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WILL POVERTY, MEDIAN INCOME, AND HEALTH INSURANCE COVERAGE IMPROVE SIGNIFICANTLY IN 2004?

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The new Census Bureau report released yesterday showed that poverty increased, health insurance coverage eroded, and median incomes stagnated in 2003. Some who have attempted to downplay the new Census figures have argued that the figures are already out of date and conditions have improved significantly in 2004. As *USA Today* put it, “The White House said the report was old news.”¹

While it is difficult at this point to predict outcomes for 2004 with any certainty, this analysis finds that health insurance coverage is likely continuing to erode this year.

Predictions about trends in poverty and median income in 2004 are more difficult to make. The relevant indicators here are mixed. Economic growth has been stronger in 2004 than in 2003, the unemployment rate has fallen, and there has been modest job creation. On the other hand, the share of the population holding jobs has not improved, and average weekly wages have dropped slightly, with the wage declines being greatest among low-paid workers. In addition, the safety net for the unemployed has weakened with the termination of the temporary federal unemployment benefits program at the end of 2003.

So while one normally would expect poverty to decline and income to rise at this stage of the economic cycle — after all, 2004 marks the third full year of recovery from an economic downturn — current prospects in these areas are unclear. The mixed nature of the data just cited suggests that any improvements in 2004 are likely to be modest.

This analysis also discusses an error made by some who are indicating that the 2004 data will be much better.

Health Insurance Coverage is Likely to Continue to Deteriorate

The main reason that health insurance coverage is likely to deteriorate in 2004 is that employer-based coverage — the foundation of health insurance for the great majority of Americans — continues to weaken. Data for the first part of 2004 indicate that health care costs are continuing to rise at double-digit rates. Taken in conjunction with continuing weakness in the labor market, this means that workers have limited ability to negotiate with employers for better health insurance coverage. As a result, analysts expect that employers will continue to

¹ Peronet Despeignes, “Census: Poverty rose by million, Uninsured rate also escalates,” *USA Today*, August 27, 2004, page A1.

seek to shift more costs for health care onto employees, which will make it harder for some workers to afford employer-based health insurance for themselves and their dependents. Following the trend of recent years, it also seems likely that a modestly smaller percentage of small businesses will offer health insurance to their workers in 2004 than in prior years. Primarily for these reasons, many analysts expect that health insurance coverage will erode further in 2004.

In addition, in 2002 and 2003, growth in enrollment in Medicaid and the State Children's Health Insurance Program (SCHIP) played an important role in offsetting the decline in employer-based coverage. Many states reduced coverage in these programs last year, however, because of state budget problems, and the impact of those reductions is being felt in 2004. For example, recent data indicate that children's enrollment in SCHIP has stalled, particularly because of cuts in a handful of states. While Medicaid and SCHIP enrollment is still expected to rise in 2004, it seems unlikely that growth in publicly funded health insurance will be sufficient to outweigh a greater loss of private insurance.

Income and Poverty

The direction and magnitude of changes in median family income and poverty levels in 2004 are less clear-cut.

There have been improvements in some aspects of the labor market this year. The unemployment rate averaged 5.6 percent for the first seven months of 2004, down from its 6.0 percent average for the same period of 2003. The number of jobs has increased by 1.3 million since December 2003. (The job increase should be considered modest, however; it lags far behind typical job growth at this stage of a recovery, and far behind the Administration's own predictions for job growth during this period.)

Overall economic growth has been significantly faster so far in 2004 than it was in 2003. During the first half of 2003, the economy was 2.1 percent larger than in the first half of 2002, after adjusting for inflation. The economy was 4.9 percent larger in the first half of 2004 than in the first half of 2003. (The differential in growth rates will likely narrow once data for all of 2004 become available. In 2003, the growth rate picked up considerably in the second half of the year, producing economic growth of 3.0 percent for all of 2003 compared to 2002. According to the latest blue-chip consensus forecast, economic growth is expected to equal 4.4 percent for all of 2004.)

Signs of Stagnation on Deterioration in Income and Poverty

But other key labor market indicators either have not improved or have actually weakened in 2004.

- The percentage of adult Americans who are employed has failed to increase. The average number of adults with jobs in the first seven months of 2004 was essentially the same as in the first seven months of 2003.

- Average weekly wages were slightly *lower*, on average, in the first seven months of 2004 (after adjusting for inflation) than in the comparable period of 2003. June and July wage levels were especially disappointing. By contrast, average weekly wages were slightly higher in 2003 than in 2002.
- Among full-time workers, wage losses from 2003 to 2004 have been greatest among low-paid workers.

Furthermore, the safety net for unemployed workers has weakened. At the end of 2003, Congress and the President permitted the Temporary Extended Federal Unemployment Compensation (TEUC) program — which provided additional weeks of benefits to workers whose regular unemployment benefits ran out before they could find jobs — to expire. (Congress had established the program in March 2002 to aid long-term unemployed workers and their families.) During the first seven months of 2004, some 2.2 million jobless workers exhausted all of their regular unemployment benefits without finding jobs or qualifying for further federal aid. This is the largest such number for any seven-month period on record, even after adjusting for growth in the labor force, with data available back to 1971.

The absence of the TEUC program and the particularly significant decline in wages among low-paid workers suggest there may not be significant improvements in poverty in 2004.

Capturing recent growth

Some of the claims that the figures for 2004 will be much more positive reflect a substantial error. The arguments are being made that “Absent from these numbers is the strong economic growth we’ve seen in the last 11 months”² and that the Census report “does not include all the data from the past 11 months, when our economy created 1.5 million new jobs.”³

The mistake in these arguments is that any economic or jobs growth that occurred through the end of 2003 *is* captured in the Census Bureau numbers. The Census figures reflect incomes for all of 2003, not just for part of 2003. This is important, for instance, because the Census figures capture the biggest quarterly jump in economic growth during this recovery, which occurred in the third quarter of 2003.

² David Leonhardt, “More Americans Were Uninsured and Poor in 2003, Census Finds,” *The New York Times*, August 27, 2004, page A1 story. The quote is from Bush campaign spokesman Terry Holt.

³ Peronet Despeignes, “Census: Poverty rose by million, Uninsured rate also escalates,” *USA Today*, August 27, 2004, page A1. The quote is from Bush campaign spokesman Steve Schmidt.