

August 21, 2008

WHAT TO WATCH FOR IN THE NEW CENSUS INCOME AND POVERTY NUMBERS

By Arloc Sherman and Robert Greenstein

On August 26 the Census Bureau will release findings on household income and poverty for 2007. These figures may well show that median income increased modestly and poverty declined modestly in 2007, the typical pattern for years well into an economic expansion.

While improvements in incomes and poverty would certainly be good news, they should be viewed within the context of the expansion as a whole. 2007 marked the sixth — and probably the last — full year of the expansion, which began in late 2001. (See box on next page.) During the expansion's first several years, median incomes *fell*, while poverty *rose*. (See Figure 1). In recent economic cycles, incomes have often fallen and poverty risen for a year or two after a recession ends, but the post-2001 expansion took longer than previous ones to show improvements in these areas.

As a result, the 2007 figures may well show something unprecedented. *For the first time on record, poverty and the median income of working-age households may be worse at the end of a multi-year economic expansion than they were at the bottom of the previous recession.* That would be an unparalleled and troubling sign of the limits of recent economic growth.

The following guideposts in Tuesday's Census data will show whether this has occurred:

- **Will the poverty rate drop to 11.7 percent or lower? That was the poverty rate in 2001, the year of the last recession.**
- **Will median income rise to more than \$57,652 among working-age households (those headed by someone younger than 65)? That was the median income level for non-elderly households in 2001, adjusted to 2007 dollars.**

If poverty remains higher, or the income of working-age households remains lower, than during the last recession, it will mark perhaps the most disappointing economic recovery on record from the standpoint of low- and middle-income households.

Signs the Economy Has Stopped Expanding

Various signs suggest that the economic expansion has ended. Growth in the economy, as measured by real gross domestic product, declined in late 2007 and remains below the level in the third quarter of 2007 on a per-person basis.

In addition, July 2008 was the seventh consecutive month of job declines, with employers shedding a total of 463,000 jobs so far this year. The official unemployment rate rose to 5.7 percent in July, and other indicators show even greater labor market weakness. For example, the Labor Department's most comprehensive alternative unemployment measure — which includes people who want to work but are discouraged from looking and people working part time because they can't find full-time jobs — stood at 10.3 percent in July, up from 8.3 percent a year before. And the number of *long-term* unemployed workers (those who have not been able to find a job despite looking for 27 weeks or more) rose to 1.7 million in July 2008, up 28 percent from the year before.

This could well occur. Simply to return to their 2001 levels, the poverty rate would need to drop by 0.6 percentage points from 2006 to 2007, an unusually large one-year decline, and median income of non-elderly households would need to rise by 2.4 percent.

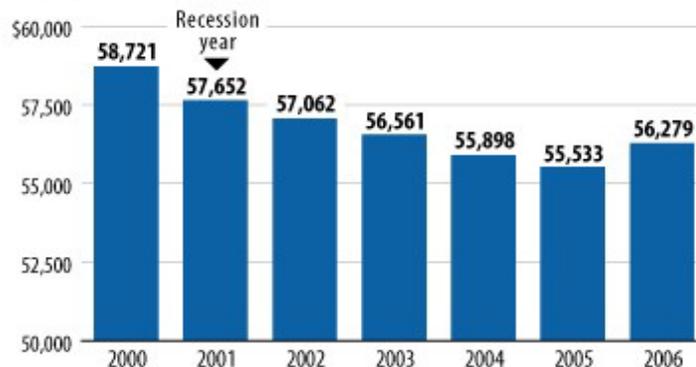
If poverty remains higher than in 2001 or median income for working-age households remains lower, it will be the latest in a growing body of evidence that the economic expansion was strikingly uneven, with unusually small gains reaching workers — especially workers in low- and middle-income families. Recent Commerce Department data, for example, show that wage and salary growth was weaker during the recent economic expansion than during any of the nine other expansions since World War II. By contrast, corporate profits grew more quickly than in the average postwar expansion.¹

For income or poverty levels to show long-term progress, rather than merely recover from the damage

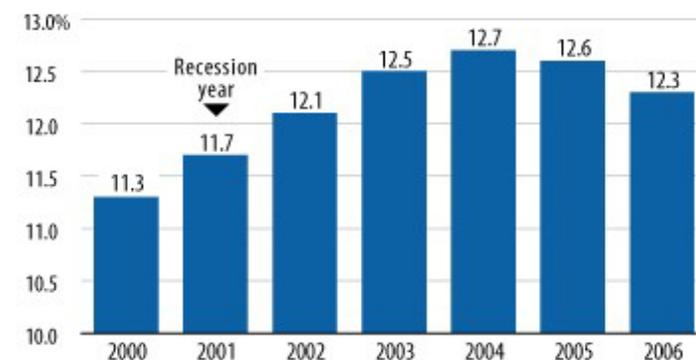
Economic Expansion Has Not Boosted Non-Elderly Income or Reduced Poverty

Median Income of Non-Elderly Households

In 2007 dollars



Percent of Americans in Poverty



¹ Aviva Aron-Dine, Chad Stone, and Richard Kogan, "How Robust is the Current Economic Expansion?" Center on Budget and Policy Priorities, updated April 22, 2008. At www.cbpp.org/8-9-05bud.htm.

caused by the last recession, they would need to improve upon the levels they reached in 2000, the year *before* the recession. This means median income for working-age households would need to rise above \$58,721 and the poverty rate would need to fall below 11.3 percent.

Revising the Annual Poverty Measure

In the early 1990s, the National Academy of Sciences (NAS) convened an expert panel to study how poverty is measured. The panel recommended three sets of changes:

- The value of cash-like benefits such as food stamps, as well as the net effect of the tax system (including income and payroll taxes paid and refundable tax credits received), should be included in the measurement of a family's income.
- Certain work expenses such as child care and transportation costs, as well as out-of-pocket health care costs, should be subtracted in the determination of whether a family's disposable income is above or below the poverty line.
- The poverty line itself should be updated to reflect the current cost of basic needs — chiefly, food, clothing, and shelter (including utilities) — and should vary from place to place based on differences in the cost of living. Certain arbitrary features of the old poverty line, such as a lower poverty line for elderly households, should be removed.

The Census Bureau has estimated a range of alternative poverty measures drawing on the NAS recommendations. Overall, these alternative poverty measures produce poverty rates that are similar to or slightly higher than the official poverty measure. (Poverty rates among working families and the elderly are somewhat higher under the NAS methodology than under the official poverty measure, while poverty rates among jobless non-elderly families are lower.)

The fact that many analysts favor changes in the official poverty measure does not mean that the current measure is not meaningful. Not only do the official measure and the NAS methodologies produce roughly similar poverty rates, but they tend to rise and fall at roughly the same time (except after dramatic changes in tax and non-cash benefit policies). This is because the most important determinant of whether poverty rises or falls over the course of a business cycle is the economy, including the low-wage labor market.