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820 First Street, NE
Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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CENTER ON BUDGET AND POLICY PRIORITIES

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CONTACT: Jim Jaffe, Michelle Bazie

(202) 408-1080

POVERTY RATES FELL IN 2000 AS UNEMPLOYMENT REACHED 31-YEAR LOW

Upturn in Unemployment Combined with Weaknesses in Safety Net Raise Red Flags for 2001

The economy grew for the ninth consecutive year in 2000, with the unemployment rate falling to 4.0 percent, its lowest level in more than three decades. The data on poverty and income the Census Bureau released today reflect these developments. These data show the overall poverty rate dropping to its lowest level since 1979 and tying for the lowest level on record, with poverty rates for African-Americans and female-headed families setting all-time lows and poverty rates for Hispanics, non-Hispanic whites, Asians and Pacific Islanders, and people 65 and over matching all-time lows.

Somewhat surprisingly, median income failed to increase last year, but it did remain at the same level as in 1999, the highest level on record. Median income among Hispanic and African-American households reached new highs.

Unfortunately, the year 2000 is likely to represent a high-water mark for the economy. Economic growth has slowed substantially in recent months, the unemployment rate rose to 4.9 percent in August and now appears headed to higher levels, and — in part due to the tragedy of September 11 — the economy may be headed into a recession. As a result, poverty rates are likely to head back up and be higher in 2001 than in 2000.

Even in 2000, when poverty rates fell, there were a few troubling trends. Those who remained poor have become poorer, on average, in recent years. The depth of poverty remained unchanged between 1999 and 2000, but in both years, the average poor person fell further below the poverty line than at any time since 1979. In addition, income disparities between high- and low-income families — as well as between high- and middle-income families — remained at or near the highest levels since before World War II, having grown significantly in the 1990s as shown in a recent Congressional Budget Office study. The Census data indicate that income disparities widened slightly again in 2000 but that the change was not statistically significant.

Some of the highlights of the new Census data include:

- The poverty rate for African-Americans fell to 22.1 percent in 2000, the lowest level since the Census Bureau began calculating these statistics in 1966. The overall poverty rate dropped to 11.3 percent, not statistically different from the 11.1 percent record low in 1973 or the 11.7 percent level in 1979.
- Median household income, the point at which half the households have higher incomes and half have lower incomes, was \$42,148, statistically unchanged from \$42,187 in 1999 and tied with the level in 1999 for the highest median income on record, with data available back to 1952.
- Those who remained poor in 2000 fell as far below the poverty line as in 1999 and farther below than in any other year in more than two decades. Declining participation among poor households in programs such as food stamps and cash assistance, along with reductions instituted in these programs in the latter part of the 1990s, contributed to this development.
- Income growth over the last decade was fairly modest for most households. In the 1960s, a period in which the gains from economic growth were larger overall and more evenly spread, the typical household experienced an income gain three times larger than the gain the typical household secured between 1989 and 2000. As the recent Congressional Budget Office study documents, the big gainers during the 1990s were high-income households.

“Last year was a banner year for reducing poverty and shows the strong effect that a four percent unemployment rate and wage growth among low-wage workers can have,” commented Robert Greenstein, director of the Center on Budget and Policy Priorities. “But we should be concerned that those who remained poor have grown poorer, in recent years, primarily as a result of the shrinkage of certain government assistance programs. This concern is deepened by the current economic slowdown. Due to changes in the design of the safety net, government programs now are likely to be less responsive to increases in need during a recession than they were in other recessions of recent decades.”

Improvements in Poverty and Income

Poverty rates fell for African-Americans of all ages and most family types, narrowing the gap between their poverty rates and poverty rates among whites. Poverty rates for African-Americans, however, remain well above white poverty rates. At 22.1 percent in 2000, the poverty rate for African-Americans was nearly three times the non-Hispanic white poverty rate of 7.5 percent. The story among Hispanics is similar — poverty rates declined in 2000 but remain comparatively high. Some 21.2 percent of Hispanics were poor last year.

The economic recovery of the 1990s also led to notable reductions in poverty among other population groups. The poverty rate among children fell from 22.7 percent in 1993, when poverty reached its recent peak, to 16.2 percent in 2000, the lowest level since 1979. Poverty rates for minority children also declined significantly over this period, although the African-American and Hispanic child poverty rates remain high at 30.9 percent and 28 percent, respectively. Among some groups of children, poverty rates remain at alarming levels. Some 53.9 percent of African-American children under six who live in female-headed families — more than one in every two — were poor last year.

While median household income did not increase among the population as a whole, it did rise among African-Americans, Hispanics, and female-headed households. Among African-American households, median income was \$30,439, more than \$15,000 below median household income among non-Hispanic whites (which was \$45,904), but nearly \$1,600 above the 1999 level for African-Americans, a significant gain for a single year. Similarly, among Hispanics median household income rose to \$33,447, about \$1,700 above the 1999 level.

While median household income generally remained the same or increased among certain groups, median *earnings* fell modestly among one group — men who work full-time year-round. Median earnings declined one percent — or \$362 — among this group.

Poor Becoming Poorer, Reflecting Reductions in Government Benefits

The news in the new Census report is not uniformly positive. As noted, while poverty rates declined in 2000, those who were poor remained poorer than at any time since 1979.

If poverty is measured using a broader standard preferred by many experts that includes as income the Earned Income Tax Credit and food and housing benefits and subtracts federal income and payroll taxes, the average poor person fell \$2,527 below the poverty line in 2000. By comparison, using the same measure, the income of the average poor person fell \$2,048 below the poverty line in 1989, and \$2,059 below the poverty line in 1979. (All dollar figures in this analysis are adjusted for inflation, using the CPI-U, and expressed in 2000 dollars.) The average poor person fell further below the poverty line in 1999 and 2000 than in any other year on record; these data are available back to 1979.

A related measure of the severity of poverty in a population is the “poverty gap.” The poverty gap is the amount by which the incomes of all poor people fall below the poverty line. The poverty gap reflects both the number of people who are poor and the depth of their poverty. In 2000, the poverty gap, using the broader measure of poverty described above, was \$66.5 billion.

Because the poverty gap is based in part on the number of people who are poor, it should shrink as the number of poor people declines. This has happened, however, only to a limited degree in recent years because those who are poor have become poorer. The poverty gap in 2000 was only one percent

smaller than the \$67.1 billion poverty gap in 1995, despite the fact that the number of people in poverty was 13 percent lower in 2000 than in 1995.

Declining participation among poor households in programs such as food stamps and cash assistance, as well as reductions instituted in these programs in the latter part of the 1990s, contributed to these developments. Analysis of the Census data shows that government benefit programs reduced the poverty gap among families with children by a significantly smaller percentage in 2000 than they reduced it in 1995. Between 1995 and 2000, the number of poor children (measured without counting means-tested government benefits as part of their income) fell by 22 percent. Over the same period, the number of children receiving TANF cash assistance fell a much larger amount — 55 percent — and the number of children receiving food stamps declined by 37 percent.

Income Gaps Remain At or Near Record Levels

Although median household income reached the highest level on record in 1999 and remained at this level in 2000, income growth over the last decade was relatively modest for most households. Between 1989 and 2000 — in other words, between the peak year of the economy recovery of the 1980s and the likely peak year of the recovery of the 1990s — median income grew by 8.1 percent, after adjustment for inflation. By contrast, between 1959 and 1969 — during an economic recovery in which the gains from economic growth were both larger overall and more evenly spread — median household income grew by 24 percent. One reason that median income did not increase more during the recovery of the 1990s is that income gains were disproportionately concentrated on the upper rungs of the income scale.

According to the Census data issued today, in 2000 the share of the national household income that the poorest fifth of households receive was tied for the lowest level on record, with these data going back to 1967. The share received by the middle three-fifth of households — the broad middle class — set a new low in 2000. But the shares that the top fifth of households and the top five percent receive set new highs.

The changes between 1999 and 2000 were sufficiently small that the Census Bureau reported those changes were not statistically significant, although that conclusion may change when fuller data become available. Conclusions about changes in income disparities should not be based on Census data alone, as the Census data miss substantial amounts of income received by people at the top of the income scale.

For example, the Census data do not include capital gains income, a large source of income for high-income individuals. IRS data show that in 1998, some 72 percent of capital gains income went to the 1.7 percent of tax filers with the highest incomes, those with adjusted gross incomes exceeding \$200,000. In addition, the Census Bureau places an upper limit on the amount of certain types of income counted for any individual, regardless of that individual's actual income. The highest salary that the Census Bureau records is \$999,999. An individual with a salary of \$10 million is recorded as

earning \$999,999. (This is done to preserve confidentiality.) Finally, the Census data are based on a voluntary survey of approximately 50,000 households. Since those with very high incomes are a very small portion of the population, the Census survey does not pick up many of these households.

Better data on income disparities are compiled by the Congressional Budget Office. These data are contained in a major CBO study published in May. (*Historical Effective Tax Rates, 1979-1997*, Congressional Budget Office, May 2001.) CBO combines the Census data with data from actual tax returns that the Internal Revenue Service compiles and produces a data series that makes use of the best features of both data sources.

Thus, while the Census data do not show significant growth in income disparities since 1993, the CBO data tell a very different story. The CBO data show that between 1993 and 1997 (the last year for which CBO has published these data), average income, after adjusting for inflation, grew 3.8 percent among the poorest fifth of the population and only slightly more than that for the middle three-fifths of the population. But average income grew 20.6 percent among the top fifth of the population and climbed 51.1 percent among the richest one percent.

The CBO data show, in fact, that income disparities grew more sharply between 1995 and 1997 than in any other two-year period since 1979, the first year for which CBO has analyzed these data. CBO also reported that income gains in 1998 and 1999 remained concentrated at the top.¹ (The CBO has not yet examined the data for 2000.) This suggests that the growth in income disparities may have accelerated in the latter half of the 1990s. The Census data are unable to capture this trend.

A new study published by the National Bureau of Economic Research that examines income disparities through 1998 features findings similar to CBO's. The study finds that income disparities widened during the 1990s recovery, with that trend continuing at least through 1998. The study reports that high-income households received a larger share of the national income in 1998 than at any time since before World War II.²

Slowing Economy Suggests Poverty Likely to Rise in 2001

Although poverty declined and incomes increased in 2000, poverty rates are likely to rise in 2001. (Note: analysis recently conducted by Isabel Sawhill of the Brookings Institution also reaches this conclusion.) Many economic indicators point to a slowing economy this year. The monthly

¹ The CBO study reported that "information from tax returns suggests that the recent rapid rise in the share of income going to the top of the distribution and in the share of individual income taxes those households pay has continued in 1998 and 1999." *Historical Effective Tax Rates, 1979-1997*, Congressional Budget Office, May 2001.

² Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," NBER Working Paper 8467, September 2001. The study examines income before taxes are subtracted out.

unemployment rate, which averaged 4.0 percent for 2000, climbed to 4.9 percent by August 2001 and will likely be significantly higher by the end of the year, given the current round of lay-offs. Growth in the gross domestic product (adjusted for inflation) fell from an annual rate of 1.9 percent in the last quarter of calendar 2000 to 1.3 percent in the first quarter of 2001 and 0.2 percent in the second quarter of 2001. Many economists expect that GDP growth will be negative in the last two quarters of the year, which would mean the economy has entered a recession. During all recent recessions, poverty has increased.

This is a particular concern now, since the safety net appears to be less responsive to the increases in need that occur when the economy heads down than has been the case in many previous recessions. Due both to changes in the unemployment insurance program in the 1980s and changes in the labor force, smaller percentages of the unemployed receive unemployment insurance than in the 1960s and 1970s, while as a result of changes made by the 1996 welfare law, cash assistance for poor families with children no longer expands automatically as unemployment rises. Steep reductions in the past five years in the proportion of eligible low-income households that receive food stamps also raise questions about whether the food stamp program will respond as effectively as it has in earlier recessions.

Furthermore, given recent changes in the composition of the poverty population, the poor may be more vulnerable now to the consequences of a rise in unemployment. The Census report shows that the proportion of the poor who live in families with full-time workers has risen considerably since 1993, which means that their living standards are tied more closely to labor market outcomes. In 1993, fewer than half of the poor — 45 percent — had one or more full-time workers in their family. In 2000, more than half of the poor — 54 percent — did.



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