

NEWS RELEASE



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LOW UNEMPLOYMENT, RISING WAGES FUEL POVERTY DECLINE

Concerns Remain Amidst the Good News

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Continued economic growth led to a significant reduction in poverty in 1998, as the poverty rate declined to 12.7 percent. The reduction in poverty appears to have been driven largely by a drop in unemployment to the lowest level in 30 years as well as a significant rise in the wages of low-paid workers, itself apparently a product of the low levels of unemployment (tight labor markets tend to push up wages) and an increase in the minimum wage.

The poverty rate for children fell to 18.9 percent last year, the first time it has been below 19 percent since 1980. Poverty rates also fell for Hispanics and non-Hispanic whites. The black poverty rate was not statistically different from its level for 1997, when it reached an all-time low.

The poverty rate for the South, historically the region with the highest poverty rate, also reached its lowest point on record. In fact, most of the drop in poverty in 1998 occurred in the South. The number of poor people declined 1.1 million nationally; 760,000 of this decline — 69 percent of it — occurred in the South. There was no statistically significant change in the number or percentage of poor people in any of the other three regions.

Poverty also declined outside metropolitan areas, while registering no statistically significant change within metro areas. Median household income, however, did increase both within and outside metro areas, as well as in all regions of the country. Median income rose for non-Hispanic whites and Hispanics as well, while remaining unchanged for blacks.

“Last year’s 4.5 percent unemployment rate is the big story here,” commented Robert Greenstein, the Center’s executive director. “These data show how important low unemployment is in reducing poverty.”

Some Data Remain Disturbing

But even with this good news about falling poverty rates, Greenstein added, significant challenges remain. The poverty rate last year remained higher than in nearly all years of the 1970s, even though the unemployment rate was considerably lower last year than in any year of the 1970s. In addition, child poverty continues to be higher than in most other industrialized nations, including Canada and most

— more —

western European countries. And more than one in every three black and Hispanic children remain poor.

Also of concern, the number of full-time year-round workers with incomes below the poverty line rose by 459,000 in 1998.

“For an economy this strong,” Greenstein said, “the poverty rate is still too high.”

The new Census data show particularly striking poverty rates among young children in female-headed families. Some 55 percent of related children under six in female-headed families lived in poverty last year. Among related *black* children under six in such families, 60 percent were poor. Among related Hispanic children under six in these families, 67 percent — two of every three — were poor.

The Census data also show that poor families are poorer, on average, than they were a few years ago. The average amount by which the incomes of poor families fall below the poverty line was \$245 greater per family member in 1998 than in 1995. (This measure of how the incomes of poor families compare to the poverty line counts food stamps, housing subsidies, and the Earned Income Tax Credit as income, as many analysts believe should be done.)

Part of this increase in the depth of poverty amidst economic growth has occurred among poor families with children and appears to reflect sharp decreases in the proportions of poor children and families that receive cash assistance and food stamp benefits. The percentage of poor children whose families receive cash assistance benefits fell from 62 percent in 1994 to 43 percent in 1998. The percentage of poor children whose families receive food stamps dropped from 94 percent to 75 percent during the same period.¹

Finally, the Census data show that while income disparities between rich and poor did not widen further in 1998, these gaps remain at their widest point since the Census Bureau began collecting these data several decades ago. The average income of the most affluent households increased substantially between 1989 and 1998. (The year 1989 is used as the comparison year here because it was the last year before the recession of the 1990s.) But among the middle fifth of households, average income rose only modestly between 1989 and 1998, and the average income of the poorest fifth of households failed to register any increase at all. The fact that income disparities have widened substantially since the late 1970s, with a disproportionate share

¹ These figures represent the number of children receiving cash assistance and food stamp benefits for every 100 children who are poor, using the Census Bureau’s official measure of poverty. An alternative approach is to compute the ratio of the number of children receiving these benefits to the number of children who are poor *before means-tested benefits are counted*. Using that approach, 58 children received cash assistance benefits in 1994 for every 100 who were poor before counting means-tested benefits; in 1998, some 41 children received cash aid for every 100 who were poor under that methodology. In food stamps, the number of children receiving assistance for every 100 who were poor under this method declined from 88 children in 1994 to 72 in 1998.

of the gains from economic growth accruing to higher-income households and far less to those at the bottom of the income scale, is one of the reasons that poverty rates remained higher in 1998 than in any year of the 1970s.

Economy Boosts the Recovery

The improvement in poverty and income in 1998 appears primarily due to the strength of the economy. The 1998 unemployment rate of 4.5 percent was the lowest since 1969. In addition, between 1996 and 1998, the average hourly wages of the lowest-paid workers increased, after declining for much of the previous two decades. The year 1998 also was the first full year that the increase in the minimum wage to \$5.15 per hour was in effect.

A study that the Economic Policy Institute issued earlier this year found wage increases to be particularly strong for very low-paid workers between 1996 and 1998, due to both the tight labor market and the increase in the minimum wage.² Among male workers with hourly wages at the 10th percentile of all male workers, hourly wages increased 4.7 percent between 1996 and 1998, after adjusting for inflation. (Workers with wages at the 10th percentile have wages lower than 90 percent of all wage-earners, and higher than the remaining 10 percent of wage-earners.) Female workers with hourly wages at the 10th percentile of all female workers saw a 7.4 percent real increase in hourly wages during the same period. Wages for both male and female workers at these wage levels had fallen for most of the previous two decades, after adjusting for inflation.

The effects of increased wages and low unemployment on the economic situation of low-wage and minority workers highlight the significance of policies that maintain low unemployment rates and restore the value of the minimum wage.

Not all of the news related to low wage workers in 1998 was positive, however. The number of full-time year-round workers with incomes below the poverty line increased by 459,000 in 1998, as the poverty rate among these workers rose. Even so, the poverty rate among full-time year-round workers remains quite low.³

² Jared Bernstein and Lawrence Mishel, "Wages gain ground: Workforce benefits in 1998 from tighter labor markets, higher minimum wage," Economic Policy Institute, February 2, 1999.

³ The poverty rate among full-time year-round workers rose from 2.5 percent in 1997 to 2.9 percent in 1998, a statistically significant increase. The number of full-time year-round workers in poverty rose from 2.345 million to 2.804 million, an increase of 459,000, the largest such one-year jump on record. The number of working households with incomes below the poverty line is somewhat overstated in the official Census data because these data do not include the Earned Income Tax Credit. Since the EITC was not changed from 1997 to 1998, however, the inclusion of the EITC should not significantly alter the poverty trend among full-time year-round workers between 1997 and 1998.

Child Poverty Rate Remains High

Despite the reduction in poverty among children, the level of the child poverty rate — 18.9 percent — remains high compared to rates in other advanced industrialized countries. According to data from the 25-nation Luxembourg Income Study, child poverty rates are higher in the United States than in most countries of western Europe and Canada.⁴

Child poverty also remains high by historical standards. Although the child poverty rate for 1998 appears to be the lowest since 1980, the child poverty rate was considerably lower in the late 1960s and all years of the 1970s. The child poverty rate ranged between 14.4 percent and 16.6 percent from 1967 to 1979, with the sole exception of the 1975 recession year, when it climbed to 17.1 percent.

Income Inequality Continues at Record Levels

The most affluent fifth of households (that is, the top 20 percent of households) received a significantly larger share of the national income in 1998 than in 1989, the peak year of the recovery of the 1980s (and the last year before the recession that began in 1990). Each of the other four fifths of the population received a smaller share of the national income last year than in 1989. Income disparities have widened over the current business cycle.

In 1998, the richest fifth of households received nearly half — 49.2 percent — of all national before-tax income. The remaining four-fifths shared the other half. Since 1993, the share of the national income before taxes that goes to the richest fifth of households has been larger than at any time since the Census Bureau began collecting these data in the late 1960s.

Furthermore, from 1989 to 1998, the income of the poorest fifth of households failed to increase despite the tremendous growth of the economy. The average income of these households was \$9,200 in 1989 and \$9,223 in 1998, a virtually identical figure. Among the next-to-the poorest fifth of households, average income before taxes rose only two percent between 1989 and 1998, while among the middle fifth of households, income climbed three percent, or about \$1,000. By contrast, among the top fifth of households — and especially among the top five percent — the income gains were much greater in both percentage terms and dollar terms, with the average income of the top five percent of households climbing 23 percent, or some tens of thousands of dollars. (All figures are adjusted for inflation and expressed in 1998 dollars.⁵)

⁴ In this study, child poverty rates are measured using the U.S. poverty line, converted into national currencies using OECD Purchasing Power Parities.

⁵ On the one hand, certain changes in Census Bureau methodology during the 1990s may tend to overstate increases between 1989 and 1998 in the average income of the top fifth and the top five percent of households. On
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These income trends are similar to those found in after-tax income data that the Congressional Budget Office has issued. A recent analysis of the CBO data by the Center on Budget and Policy Priorities found that between 1989 and 1999, the average income of the top fifth of households is projected to grow faster than the average incomes of the middle fifth or the poorest fifth.⁶ This analysis also shows that income disparities are now at their widest point on record; CBO has compiled these data for years since 1977. In addition, the CBO data indicate that since 1977, incomes have climbed much faster for the richest one percent of the population than for any other income group. (Unlike the CBO data, the Census figures do not include data for the top one percent of households.)

The failure of the income gap to narrow during the most recent economic recovery is notable because prior to the 1970s, income inequality tended to decrease during periods of economic growth.

The Center on Budget and Policy Priorities is a nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs, and specializes in issues related to fiscal policy and policies and trends affecting low- and moderate-income families. It is supported primarily by foundation grants.

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the other hand, the Census data do not include capital gains income, which has grown dramatically since 1989. This omission leads to an understatement of the increases over this period for the highest-income groups. The increases for the highest-income groups also may be understated because the Census Bureau limits or "top-codes" the incomes recorded for very high-income earners. For example, if an individual had more than \$1 million in earnings, that individual's earnings would be recorded in the Census data as exactly \$1 million.

⁶ Isaac Shapiro and Robert Greenstein, *The Widening Income Gulf*, Center on Budget and Policy Priorities, September 4, 1999. Income trends in the CBO data are similar to the trends reported in the Census data in spite of some differences in the type of data and the methodology. For more information on these differences, See *The Widening Income Gulf*.