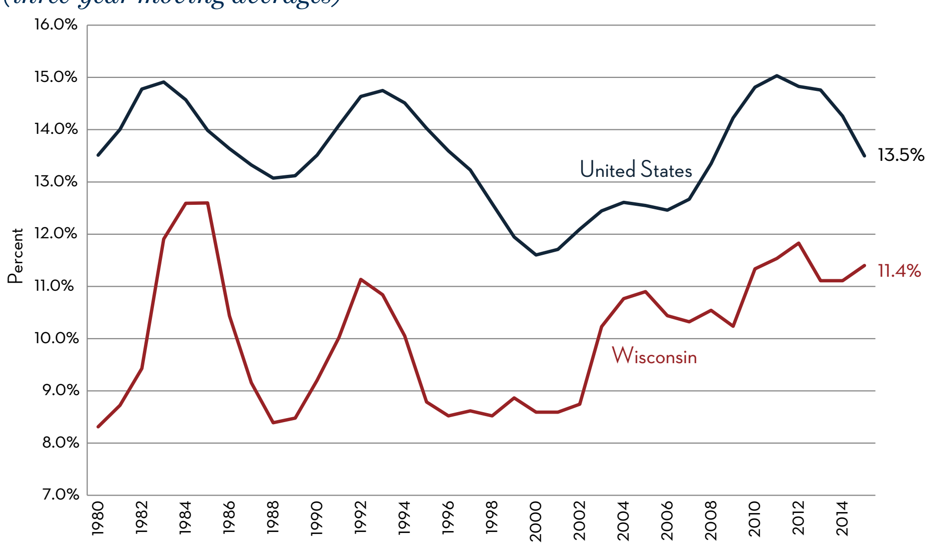
The federally designated "poverty line" is a useful threshold that indicates whether families do not have enough economic means to cover basic expenses and maintain a minimal standard of living. This level is adjusted for each type of family. In 2015, a family of two adults and two children under 18 years old is said to be poor if their income is below $24,036 per year. However, many people have argued that the income established by the federal poverty standard is woefully inadequate to cover basic needs, especially in urban areas. Because of the inadequacy of the federal poverty line, some have proposed that the minimum amount a family needs to avoid substantial material stress and deprivation is twice as much the poverty threshold. It has become common to use twice the poverty line to compute a more realistic estimate of how many people do not make enough money to sustain a minimally decent standard of living.

Wisconsin has posted relatively low poverty rates in the last decades as Figure 4.5 shows. Despite being always below the national level, poverty in Wisconsin has had significant shifts in the last decades. After a spike at the beginning of the 1990s, poverty remained at low levels for most of the decade and until the beginning of the 2000s. From 2002 to 2004, poverty in Wisconsin grew substantially and moved close to the US standard. From 2005 to 2009 poverty was again stable and increasingly lower than the national trend. The consequences of the Great Recession became evident as there were large increases in poverty beginning in 2009. In 2015, poverty in the state stood at 11 percent, slightly up from a lower level in 2014, but well below the high point of 2012. The national poverty rate was 13.5 percent in 2015.

figure 4.5

POVERTY RATE, WISCONSIN AND US, 1980-2015

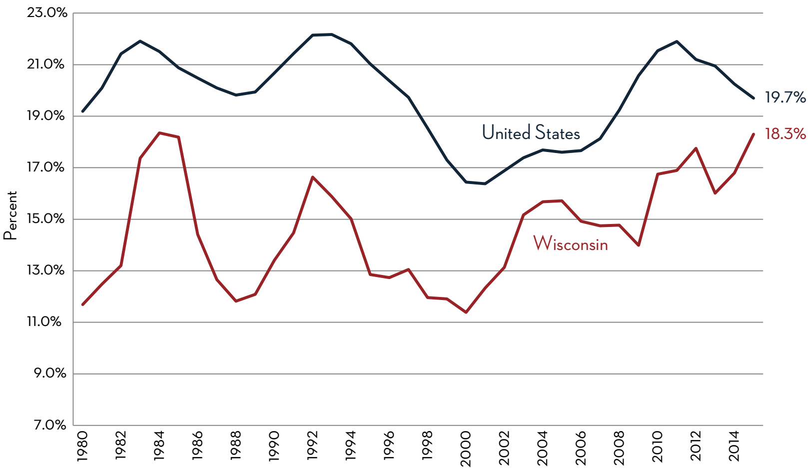
(three-year moving averages)



EPI analysis of CPS March supplement

figure 4.6

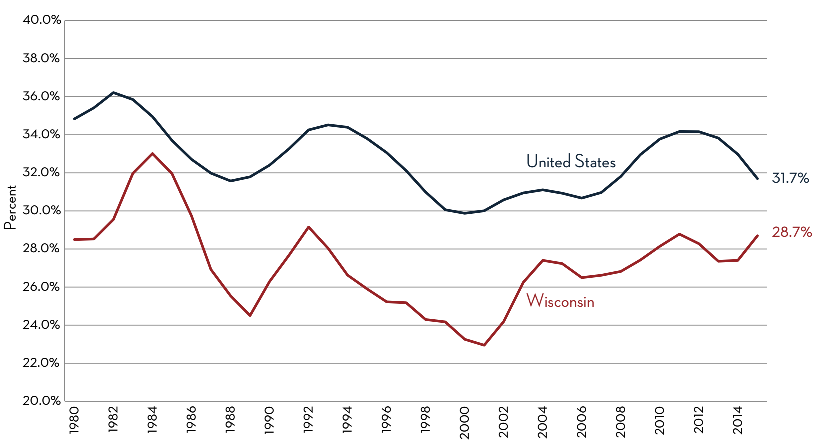
CHILD POVERTY RATE, WISCONSIN AND US, 1980-2015 *(three-year moving averages)*



EPI analysis of CPS March supplement.
Note: Last data point corresponds to the actual poverty rate in 2015 (not averaged).

figure 4.7

POPULATION BELOW TWICE THE POVERTY LINE, WISCONSIN AND US, 1980-2015
(three-year moving averages)



EPI analysis of CPS March supplement.
Note: Last data point corresponds to the actual poverty rate in 2015 (not averaged).

Children are much more likely to be poor than adults. Figure 4.6 shows the poverty rate for children from 1980 to 2015. As in the case of the total poverty rate, the child poverty rate in the state has generally stayed below the national rate. In 2015, about 18 percent of the state's children lived in poverty, which constitutes an alarming increase compared to previous years. Substantively, this means that about one in six children in the state are growing up in situations of serious deprivation, inadequately housed or fed, and facing other stresses arising from situations of vulnerability and instability such as crime and violence.

Figure 4.7 shows the evolution over time of the share of the population with total income below twice the poverty line. In 2015, almost 29 percent Wisconsinites fell below this marker, a level we reached after the crisis of 2008, and from which have not yet recovered.

CONCLUSION

The data on income in the state is consistent with the story clear in jobs and wages. First, for four-person families in the state, income is rising. After significant declines and stagnation across for much of the last decade, this is welcome news indeed. However, the growth in income is not particularly strong – four-person families remain below the 2000 benchmark, once inflation is taken into account. And the growth is not broadly shared – household income (which measures income for a broader population in the state) is stagnant and poverty remain troublingly high.