

FOR IMMEDIATE RELEASE:
Revised Monday, September 29, 2003

CONTACT: Michelle Bazie
202-408-1080

820 First Street, NE, Suite 510
Washington, DC 20002

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

center@cbpp.org
www.cbpp.org

Robert Greenstein
Executive Director

Iris J. Lav
Deputy Director

Board of Directors

David de Ferranti, Chair
The World Bank

John R. Kramer, Vice Chair
Tulane Law School

Henry J. Aaron
Brookings Institution

Ken Apfel
University of Texas

Barbara B. Blum
Columbia University

Marian Wright Edelman
Children's Defense Fund

James O. Gibson
*Center for the Study of Social
Policy*

Beatrix Hamburg, M.D.
Cornell Medical College

Frank Mankiewicz
Hill and Knowlton

Richard P. Nathan
*Nelson A Rockefeller Institute
of Government*

Marion Pines
Johns Hopkins University

Sol Price
*Chairman, The Price Company
(Retired)*

Robert D. Reischauer
Urban Institute

Audrey Rowe
ACS, Inc.

Susan Sechler
Rockefeller Foundation

Juan Sepulveda, Jr.
*The Common Experience/
San Antonio*

William Julius Wilson
Harvard University

POVERTY INCREASES AND MEDIAN INCOME DECLINES FOR SECOND CONSECUTIVE YEAR

Ranks of the Poor Increase by Three Million Since 2000

Census data released today show that poverty increased and median household income fell in 2002 for the second consecutive year. The number of poor people increased by 1.7 million to 34.6 million; the poverty rate rose from 11.7 percent to 12.1 percent; and median household income fell by \$500, or 1.1 percent, to \$42,409. There were three million more poor people in 2002 than in 2000, the last year before unemployment began to rise.

In addition, those who were poor became poorer on average. The poverty rate — the percentage of people with incomes below the poverty line — was lower in 2002 than in most other years of the 1980s and 1990s, although higher than in most years of the 1970s. But the basic measure of the depth, or severity, of poverty — the average amount by which the incomes of those who are poor fall below the poverty line — was *greater* in 2002 than in any other year on record, with these data going back to 1979.

Misplaced Priorities

The rise in poverty and decline in median income primarily reflect the increase in unemployment in 2002. The unemployment rate averaged 5.8 percent in 2002, up markedly from 4.7 percent in 2001 and 4.0 percent in 2000.

“Misplaced priorities by Congress and the President are making the increase in poverty larger than it needs to be,” noted Center executive director Robert Greenstein. “The temporary federal program Congress set up to help the long-term unemployed is significantly weaker than the comparable program established in the recession of the early 1990s. That’s an important reason why the number of workers who ran out of those federal unemployment benefits without finding work was twice as big in 2002 as at a similar point in the last downturn.

“Also, Congress and the President chose to exclude low-income working families from the increased child tax credit benefits that went to better-off families this summer,” Greenstein added. “Yet this year’s tax legislation will give people earning \$1 million or more an average tax cut of \$93,000.”

Greenstein also noted that federal fiscal relief to states has not been adequate and that the majority of states, facing budget shortfalls, have cut child

care assistance for low-income working families, making it more difficult for those families to remain employed.

Further Increases in Poverty and Declines in Income Likely in 2003

So far in 2003, unemployment has been higher than it was in 2002. In addition, the number of long-term unemployed — those out of work more than half a year — has increased dramatically, from 650,000 a month in 2000, to 810,000 in 2001, 1.55 million in 2002, and an average of 1.89 million so far in 2003. Adding to the deterioration of circumstances facing poor households, average hourly wages for low-paid workers also have fallen in 2003, and a number of states that faced budget deficits have instituted budget cuts in basic assistance programs in 2003. These developments suggest that poverty may increase and incomes decline for a third straight year in 2003.

Increases in Poverty Rates

Among the findings from the data the Census Bureau released today are the following:

- Increases in poverty rates and in the number of people in poverty were widespread across various population groups, but in a number of cases, the increases in poverty rates were not large enough to pass statistical significance tests. For some groups, the increase in the poverty *rate* was not statistically significant, but the increase in the *number* of people who are poor was significant.
- The data released today show that poverty rose among the four basic measures of child poverty, with the increase in three measures being large enough to be statistically significant. The increase in one measure — the poverty rate for all children under 18 — was not large enough to be statistically significant.

The *number* of such children who were poor rose 400,000, an increase that *was* statistically significant. The increase in the poverty *rate* for all children under 18 — from 16.3 percent to 16.7 percent — fell just short of being large enough to pass the statistical significance test.

In addition, the increase in the poverty rate among *related* children under 18 — another basic measure of child poverty — was significant. This rate increased from 15.8 percent to 16.3 percent.

- Increases in poverty were largest among blacks. The black poverty rate rose from 22.7 percent in 2001 to 24 percent in 2002, and the number of blacks who were poor increased by 500,000 or 700,000, depending on which definitional category of blacks is used.¹

¹ The ranges in poverty rates and the numbers of people in poverty presented in this analysis reflect the different ways the Census Bureau defines various racial and ethnic groups.

- The number of poor Hispanics increased by 600,000, a statistically significant increase. The Hispanic poverty rate increased from 21.4 percent in 2001 to 21.8 percent in 2002, but this increase was not statistically significant.
- The poverty rate for married families also increased significantly, although it remains far below the poverty rate for female-headed families.
- Nearly two-thirds of all poor families with children included a worker in 2002. These individuals typically work a significant amount. In 2001 (data for 2002 are not yet available), workers in poor families with children worked an average of 44 weeks per year, and an average of 41 hours during the weeks in which they were employed. (The average exceeded 40 hours a week because some poor families have more than one worker.)
- Changes in poverty rates among alternative measures of poverty were mixed. Under a set of alternative measures that take into account the value of various non-cash benefits (such as food stamps), the Earned Income Tax Credit, and taxes, the poverty rate increased. Under a second set of new alternative measures, the increases in poverty generally were not statistically significant. This set of alternative measures, however, did show higher levels of poverty than the standard measure.

Increases in the Depth of Poverty

- In 2002, the average amount by which people who were poor fell below the poverty line was greater than in any other year since 1979, the first year for which these data are available. The average amount by which people who were poor fell below the poverty line was \$2,813 in 2002. (These data use a measure of income that counts non-cash benefits such as food stamps and housing subsidies, as well as the Earned Income Tax Credit, as income, and subtracts income and payroll taxes.)
- The average amount by which people who were poor fell below the poverty line has increased sharply since 1996, and was 23 percent larger in 2002 than in 1996, after adjusting for inflation.
- The number of people who live in severe poverty — that is, who have incomes below half of the poverty line — increased by 600,000, to 14.1 million. This increase was statistically significant. The percentage of people living below half of the poverty line also increased, but that increase was not statistically significant.

Changes in Median Income

Median household income fell by \$500 between 2001 and 2002, or 1.1 percent. The drop in median income was concentrated among minorities.

- Among black households, median income fell 2.5 or 3 percent (depending on the category used), a drop of \$762 or \$913.

Hardship Among the Poor

In addition to its normal data on poverty and income, the Census Bureau also released a report today on a limited set of measures of consumption and expenditures. This report — which is mostly limited to data from 1998 but also includes some energy consumption data from 2001 — shows that the living conditions of the poor were notably worse than those of higher-income groups in 1998. For example, the report shows that poor families were almost 2.5 times as likely as higher-income families to have been unable to pay their rent or mortgage at some point in the 12 months before being surveyed and 2.5 times as likely not to have gone to a doctor when they needed one.

According to Census, the report is intended to expand the understanding of the nature of poverty in the United States by complementing the official income-based measures of poverty. Unfortunately, the report does not include discussion of other more recent and more important indicators of material well-being, such as food insecurity and housing and child care affordability, that would provide a fuller picture of the nature of poverty in the United States.

- A recent report by Child Trends found that 40 percent of poor single-parent working mothers who paid for child care in 2001 paid at least half of their income for child care; an additional 25 percent of these families paid between 40 percent and 50 percent of their income for child care.
- Recent data from the Centers for Disease Control and Prevention show that in 2002, some 36.8 percent of poor adults aged 18 – 64 were uninsured, as opposed to 10.8 percent of adults aged 18 – 64 with incomes above twice the poverty line. Among children, 14.5 percent of poor children were uninsured, compared to 5.3 percent of children with incomes above twice the poverty line.
- In 2001, 44.5 percent of poor households with children experienced either food insecurity or hunger at some point during the year. (Households that experienced food insecurity were unable to acquire, or were uncertain of having, enough food to meet the basic needs of all household members, because they lacked sufficient income and resources.)
- A recent study by the Harvard Joint Center for Housing Studies found that in 2001, the number of households in the poorest fifth of the population (those with incomes below \$17,000 in 2001) that paid more than half of their income for housing rose to 10.6 million. (This number stood at 10.1 million in 1999.)

- Among Hispanics, median income fell 2.9 percent, or \$996.
- Among Asians, median income fell between \$1,862 and \$2,470, depending on which definitional category of Asian is used. Among three different definitions of the Asian category, the decline in median income was significant. Among a fourth definitional category, the decline in median income was not significant.

Income Inequality

Income inequality remained unchanged under the basic Census measure of inequality and narrowed slightly under some alternative measures.

It bears noting that the Census information on income trends is incomplete and problematic in one major respect. Limitations in its data prevent the Census Bureau from accurately capturing income changes at the very top of the income spectrum. The Census data miss a large share of the income of very-high-income households; for this reason, the Census Bureau does not publish data on the incomes of the top one percent. Other data series, most notably a Congressional Budget Office series that supplements Census data with IRS data, capture gains and losses among the top one percent of the population much more accurately.

The latest CBO data, which were released a few weeks ago and cover years from 1979 to 2000, show that the average after-tax income of the top one percent of the population rose by \$576,000 — or 201 percent — between 1979 and 2000, after adjusting for inflation, while the average income of the middle fifth of households rose \$5,500, or 15 percent. The average income of the bottom fifth rose \$1,100, or 9 percent, over the 21-year period.

The Center on Budget and Policy Priorities released an analysis, “The New, Definitive CBO Data on Income and Tax Trends,” on September 23 of the CBO data and other recent data on income trends. These data indicate that the top one percent of the population received a larger share of the national income in 2000 than in any year since 1929. The CBO data do not shed light on changes in income inequality since 2000.

Weaknesses in Safety Net Contribute to Poverty

While the increase in poverty primarily reflects developments in the economy, weaknesses in the safety net — particularly in the temporary federal unemployment benefits program — also contributed to it. In 2002, some 2.2 million workers exhausted all of their unemployment benefits before finding a job and consequently received neither a paycheck nor an unemployment check for a period of time. Many of these individuals and their families are likely to have fallen into poverty. One reason their unemployment benefits ran out before they were able to find work is that the temporary federal unemployment benefits program that Congress established last year to aid long-term unemployed workers and their families during the economic slump is much more limited and offers significantly fewer weeks of unemployment assistance than the comparable program that Congress established during the economic slump of the early 1990s.

In addition, data from the U. S. Department of Health and Human Services show a steep decline in the proportion of very-low-income families with children that receive cash welfare benefits. In the mid-1990s, about eight in every ten families poor enough to qualify for cash welfare benefits received them. (Families usually have to be well below the poverty line to qualify for cash aid.) By 2000, the last year for which HHS has provided these data, only five of every ten families this poor received these benefits. Given that welfare caseloads continued to decline as poverty increased, data for 2001 and 2002 will show further declines. Data released by the Census Bureau today confirm that cash welfare benefits did less to reduce poverty in 2002 than in any year since at least 1989.

###

The **Center on Budget and Policy Priorities** is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.