The Levy Economics Institute of Bard College

Levy Institute Measure of Economic Well-Being

Economic Well-Being in U.S. Regions and the Red and Blue States

EDWARD N. WOLFF and AJIT ZACHARIAS

March 2005

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This report is available on the Levy Institute website at www.levy.org.

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Preface

This report analyzes regional aspects of economic well-being according to four regions identified by the U.S. Bureau of the Census: the Northeast, Midwest, South, and West. Using the official measures and the Levy Institute Measure of Economic Well-Being (LIMEW), the authors examine how the average U.S. household fared from 1989 to 2001 and discuss disparities in well-being among population subgroups and across regions. In light of the 2004 presidential election, the report also examines patterns of well-being in the "Red" and "Blue" states, where the electoral majority favored George W. Bush and John Kerry, respectively.

The LIMEW shows higher rates of growth of economic well-being than the official measures—money income and extended income—because of our more comprehensive measure of income from wealth. The relative levels of well-being appeared to be similar, irrespective of the year or the measure of well-being. Average households in the South and Northeast were the least and most well-off, respectively, in all years and by all measures. However, the Northeast fared the worst in terms of growth and distribution of economic well-being and in rising disparities among subgroups, despite its robust macroeconomic performance.

The authors' findings suggest that, at both regional and national levels, disparities in well-being among various population subgroups depended on the yardstick used for measuring well-being. The most disappointing results were greater inequality in 2001 than in 1989 and growing polarization between the very rich and very poor, by all measures of well-being and in all regions. On a more positive note, there was a national decline in racial disparity over time, driven largely by falling disparities in base income and income from wealth. The Northeast was the exception, as racial disparity there was higher in 2001 than in 1989.

The Blue states consistently lead the Red states in economic well-being. Although the gap between them narrowed between 1989 and 2001, it widened during Bush's first term in office according to the money income measure, which fell more rapidly in the Red states than the Blue states. Therefore, noneconomic factors seem to have played a decisive role in the last presidential election.

I welcome your comments and suggestions.

Dimitri B. Papadimitriou, *President*
March 2005

Introduction

The official measure of household economic well-being in the United States is gross money income (MI), but that measure does not adequately reflect households' command over, or access to, the products produced in a market economy over a given period of time. The U.S. Census Bureau's most comprehensive measure, which we refer to as extended income (EI), is a better approximation of a household's command over commodities because it accounts for the most important types of taxes and noncash transfers, and attempts to include better measures of income from wealth. However, in our view, EI has important limitations because it does not adequately capture the economic advantage from wealth and ignores public production of services (e.g., education) and provisioning within households (e.g., child care).

The Levy Institute Measure of Economic Well-Being (LIMEW) is a more comprehensive measure than the official measures (*see* Table 1 for a comparison of components between the LIMEW and EI). Details regarding our sources and methods are outlined in Wolff, Zacharias, and Caner (2004a). Our previous reports have provided estimates of the LIMEW and its components for households in the United States and some key demographic groups, and estimates of overall economic inequality. We have also compared the picture of economic well-being formulated from the LIMEW, EI, and MI measures at the national level (Wolff, Zacharias, and Caner 2004a, 2004b).

In this report, we examine regional aspects of economic well-being in the United States according to four regions identified by the Census Bureau: Northeast, Midwest, South, and West.[1] While the 1990s are widely regarded as an exceptional period of economic growth (e.g., Blinder and Yellen 2001), it is important to note that rapid economic growth was confined to the latter half of the decade. As shown in Table 2, Panel A, real per capita output in the United States was only 2.5 percent higher in 1994 than in 1989. In the Northeast and West, the period was, in fact, one of stagnant or declining growth.[2] Similarly, the unemployment rate was higher in 1994 than in 1989, except for the Midwest (Panel B). In contrast, the latter half of the decade appeared to fit the description of the "roaring nineties" (Stiglitz 2003). In 2001, per capita output in the United States was 17.3 percent higher than in 1995, while the Northeast and West fared even better. It is remarkable that even though 2001 was a recession year, the U.S. unemployment rate was lower than in 1989 (4.7 versus 5.3

Table 1 A Comparison of the LIMEW and Extended Income (EI)

LIMEW	EI
Money income (MI)	Money income (MI)
Less: Property income and government cash transfers	*Less*: Property income and government cash transfers
Equals: Base money income	*Equals:* Base money income
Plus: In-kind compensation from work	*Plus*: In-kind compensation from work
Employer contributions for health insurance	Employer contributions for health insurance
Equals: Base income	*Equals:* Base income
Less: Taxes	*Less*: Taxes
Income taxes[1]	Income taxes
Payroll taxes[1]	Payroll taxes
Property taxes[1]	Property taxes
Consumption taxes	
Plus: Income from wealth	*Plus*: Income from wealth
Annuity from nonhome wealth	Property income and realized capital gains (losses)
Imputed rental cost of owner-occupied housing	Imputed return on home equity
Plus: Cash transfers[1]	*Plus*: Cash transfers
Plus: Noncash transfers[1,2]	*Plus*: Noncash transfers
Plus: Public consumption	
Plus: Household production	
Equals: LIMEW	*Equals*: EI

Note: (1) The amounts estimated by the Census Bureau and used in EI are modified to make the aggregates consistent with NIPA estimates. (2) The government-cost approach is used: the Census Bureau uses the fungible value method for valuing Medicare and Medicaid in EI. The main difference between the two methods is that, while the fungible value method assigns an income value for a benefit according to the recipient's level of income, the government-cost approach assigns an income value for a benefit irrespective of the recipient's income.

percent), since 1989 had the lowest unemployment rate during the 1980s expansion. This pattern holds true for all regions except the West, which had the same unemployment rate in both years.

Using the official and Levy measures, we examine how the average household has fared in terms of economic well-being in different regions of the country from 1989 to 2001. We also discuss disparities in well-being among population subgroups and across regions, as measured by the LIMEW and EI. Regional trends in overall inequality are examined in terms of the LIMEW, EI, and MI.[3] Finally, in light of the 2004 presidential elections, we discuss patterns of well-being in the so-called Red and Blue states, where the electoral majority favored George W. Bush and John Kerry, respectively.

Level and Growth of Well-Being

The median value of the LIMEW is larger than that of either MI or EI because of the number and type of components. An interesting finding from our previous work is that the size of the discrepancy is substantial for the United States as a whole. The median value of MI or EI was about 65 percent of the median

Table 2 Output Growth and Unemployment by Region, 1989 to 2001

A. Percentage Change in Per Capita Real Gross Product by Region, 1989 to 2001

Region	1989–1994	1995–2001
Northeast	0.6	20.4
Midwest	6.7	15.6
South	4.2	14.0
West	-1.8	21.3
United States	2.5	17.3

B. Unemployment Rate (in percent)

Region	1989	1994	1995	2001
Northeast	4.5	6.5	6.0	4.4
Midwest	5.4	5.1	4.6	4.5
South	5.7	5.9	5.4	4.7
West	5.3	7.2	6.6	5.3
United States	5.3	6.1	5.6	4.7

Sources: Percentage change in real gross product by region for 1989 to 1994 is calculated from Friedenberg and Beemiller (1997), and for 1995 to 2001 from Panek and Obidoa (2003), by combining state-level data.

Unemployment rates are from the U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics program. Data extracted from http://www.bls.gov/lau/home.htm on December 21, 2004.

Table 3 Economic Well-Being by Measure and Region, 1989 to 2001

A. Median Values (in thousands of 2001 dollars)

	1989					1995					2000					2001				
Measure	North-east	Mid-west	South	West	U.S.	North-east	Mid-west	South	West	U.S.	North-east	Mid-west	South	West	U.S.	North-east	Mid-west	South	West	U.S.
Levy measures																				
LIMEW	71.9	64.2	59.2	65.4	64.0	70.5	67.6	61.2	68.7	66.0	74.9	71.9	66.2	76.2	71.1	77.8	73.2	67.1	75.3	72.0
PFI[1]	54.2	48.2	43.9	50.1	48.2	52.9	50.9	45.8	52.5	49.8	58.8	54.9	49.7	56.9	53.8	59.4	54.6	50.0	56.1	54.0
LIMEW–C[2]	44.9	41.0	36.8	42.4	40.5	44.3	42.8	38.7	43.4	41.6	47.7	45.7	41.5	46.8	44.8	47.9	45.3	41.9	46.2	44.6
Official measures																				
Money income	46.5	41.1	36.7	44.3	41.3	41.8	41.5	35.9	41.8	39.5	45.1	45.5	39.4	46.3	43.2	45.4	44.0	39.0	45.0	42.2
Extended income	45.7	40.2	36.7	43.7	40.7	43.6	42.0	37.5	43.5	40.9	46.1	45.1	40.2	46.8	43.9	46.5	44.0	39.9	45.5	43.2

B. Percentage Change

	1989–1995					1995–2001					1989–2001				
Measure	North-east	Mid-west	South	West	U.S.	North-east	Mid-west	South	West	U.S.	North-east	Mid-west	South	West	U.S.
Levy measures															
LIMEW	-1.9	5.3	3.5	5.0	3.2	10.2	8.3	9.6	9.5	9.1	8.2	14.0	13.5	15.0	12.6
PFI[1]	-2.3	5.6	4.3	4.9	3.2	12.2	7.1	9.3	6.9	8.5	9.5	13.2	14.0	12.1	12.0
LIMEW–C[2]	-1.4	4.5	5.1	2.4	2.7	8.3	5.9	8.2	6.6	7.3	6.8	10.7	13.7	9.1	10.1
Official measures															
Money income	-10.2	1.0	-2.2	-5.6	-4.4	8.7	6.0	8.6	7.7	6.8	-2.4	7.1	6.3	1.6	2.1
Extended income	-4.5	4.6	2.2	-0.3	0.3	6.5	4.6	6.4	4.4	5.7	1.7	9.4	8.8	4.1	6.0

1. Post-Fiscal Income (PFI) = LIMEW less the value of household production
2. LIMEW–C = LIMEW less the value of household production and public consumption

Source: Authors' calculations

LIMEW in 1989 and about 60 percent in 1995, 2000, and 2001. As shown in Table 3, Panel A, this pattern holds for all regions.

In any given year, the relative levels of well-being appear to be quite similar, irrespective of the measure of well-being. The largest difference across measures was for the West in 1989, where the median was higher than the national average by 2 percent, according to the LIMEW, and by 7 percent according to MI or EI. The average household in the South was the least well-off, and in all years by all measures. Its relative disadvantage was the highest in 1989, when its median MI was 90 percent of the national average. In 2001, its well-being was 92 to 93 percent of the national average, according to the LIMEW, MI, and EI measures. The Northeast was the clear leader in 1989 by all measures, with a median value that was 12Ð13 percent higher than the national average. Its advantage, however, fell to 8 percent by 2001. The West and Midwest showed only negligible variations in relative income levels over the 1989Ð2001 period.

According to the MI measure, the lower relative advantage of the Northeast in 2001 compared to 1989 was accompanied by a reduction in the well-being of the average household in that region. Median MI in the Northeast was 2.4 percent lower in 2001 than in 1989 (about $1,000 in real terms) while that for the nation as a whole was 2.1 percent higher (about $900 in real terms). While the median level of EI and the LIMEW fell in the Northeast between 1989 and 1995, the decline was offset by the subsequent growth in well-being as per the two measures. As a result, the relative slippage of the Northeast in terms of EI and the LIMEW resulted from the faster growth in other regions (Table 3, Panel B).

The rate of improvement in the LIMEW for regions other than the Northeast was roughly similar between 1989 and 2001 (13.5Ð15 percent). However, in terms of MI and EI, the West experienced much lower rates of growth (1.6 and 4.1 percent, respectively) than the South (6.3 and 8.8 percent) and the Midwest (7.1 and 9.4 percent). The three Levy measures show much higher rates of growth than MI or EI because of the rapid growth in our measure of income from wealth relative to income from wealth included in the other measures.

The mean values of economic well-being display the same hierarchy among the regions as the median values of the LIMEW and EI (Table 4). In 2001, the leader was the Northeast, at 7.1 percent above the national average, while the laggard was the South, at 6.2 percent below. The Midwest matched the national average, and the West was about 5 percent higher. While

Table 4 **Components of Economic Well-Being in the LIMEW and EI, 1989 and 2001 (Mean values in thousands of 2001 dollars)**

	1989									
	LIMEW					EI				
Component	**Northeast**	**Midwest**	**South**	**West**	**U.S.**	**Northeast**	**Midwest**	**South**	**West**	**U.S.**
Base income	51.2	44.0	40.9	48.6	45.3	51.2	44.0	40.9	48.6	45.3
Income from wealth	15.2	18.4	13.9	17.2	16.0	10.9	7.5	7.4	10.0	8.7
Net government expenditures	0.4	1.3	2.0	0.0	1.1	-9.0	-5.8	-4.6	-7.7	-6.4
Transfers	8.0	7.1	6.7	7.0	7.1	5.9	5.5	5.1	5.4	5.4
Taxes	-16.5	-12.8	-11.4	-14.7	-13.5	-15.0	-11.3	-9.7	-13.0	-11.8
Public consumption	8.9	6.9	6.7	7.7	7.4					
Household production	19.8	17.8	17.5	17.6	18.1					
Total	86.6	81.5	74.3	83.3	80.4	53.1	45.7	43.7	50.9	47.6
Addendum:										
Money income (MI)	57.3	49.3	46.4	54.4	51.0					

	2001									
	LIMEW					EI				
Component	**Northeast**	**Midwest**	**South**	**West**	**U.S.**	**Northeast**	**Midwest**	**South**	**West**	**U.S.**
Base income	58.0	52.9	48.9	56.4	53.2	58.0	52.9	48.9	56.4	53.2
Income from wealth	20.3	19.1	18.5	20.4	19.4	10.4	8.1	7.3	9.5	8.6
Net government expenditures	1.1	0.6	1.8	-0.6	0.9	-9.5	-7.4	-5.4	-9.0	-7.4
Transfers	10.9	8.4	9.1	8.6	9.2	7.5	6.3	6.5	6.2	6.6
Taxes	-19.9	-16.6	-14.8	-18.4	-17.0	-17.0	-13.7	-11.8	-15.2	-14.0
Public consumption	10.1	8.8	7.6	9.2	8.7					
Household production	20.8	20.1	18.7	22.2	20.2					
Total	100.2	92.7	87.8	98.3	93.6	58.9	53.6	50.9	56.9	54.4
Addendum:										
Money income (MI)	63.6	57.5	53.9	61.3	58.2					

Source: AuthorsÕcalculations

the relative slippage of the Northeast between 1989 and 2001 was accompanied by an absolute decline of median MI, the mean value of MI showed a robust growth of 11 percent, suggesting a growing inequality in the distribution of money income. Indeed, the growth in mean values was considerably higher than that of median values for all measures of well-being in the four regions, with the exception of the LIMEW in the Midwest.[4]

Estimates of net government expenditures in each region are considerably different between the LIMEW and EI. In particular, net government expenditures favor households in the LIMEW more than in the EI measure. The main reason behind this difference is the exclusion of public consumption from the definition of government expenditures in EI.

Both measures show that the contribution of net government expenditures to the growth in the mean value of well-being was lower in 2001 than 1989. For the nation as a whole, the EI measure of *net taxes* increased $979 from 1989 to 2001 to reach $7,399, while in the LIMEW calculation, *net benefits* decreased $195 to reach $869 in 2001.[5] The exception to this general pattern was the Northeast, where, according to the LIMEW, net government expenditures in 2001 were much higher than 1989 ($1,139 versus $403).

Table 5 **Economic Well-Being by Region, Measure, and Characteristic, 1989 and 2001 (Mean values in 2001 dollars)**

	LIMEW							
	Northeast		Midwest		South		West	
Characteristic	**1989**	**2001**	**1989**	**2001**	**1989**	**2001**	**1989**	**2001**
Race								
White	89,597	105,500	83,918	94,981	79,558	93,921	87,529	102,545
Nonwhite	72,617	82,132	64,415	80,193	58,679	74,589	71,559	90,601
Family Type								
Married couple	109,372	134,070	99,923	121,224	93,601	114,555	104,745	124,264
Single female	74,724	85,827	67,476	77,555	58,666	72,063	66,419	86,965
Single male	90,662	103,911	76,897	80,833	67,270	82,565	81,172	88,698
Age								
Less than 65 years	89,157	102,276	78,459	94,187	73,790	88,485	81,387	99,162
Less than 35 years	71,274	78,023	60,256	71,383	57,191	68,320	61,608	79,095
35–50 years	96,135	111,244	88,501	102,427	83,440	95,488	92,290	107,358
51–64 years	100,119	110,117	88,200	104,250	82,227	99,728	91,430	109,546
65 or older	78,301	93,295	92,023	86,790	76,028	85,267	90,975	94,612
Residence								
Central cities	73,707	82,484	68,878	81,142	69,835	82,558	78,207	93,886
Suburbs	97,407	114,560	93,069	104,443	84,918	98,866	88,215	107,157
Rural	75,532	82,129	76,688	83,037	64,937	78,136	77,973	84,904
All Households	86,630	100,223	81,452	92,650	74,275	87,820	83,316	98,339

	Extended Income (EI)							
	Northeast		Midwest		South		West	
Characteristic	**1989**	**2001**	**1989**	**2001**	**1989**	**2001**	**1989**	**2001**
Race								
White	55,706	62,792	47,043	55,481	47,082	55,057	52,624	60,283
Nonwhite	40,594	45,493	36,359	43,790	33,553	41,766	46,241	50,665
Family Type								
Married couple	66,965	78,047	56,813	69,984	54,735	66,018	62,129	71,052
Single female	37,594	41,095	32,521	38,214	29,502	35,479	37,779	42,545
Single male	55,088	59,749	45,886	45,958	41,623	45,754	54,091	50,321
Age								
Less than 65 years	56,358	63,285	48,355	57,420	46,118	53,707	52,329	59,424
Less than 35 years	45,240	50,553	38,033	44,663	36,404	42,617	41,258	47,925
35–50 years	61,674	67,653	54,380	63,312	52,275	58,736	58,217	65,476
51–64 years	61,765	67,859	53,391	61,209	50,329	58,323	59,158	63,330
65 or older	42,213	44,039	36,288	39,216	34,752	39,943	45,125	45,438
Residence								
Central cities	42,275	46,714	39,558	45,283	42,104	48,597	49,845	56,039
Suburbs	61,196	68,991	55,628	63,142	52,238	60,311	56,416	62,499
Rural	43,253	44,723	38,555	45,234	35,404	40,339	41,281	43,643
All Households	53,065	58,885	45,692	53,639	43,658	50,862	50,940	56,896

Source: Authors' calculations

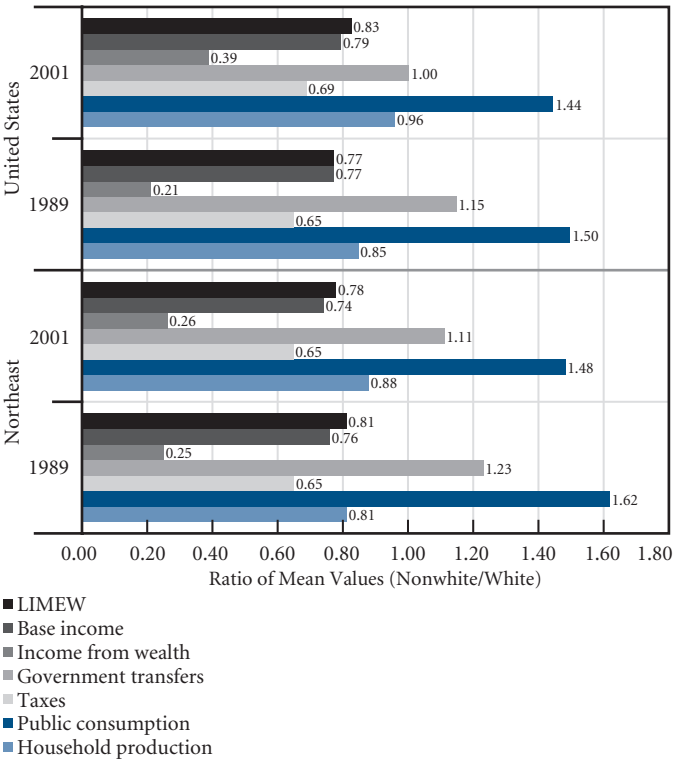
Disparities in Well-Being

Our earlier work has shown that disparities in well-being among population subgroups for the nation as a whole depend on the yardstick used for measuring well-being. This finding is also valid at the regional level (Table 5).

Disparity between nonwhites and whites[6] (as measured by the ratio of mean values for the LIMEW and EI) in 2001 was somewhat higher in the Northeast and the South, as compared to the other two regions. While the disparity was lower in 2001 than in 1989 for the nation as a whole, the Northeast was an exception to this pattern by both measures. The national decline in disparity by race between 1989 and 2001 was driven largely by falling disparities in two components of the LIMEW: base income and income from wealth. However, nonwhites in the Northeast did not benefit from this favorable development, as racial disparity, according to the LIMEW, widened from 0.81 to 0.78 (Figure 1). As measured by EI, the racial gap increased in the West, as the nonwhite-to-white ratio decreased from 0.88 to 0.84 (Figure 2). The two measures displayed different trends over time mainly because of their different treatment of income from wealth. The income-from-wealth component of the LIMEW showed a modest narrowing in the racial gap due to the slightly faster growth of this component for nonwhites. On the other hand, the racial disparity in property income and net realized capital gains widened as a result of a fall in this component among nonwhites in the West.

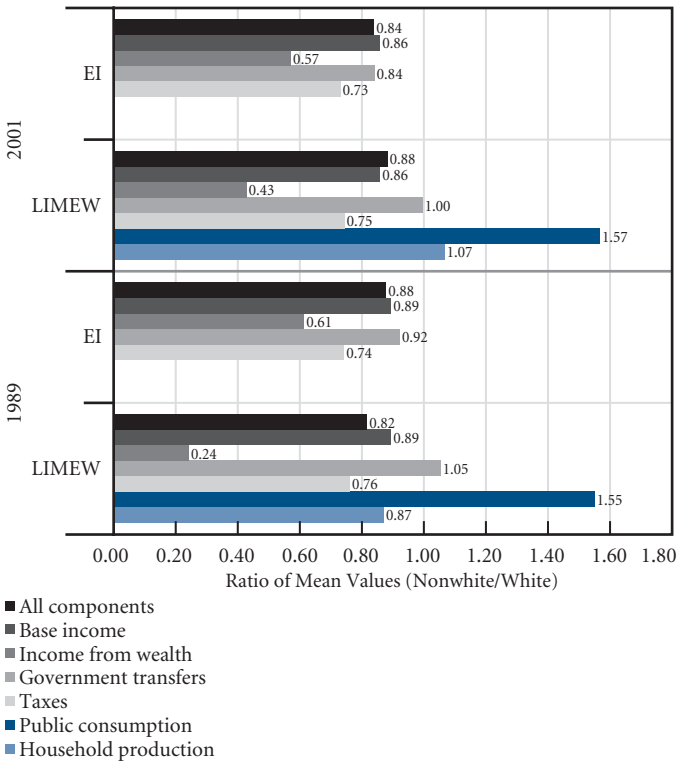
The values of well-being measures for three groups of families are also reported in Table 5. Married-couple families had the highest average level of well-being, followed by single male– and then by single female–headed families. This order was true for the nation as a whole and all four regions. Disparities between married-couple and single female–headed families (as measured by the ratio of mean values of the LIMEW and EI) were similar in all regions in 2001 except the West, where the gap was much narrower by the LIMEW measure. Nationally, in 2001, the mean value of the LIMEW for single female–headed families was 65 percent of that for married couples, while in the West it was 70 percent (Figure 3). The lower disparity in the

Figure 1 Racial Disparities by LIMEW Component: United States and the Northeast, 1989 and 2001



Source: Authorsí calculations

Figure 2 Racial Disparities by Measure and Component: West, 1989 and 2001



Source: Authors' calculations

West can be traced to lower gaps in base income, income from wealth, and household production. The West also experienced a decline in the disparity between 1989 and 2001, while there was no change for the nation as a whole. The main reason was the relatively rapid growth in income from wealth and household production for single female–headed families in the West.

The elderly lost some ground relative to the nonelderly between 1989 and 2001 for the nation as a whole by both measures (Table 5). In terms of the LIMEW, the trend was the result of a reduction in the relative advantage of the elderly with respect to income from wealth and government transfers. The relative position of the elderly in the Northeast improved slightly, in contrast to the national trend, due to an increase in the value of household production of the elderly relative to the nonelderly.

Central city residents in the Northeast and Midwest fared poorly compared to suburbanites, by a wider margin than their counterparts in the South or West. As shown in Table 5, this relationship is true for both LIMEW and EI. The main factor is the substantially lower base income of central city residents as compared to suburbanites in the Northeast and Midwest. The relative disadvantage is exacerbated by lower income from wealth and value of household production (*see* Figure 4 for a comparison between the Northeast and West).

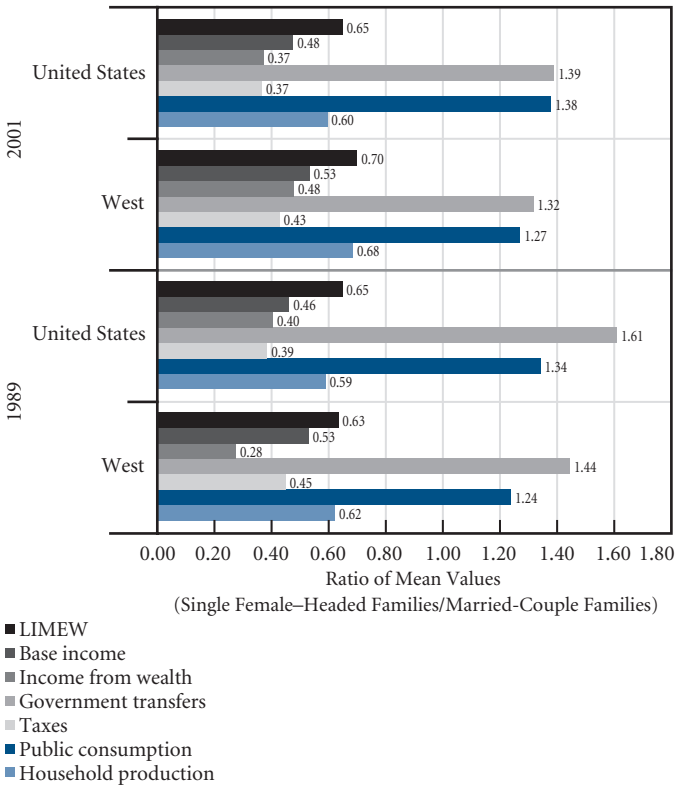
The gaps in economic well-being between suburban and rural residents widened between 1989 and 2001 in the Northeast and West, but remained fairly stable in the other two regions (*see* Figure 5 for the Northeast). The rural-to-suburban ratio of LIMEW mean values fell from 0.78 to 0.72 in the Northeast and from 0.88 to 0.79 in the West. The slippage of rural residents' well-being appears to be driven by falling relative base income and income from wealth.

Inequality

The level of inequality measured by the Gini coefficients of three measures of well-being (MI, EI, and the LIMEW) is shown in Table 6. Inequality in all regions was greater in 2001 than in 1989 according to all measures.[7] The Northeast experienced the greatest increase in inequality: 4.6 percentage points for the LIMEW, 5.5 points for EI, and 6.2 points for MI. The lowest increase in inequality was in the Midwest by all measures.

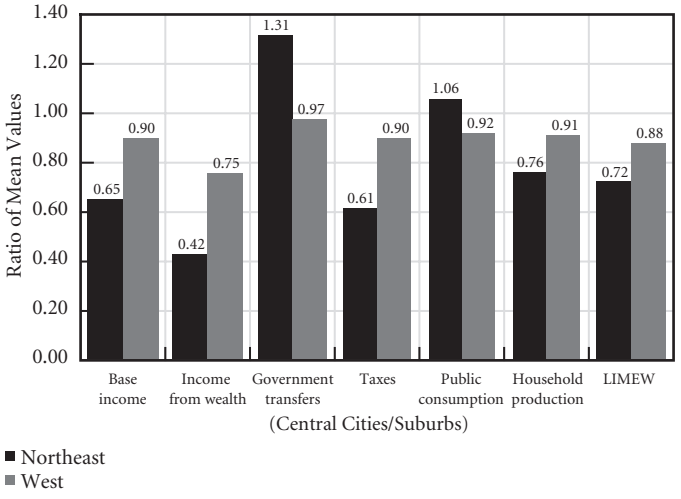
The Midwest saw a smaller increase in inequality according to the LIMEW between 1989 and 2000. What accounts for the

Figure 3 Disparities between Single Female–Headed Families and Married-Couple Families by LIMEW Component: United States and the West, 1989 and 2001



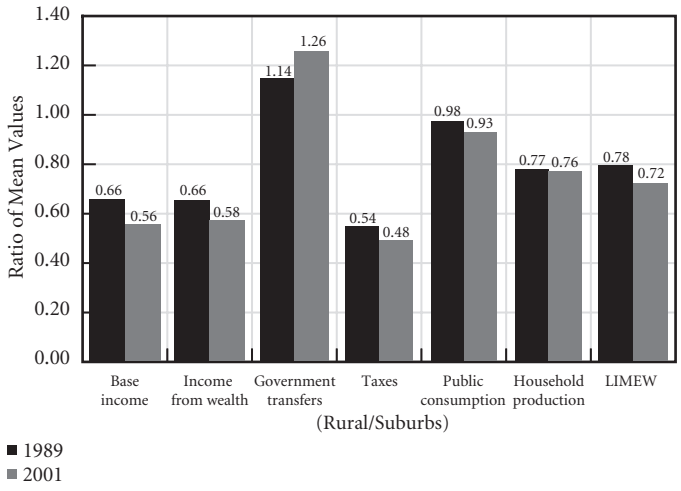
Source: Authors' calculations

Figure 4 Disparities between Residents in Central Cities and Suburbs by LIMEW Component: Northeast and West, 2001



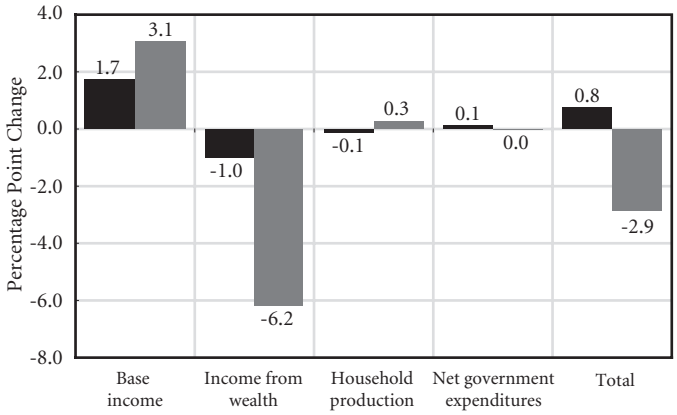
Source: Authors' calculations

Figure 5 Disparities between Rural and Suburban Residents by LIMEW Component: Northeast, 1989 and 2001



Source: Authors' calculations

Figure 6 Contribution by LIMEW Component to the Change in the Gini Coefficient: Midwest and the Rest of the United States, 1989 to 1995



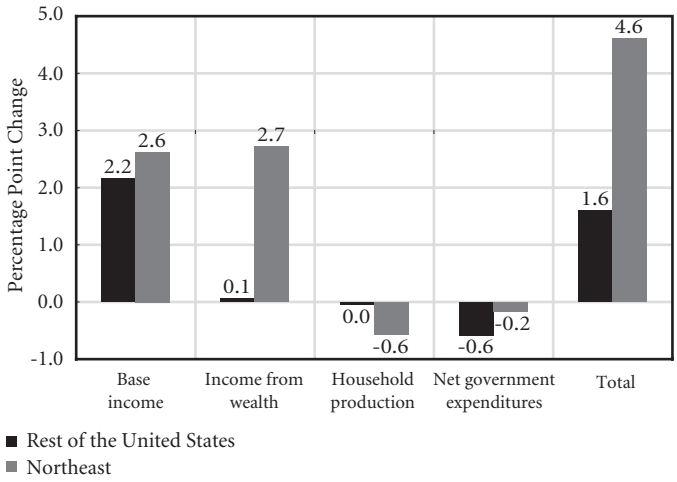
Source: Authors' calculations

Table 6 Economic Inequality by Region and Measure, 1989 to 2001 (Gini coefficient x 100)

Region	1989	1995	2000	2001
	LIMEW			
Northeast	36.5	37.0	42.9	41.1
Midwest	39.7	36.8	40.0	39.9
South	38.6	39.2	42.9	41.1
West	39.1	40.2	43.0	40.8
United States	38.7	38.6	42.4	40.9
	Extended Income (EI)			
Northeast	36.9	39.6	41.7	42.4
Midwest	35.4	37.3	39.0	39.1
South	38.0	39.9	41.8	42.0
West	35.6	39.3	40.0	40.1
United States	36.9	39.2	40.8	41.1
	Money Income (MI)			
Northeast	41.8	45.8	47.3	48.0
Midwest	40.4	42.8	43.9	44.3
South	42.9	45.6	46.7	47.0
West	40.7	45.0	45.5	45.7
United States	41.8	45.0	46.0	46.4

Source: Authors' calculations

Figure 7 Contribution by LIMEW Component to the Change in the Gini Coefficient: Northeast and the Rest of the United States, 1989 to 2001



Source: Authors' calculations

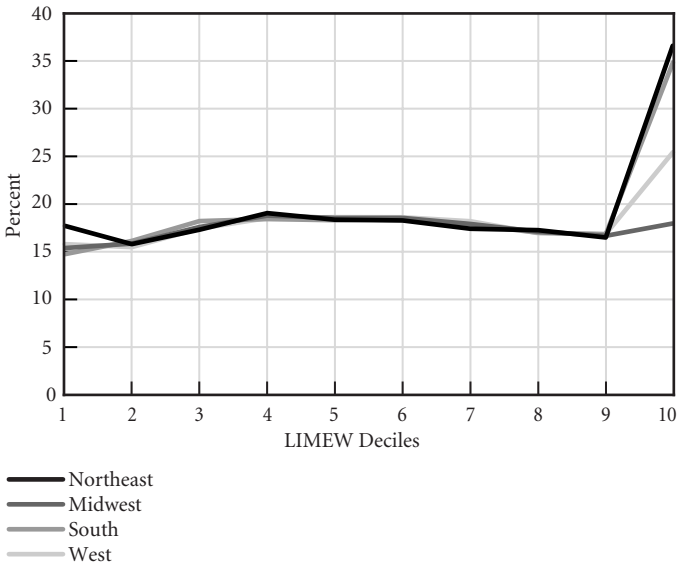
smaller increase? As shown in Table 6, the increase in inequality in the Midwest was comparable to other regions between 1995 and 2000, but inequality fell by 2.9 percentage points between 1989 and 1995, when there was a modest increase in other regions. Thus, the pronounced difference in the increase in inequality between the Midwest and the rest of the United States between 1989 and 2000 is due to the divergent trend between 1989 and 1995.

The Gini coefficient of the LIMEW can be expressed as the sum of the contributions to inequality made by its components (base income, income from wealth, net government expenditures, and household production).[8] Hence, the change in the Gini coefficient can also be expressed as the sum of the changes in the contributions made by the components. The total change in the Gini coefficient for the Midwest and the rest of the United States moved in opposite directions between 1989 and 1995 (Figure 6). The inequality decline in the Midwest was primarily due to the decline in the contribution to inequality made by income from wealth. In turn, the larger decline in the contribution of income from wealth in the Midwest was mainly the result of a larger fall in the share of income from wealth in the LIMEW between 1989 and 1995.[9] While the share of income from wealth in the LIMEW for the Midwest fell by 5.7 percentage points (from 22.6 percent to 16.9 percent), it fell only by 1 percentage point (from 18.9 percent to 17.9 percent) for the rest of the United States.

Similarly, the higher increase in inequality in the Northeast between 1989 and 2001 was also driven by the higher growth in the share of income from wealth.[10] The share of income from wealth in the LIMEW rose from 17.6 to 20.2 percent between 1989 and 2001 in the Northeast, while for the rest of the United States the change was only slight: from 20.5 to 20.8 percent. As can be seen from Figure 7, the result was a much larger increase in the contribution of the wealth component to inequality and hence a much larger increase in inequality for the Northeast compared to the rest of the United States.

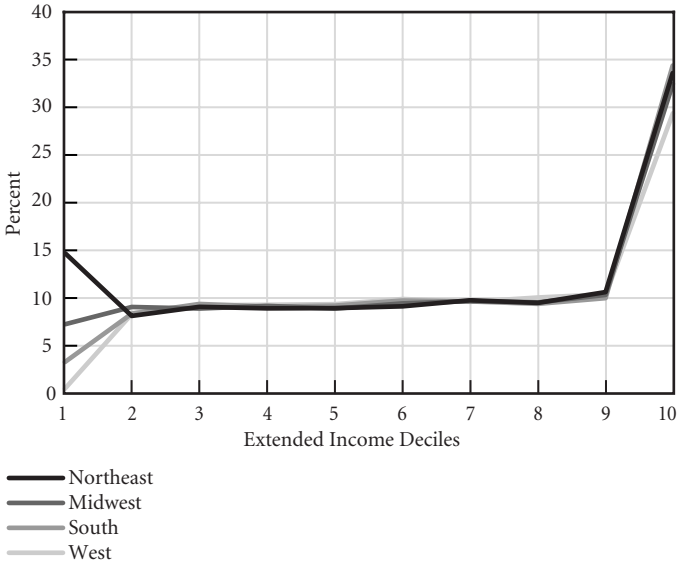
We also examined how the change in economic well-being was distributed along the economic ladder. Figures 8 and 9 present estimates by region and decile on the basis of the LIMEW and EI. A striking observation is that the growth in economic well-being was uniform for households in the second through ninth deciles in all regions. The figures confirm the trend toward greater inequality indicated by the Gini coefficient: the top decile experienced the fastest growth in economic

Figure 8 Percentage Change in the LIMEW by Region and Decile, 1989 to 2001



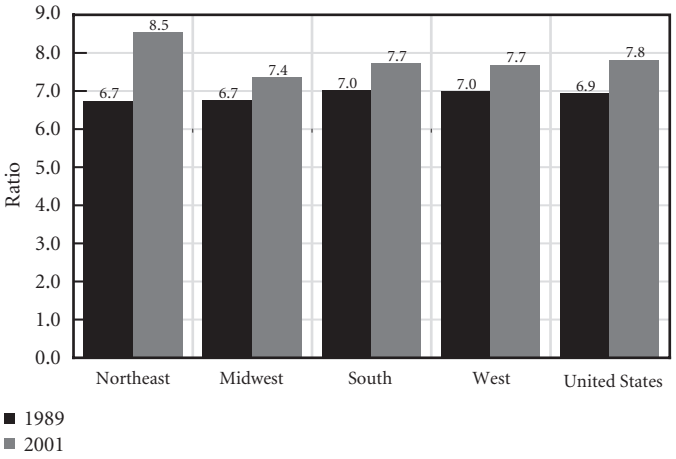
Source: Authors' calculations

Figure 9 Percentage Change in Extended Income (EI) by Region and Decile, 1989 to 2001



Source: Authors' calculations

Figure 10 LIMEW Ratio of 95th to 10th Percentiles, 1989 and 2001



Source: Authors' calculations

well-being in all regions except the Midwest, where the growth in the LIMEW for the top decile was similar to that of the other deciles.

The polarization between the very rich and very poor also grew in all regions between 1989 and 2001 (Figure 10). The least well-off U.S. household in the top 5 percent of the LIMEW distribution was about seven times better off than the most well-off household in the bottom 10 percent of the distribution in 1989, but almost eight times better off in 2001.[11] As shown in Figure 10, polarization grew in all regions. This pattern was accompanied by growth in economic well-being at both ends of the distribution in all regions except the Northeast, where the richest household in the bottom 10 percent of the LIMEW distribution declined by 0.5 percentage points. The picture of polarization from using the EI measure is broadly the same as the LIMEW, if not more extreme.[12] Our examination of other percentile ratios (e.g., 90/50, 90/10, and 50/10) also shows an increase in polarization, irrespective of the measure of well-being.

The Red and Blue States

We begin by noting that the average household is much better off economically in the Blue states than the Red states (Table 7).[13] In 2001, the ratio of median values between Red and Blue states was 88 percent for the LIMEW, 87 percent for EI, and 86 percent for MI. The LIMEW ratio was fairly constant between 1989 and 2001, but the EI and MI ratios reveal a process of catching up by the Red states. The EI ratio increased from 82 to 87 percent as EI grew 9.6 percent in the Red states, but only 3.5 percent in the Blue states, and the MI ratio increased from 81 to 86 percent as MI rose 6.8 percent in the Red states, but only 0.7 percent in the Blue states. The catching-up process came to a halt after 2001,

Table 7 Economic Well-Being in the Red and Blue States by Measure, 1989 to 2003

A. Median Values (in 2001 dollars)

	LIMEW			Extended Income (EI)			Money Income (MI)		
	Red	Blue	U.S.	Red	Blue	U.S.	Red	Blue	U.S.
1989	59,642	68,759	63,970	36,917	44,915	40,742	37,014	45,846	41,310
1995	62,200	70,291	66,028	38,205	44,137	40,884	36,523	42,889	39,510
2000	66,900	76,345	71,097	41,116	47,134	43,882	40,348	46,610	43,195
2001	67,890	77,094	72,014	40,470	46,485	43,199	39,520	46,162	42,198
2002				40,201	45,748	42,680	39,377	45,284	41,772
2003							38,514	45,690	41,580

B. Percentage Change

1989–1995	4.3	2.2	3.2	3.5	-1.7	0.3	-1.3	-6.5	-4.4
1995–2001	9.1	9.7	9.1	5.9	5.3	5.7	8.2	7.6	6.8
1989–2001	13.8	12.1	12.6	9.6	3.5	6.0	6.8	0.7	2.1
2001–2003							-2.5	-1.0	-1.5

Note: Red states are states whose electoral college votes were won by the Republican Party in the 2004 presidential election. Blue states were won by the Democratic Party.

Source: Authors' calculations

at least according to MI. The MI ratio fell from 86 to 84 percent in 2003 as MI declined by 2.5 percent in real terms for the Red states and 1.0 percent for the Blue states.[14] The Red states continued to support George W. Bush despite both an absolute and relative loss of money income during his first term.[15]

A breakdown of economic well-being by measure, component, and state groupings in 1989 and 2001 is shown in Table 8. The divergence in net government expenditures between the two groups is striking. According to the LIMEW, net government expenditures were positive in the Red states (residents received more from the government in terms of transfers and public consumption than they paid in taxes) but they were negligible in 1989, and negative in 2001, in the Blue states. Although residents of Blue states received, on average, somewhat more from the government in terms of public consumption and transfers than Red state residents, they also paid substantially more taxes, both in absolute and relative terms. The average tax rate (total taxes divided by money income) was 31 percent in the Blue states and 27 percent in the Red states.

The other components of the LIMEW and EI were higher in the Blue states than the Red states, including base income, income from wealth (though not in 1989 for the LIMEW), and household production. Moreover, both mean and median amounts of wealth were higher in the Blue states (not shown). In 2001, the ratio of mean and median wealth between the Red and Blue states was 0.89 and 0.95, respectively.

Base income was the largest single contributor to the overall growth in the LIMEW from 1989 to 2001 for both the Red and Blue states. However, the increase in base income was greater in absolute terms in the Red states and accounted for 71 percent of the growth in the LIMEW, compared to 51 percent in the Blue states. In contrast, the increase in income from wealth in the Blue states was more than double that of the Red states and accounted for 32 percent of the growth of the LIMEW, compared to 19 percent in the Red states. This trend reflects the much higher growth of mean wealth in the Blue states—55 percent versus 46 percent in the Red states (not shown). The Red states enjoyed a greater gain in government transfers, a smaller gain in public consumption, and a slightly lower decrease in taxes than the Blue states. Overall, net government expenditures declined slightly more in the Blue states than the Red states.

Before we present the evidence on racial disparities, it is important to note prominent differences between the Red and Blue states in terms of racial composition of householders. The

Table 8 Economic Well-Being by Component in the Red and Blue States, 1989 and 2001 (Mean values in thousands of 2001 dollars)

	1989					
	LIMEW			EI		
Component	Red	Blue	U.S.	Red	Blue	U.S.
Base income	40.5	50.2	45.3	40.5	50.2	45.3
Income from wealth	16.1	15.8	16.0	7.2	10.1	8.7
Net government expenditures	2.0	0.1	1.1	-4.5	-8.4	-6.4
Transfers	6.7	7.5	7.1	5.1	5.7	5.4
Taxes	-11.3	-15.6	-13.5	-9.6	-14.0	-11.8
Public consumption	6.6	8.2	7.4			
Household production	17.5	18.6	18.1			
Total	76.2	84.6	80.4	43.3	51.9	47.6
Addendum:						
Money income (MI)	46.0	56.0	51.0			

	2001					
	LIMEW			EI		
Component	Red	Blue	U.S.	Red	Blue	U.S.
Base income	48.8	57.8	53.2	48.8	57.8	53.2
Income from wealth	18.2	20.6	19.4	7.3	9.9	8.6
Net government expenditures	1.9	-0.3	0.9	-5.3	-9.6	-7.4
Transfers	8.9	9.5	9.2	6.4	6.7	6.6
Taxes	-14.7	-19.5	-17.0	-11.7	-16.4	-14.0
Public consumption	7.7	9.7	8.7			
Household production	18.9	21.5	20.2			
Total	87.9	99.7	93.6	50.8	58.1	54.4
Addendum:						
Money income (MI)	53.8	62.9	58.2			

	Contribution to Growth between 1989 and 2001 (in percent)					
	LIMEW			EI		
Component	Red	Blue	U.S.	Red	Blue	U.S.
Base income	10.9	9.1	9.8	19.1	14.8	16.5
Income from wealth	2.7	5.7	4.3	0.1	-0.3	-0.2
Net government expenditures	-0.1	-0.4	-0.2	-1.8	-2.5	-2.1
Transfers	2.8	2.3	2.5	3.0	2.0	2.4
Taxes	-4.4	-4.5	-4.4	-4.8	-4.5	-4.5
Public consumption	1.4	1.8	1.6			
Household production	1.8	3.5	2.6			
Total	15.2	17.8	16.4	17.4	12.0	14.2
Addendum:						
Growth in money income (MI)	16.8	12.5	14.2			

Note: Red states are states whose electoral college votes were won by the Republican Party in the 2004 presidential election. Blue states were won by the Democratic Party.

Source: Authors' calculations

Red states had a larger African American population in 1989 and 2001 (13 and 14 percent, respectively) than the Blue states (9 and 10 percent, respectively). The share of Hispanics[16] was similar in the two groups (9–10 percent in 2001) but the Asian population was larger in the Blue states (5 percent versus 2 percent in 2002).[17]

Householders in all race and ethnic groups were better off in the Blue states (Table 9). The gap between non-Hispanic whites in the two sets of states widened between 1989 and 2001 because of faster growth in economic well-being in the Blue states. In contrast, nonwhites residing in the Red states—as a whole and divided into subgroups—experienced faster growth in well-being than nonwhites in the Blue states. While the growth in well-being was similar for all groups in the Blue states, nonwhite groups experienced much higher growth than whites in the Red states. As a result, racial and ethnic disparities declined in the Red states between 1989 and 2001, but showed no significant improvement in the Blue states.

Racial disparities were remarkably similar in the Red and Blue states in 2001: the ratio of mean LIMEW and mean EI between black and non-Hispanic white householders was 0.75 and 0.68, respectively.[18] The racial gap narrowed in the Red states between 1989 and 2001, while it remained unchanged in the Blue states, according to the LIMEW, and widened according to the official measures.

Relative to non-Hispanic whites, Hispanics were somewhat better off in the Red states compared to the Blue states in 2001 (the respective mean values of the LIMEW were 81 and 79 percent of whites). Moreover, the ethnic gap in well-being narrowed more (or widened less) in the Red states than the Blue states between 1989 and 2001.[19] "All others" (mainly Asians) in the Red states experienced the fastest growth in well-being among all groups in both sets of states and dramatically narrowed the gap with whites from a LIMEW ratio of 0.86 in 1989 to virtual parity in 2001. The EI measure for all others yielded the same results. In the Blue states, all others were at parity or even slightly better off than whites in 1989.

In 1989, overall inequality in well-being was higher in the Red states than the Blue states according to all three measures of well-being (Table 10). However, between 1989 and 2001, inequality advanced considerably more in the Blue states than the Red states, so inequality was greater in the Blue states in 2001.

Conclusion

Median MI in the United States was only 2.1 percent higher in 2001 than in 1989, despite robust macroeconomic performance and healthy employment trends during the 1990s. Comparisons between the two years show that median MI in the Northeast was lower in 2001 (-2.4 percent) while in the West it was slightly higher (+1.6 percent). Interestingly, these regions experienced the fastest growth in per capita output during the second half of the 1990s. In contrast, the South and Midwest showed considerable improvement in median MI (6.3 and 7.1 percent, respectively).

Median EI in the United States showed about three times higher growth (6 percent) than median MI between 1989 and

Table 9 Economic Well-Being by Race and Hispanic Origin in the Red and Blue States, 1989 and 2001 (Mean amounts in 2001 dollars)

	LIMEW				Extended Income (EI)			
	Red		Blue		Red		Blue	
Race and Hispanic Origin[1]	1989	2001	1989	2001	1989	2001	1989	2001
White	80,809	92,674	88,208	104,619	45,909	54,372	54,304	61,746
Nonwhite	57,790	73,732	70,769	86,301	32,684	40,410	42,645	48,187
Black	55,372	69,567	65,803	78,441	30,736	36,912	38,225	41,875
Hispanic	60,281	74,874	68,711	82,818	35,134	41,535	41,091	44,896
All others	69,231	89,571	86,194	103,998	40,231	53,209	55,873	63,188
All households	76,232	87,855	84,632	99,725	43,279	50,820	51,913	58,124

Note: Red states are states whose electoral college votes were won by the Republican Party in the 2004 presidential election. Blue states were won by the Democratic Party.

1. Hispanics can be of any race. "White," "black," and "all others" refer to non-Hispanics.

Source: Authors' calculations

2001. The change in the Northeast was positive but low (1.7 percent), while in the West the growth was about 2.5 times higher than the improvement in median MI. The other two regions also showed a higher growth when well-being was reckoned in terms of EI rather than MI, although the difference was not as sizeable as in the case of the Northeast or West.

Median LIMEW for the nation grew by 12.6 percent between 1989 and 2001—more than twice as much as median EI. Using the LIMEW rather than EI as the yardstick of well-being yielded a much higher rate of growth in all regions, especially the Northeast and the West.

The three measures show that the median well-being was highest in the Northeast among the four regions, although its relative advantage was lower in 2001 than in 1989. In terms of MI, there was an absolute decline in the Northeast, while the lower relative advantage in terms of EI and the LIMEW resulted from slower growth in the region. The average household in the South was the least well-off by all measures (92 to 93 percent of the national average in 2001).

We also examined disparities among population subgroups across the regions. Nationally, there was a decline in disparity by race between 1989 and 2001, driven largely by the falling disparities in two components of the LIMEW: base income and income from wealth. However, nonwhites in the Northeast did not benefit from this favorable trend, so racial disparity there in 2001 was higher than in 1989. Among families, married-couple families and single female–headed families were the most and least well-off, respectively. Disparity between the two groups of families was similar in all regions except the West, where it was notably smaller in 2001. A decline in the disparity between the two groups occurred in the West during the 1990s, due to the relatively rapid growth in income from wealth and household production for single female–headed families.

The elderly lost some ground relative to the nonelderly between 1989 and 2001, due to a reduction in their relative advantage in income from wealth and government transfers. Central city residents in the Northeast and Midwest fared poorly relative to suburban residents, by a larger magnitude than their counterparts in the South or West. The gap between suburban and rural residents widened between 1989 and 2001 in the Northeast and West, but it remained stable in other regions.

Economic inequality in all regions was higher in 2001 than in 1989 by all measures of well-being. The Northeast experienced the greatest increase in inequality between 1989 and 2001, while the lowest increase was in the Midwest. Much of the increase occurred during the early 1990s, according to the MI and EI measures. The inequality in the LIMEW did not change much between 1989 and 1995, but grew substantially between 1995 and 2000 before declining in 2001. Thus, inequality at the end of the 1990s expansion was higher than at the end of the 1980s expansion, and the gap between rich and poor households widened.

Table 10 Economic Inequality in the Red and Blue States, 1989 and 2001 (Gini coefficient x 100)

	Red		Blue		U.S.	
Measure	**1989**	**2001**	**1989**	**2001**	**1989**	**2001**
LIMEW	39.8	40.5	37.3	40.9	38.7	40.9
Extended income (EI)	37.1	40.9	36.1	41.0	36.9	41.1
Money income (MI)	42.1	46.1	41.0	46.4	41.8	46.4

Source: Authors' calculations

Our analysis of well-being in the Red and Blue states revealed a large lead in favor of the Blue states. Although the gap in well-being between the Red and Blue states narrowed between 1989 and 2000, the ratio of median money income widened from 87 percent to 84 percent in 2003 (during George W. Bush's first term). From 1989 to 2001, inequality in economic well-being rose considerably less in the Red states than the Blue states, so inequality was lower in the Red states by the end of the period.

Net government expenditures were positive in the Red states in 2001, but negative in the Blue states. Although residents of the Blue states, on average, received more from the government in terms of public consumption and transfers, they also had a higher average tax burden (relative to money income) than Red state residents.

According to all three measures of well-being, racial disparities were remarkably similar in the Red and Blue states in 2001. The gap between non-Hispanic whites in the two groups of states widened between 1989 and 2001 because of faster growth in well-being in the Blue states. In contrast, each nonwhite group in the Red states experienced faster growth in well-being than their counterparts in the Blue states. All groups experienced similar growth in well-being in the Blue states, but growth for nonwhites was much faster than for whites in the Red states. As a result, racial and ethnic disparities declined in the Red states, but showed no significant improvement in the

Blue states. Most notably, the "all others" nonwhite group (mainly Asians) in the Red states grew the most in well-being among all groups in both sets of states, so that there was virtual parity with whites in the Red states in 2001.

These findings raise interesting questions about the relationship between the trends in economic well-being and the outcome of the last two presidential elections. The overwhelming support for the Democratic Party among minority voters in the Blue states appears to be paradoxical in light of a lack of progress in racial disparity between 1989 and 2001. While the significantly lower increase in inequality in the Red states could be a reason why these states continued to support Bush, a strong commitment to equality is difficult to reconcile with the ideology of the Republican Party. Most strikingly, the Red states continued to support George W. Bush despite both an absolute and relative loss of money income during his first term. As suggested by several commentators, it seems apparent that noneconomic factors, such as national security and values, might have played a decisive role in shaping the outcome of the 2004 presidential election.

A major finding of this study is that the Northeast fared the worst in terms of economic well-being and inequality, in spite of the strong macroeconomic performance for this region. Several issues related to regional aspects of economic well-being require further research and evaluation. We hope that our analysis will lead to further research and rethinking of policies that affect well-being at the national and regional levels.

Acknowledgments

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Notes

1. The **Northeast** region includes Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. The **Midwest** region includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. The **South** region includes Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia. The **West** region includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.
2. We use the gross state product (GSP) as the measure of output because this is the only available measure to compute regional aggregate output. Output for each region is calculated as the sum of the GSP of the states in that region. GSP for each state is defined as the sum of gross state product originating in all industries in the state (*see* Panek and Obidoa [2003] for a detailed explanation).
3. Region is not identified in the surveys of time use and wealth for all of the years studied here. We impute income from wealth and time spent on household production to households in the Annual Demographic Survey (March Supplement of the Current Population Survey) by means of statistical matching from the respective surveys on wealth and time use. Given the limitations of the data, we could not explicitly control for region in the matching process. This could potentially bias our results.
4. The percentage change in median and mean LIMEW in the Midwest between 1989 and 2001 was approximately 14 percent. The change was the same in both because of the low growth of the income-from-wealth component in the LIMEW.
5. We interpret positive net government expenditures as net benefits because, in such a situation, the government spends more for households in the form of transfers or public consumption than the amount it takes from households in the form of taxes. Conversely, when net government expenditures are negative, the government takes more from households than the amount it spends for them.
6. "Whites" refers to non-Hispanic whites only. "Nonwhites" refers to everyone else.
7. Comparison of inequality between 1989 and other years is

difficult for MI and EI because of two factors: (1) the Census Bureau changed its survey methodology and revised upwards the amount of income reported in the survey (the so-called "top-coded" amount) starting in 1994; and (2) the bureau changed the manner in which it reported the top-coded incomes in the public-use version of its survey data beginning with the 1995 file.

8. The contribution of a component to overall inequality is calculated as the product of its concentration coefficient and its share of total LIMEW. The concentration coefficient is similar to the Gini coefficient. The Gini coefficient is the area between the Lorenz curve and the 45-degree line multiplied by 2, while the concentration coefficient is the area between the concentration curve and the 45-degree line multiplied by 2. The Lorenz curve plots the cumulative proportion of income on the vertical axis and the cumulative proportion of households on the horizontal axis, with the cumulative proportions calculated with households ordered from the lowest to the highest income. If we were to plot the cumulative proportion of a component of income (e.g., wages), keeping the same ordering of households on the horizontal axis, the curve connecting all points would be the concentration curve for that component.
9. Decomposing the change in the contribution of income from wealth into the change in its share of the LIMEW and the change in its concentration coefficient shows that the former accounted for about two-thirds (65 percent) of the 6.2 percentage point fall in the contribution of income from wealth.
10. A decomposition of the type outlined in note 9 shows that the change in the share of income from wealth in the LIMEW for the Northeast accounted for 68 percent of the 2.7 percentage point increase in the contribution of income from wealth to overall inequality. The remaining 32 percent reflects the growth in the concentration of income from wealth.
11. The comparison here is between the values for the 10th and 95th percentiles of the LIMEW distribution. For convenience, we refer to these values as if they were associated with unique households, although several households might have the same level of the LIMEW.
12. The ratio of 95th to 10th percentiles of the EI distribution for the United States increased from 8 to 10 between 1989 and 2001. This ratio is higher than the LIMEW for all four regions, suggesting a higher degree of polarization between the very rich and the very poor. Moreover, the Northeast and West experienced declines in the 10th percentile of EI (6.9 percent and 3.9 percent, respectively) between 1989 and 2001.
13. The **Red** states are Alabama, Alaska, Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, and Wyoming. The **Blue** states are California, Connecticut, Delaware, District of Columbia, Hawaii, Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont, Washington, and Wisconsin.
14. The only data available for 2003 at the time of writing was money income.
15. It should be noted that we are assuming throughout this section that there is a large degree of congruence between voters and householders.
16. Hispanics can be of any race; hence, we refer to the disparity between them and other groups as an "ethnic gap."
17. Prior to 2002, Asians cannot be separated in our data from American Indians, Alaskan natives, and native Hawaiian and other Pacific islanders. Therefore, all these groups are combined in "all others," as shown in Table 9. In 2002, "all others" was 2.5 and 5.9 percent of householders in the Red and Blue states, respectively. Asians made up 72 and 91 percent of "all others" in the Red and Blue states, respectively.
18. The racial gap in MI was also the same in the two groups of states at 0.64.
19. Similar results regarding ethnic disparities were obtained using MI.

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