

Understanding the Recently Released Data from the Census Bureau, Showing Income, Poverty and Health Insurance Coverage for 2008

Testimony by
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Madam Chairwoman, Ranking Member Brady, and distinguished members of the Joint Economic Committee, thank you for inviting me here to discuss the income, poverty and health insurance data released today by the U.S. Census Bureau at the Department of Commerce. Today's data release provides detailed information on income, poverty, and health insurance coverage among American families during 2008.

I am certain that I do not need to remind you that 2008 was not a good year economically. The recession officially started in January of that year. GDP fell by 1.9% over the year and employment fell by 2.2%, while the unemployment rate rose from 4.9% of the labor force to 7.2%. The last half of the year was particularly difficult, with gas prices that reached over \$4/gallon in mid-summer, a virtual collapse in the financial sector in the fall, and the start of a global recession. Under these circumstances, it is not surprising that the news in today's data release is not good.

Income

The data released today indicate that between 2007 and 2008, real median household income fell 3.6%, from \$52,163 to \$50,303. This is the lowest level recorded since 1998, indicating there was little growth in median income over the past 10 years. Median income fell among all families, and among all race and ethnicity categories. Income inequality remained largely unchanged during 2008. Both men and women's earnings declined. These income changes were in part driven by declines in real median earnings of full-time workers.

Poverty

The poverty rate rose from 12.5% in 2007 to 13.2% in 2008, with 39.8 million individuals living in families whose incomes were below the Federal poverty line. This is the highest poverty rate since 1997. Poverty increases were particularly large among Hispanics and among non-citizens. Also, poverty increases were concentrated in the Midwest and in the West. A bit of good news is that the elderly experienced no increase in poverty during 2008.

Health Insurance

The number of Americans who were not covered by health insurance rose from 45.7 to 46.3 million, although the share of the population that was uninsured stayed relatively constant at 15.4%. (I will say little about the health insurance coverage numbers in this report, since they will be discussed by my colleague Dr. Rouse.)

Long-term Trends

These 2008 numbers are better understood when they are put in the context of the historical trends. Let me talk first about the trends in income and then turn to poverty.

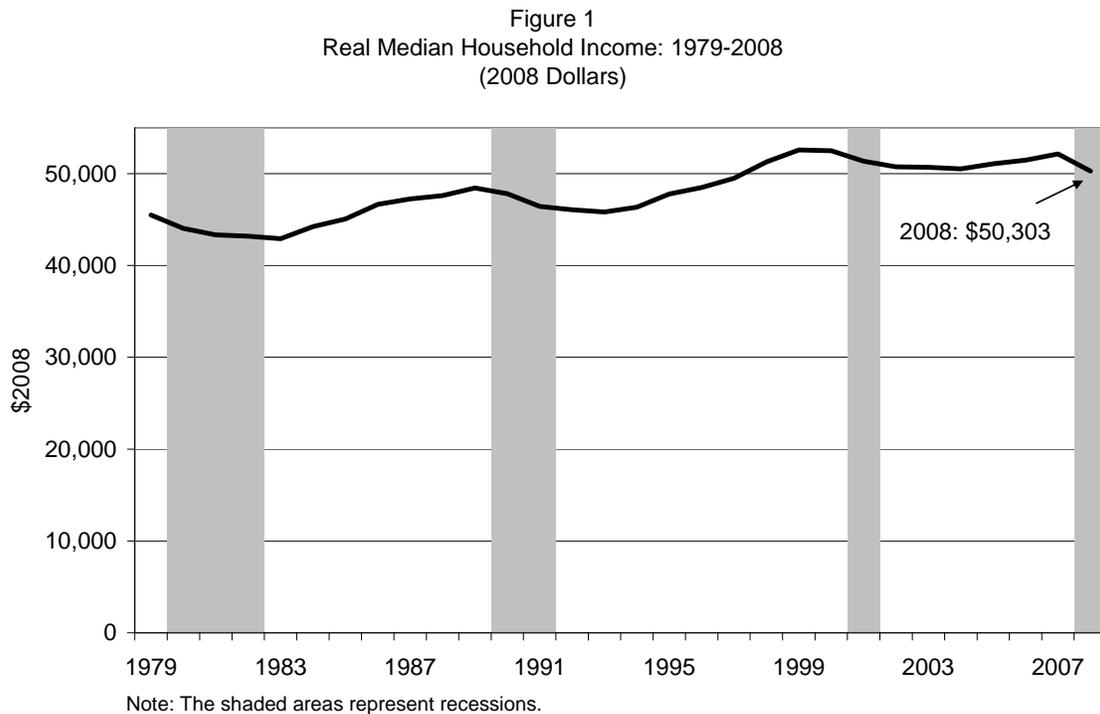


Figure 1 shows how real median household income has changed from 1979 through 2008. The darker areas in the graph show recession years and highlight how income has changed following the recession of the early 1980s, the recession of the early 1990s and the recession of 2001. This is particularly interesting since we are quite concerned with income growth as we emerge from the recession of 2008-09. It is clear that income rose over the entire 1979-2008 period, but most of this increase occurred during the expansions of 1982-1990 and 1991-2000. Table 1 indicates that median income rose 10.7% in the expansion following the recession years of the early 1980s, and rose 13.0% following the 1991 recession. But the expansion of the 2000s was very different. It was not until 2007 that median household income was as high as it had been in 2000. Median household income rose only 1.6% during the expansion between 2001 and 2007. With the economic turndown in 2008, we are back to a level of median income similar to where we were 10 years ago. In short, while the 2008 declines in median income are discouraging, they are even more discouraging when placed in the context of the past

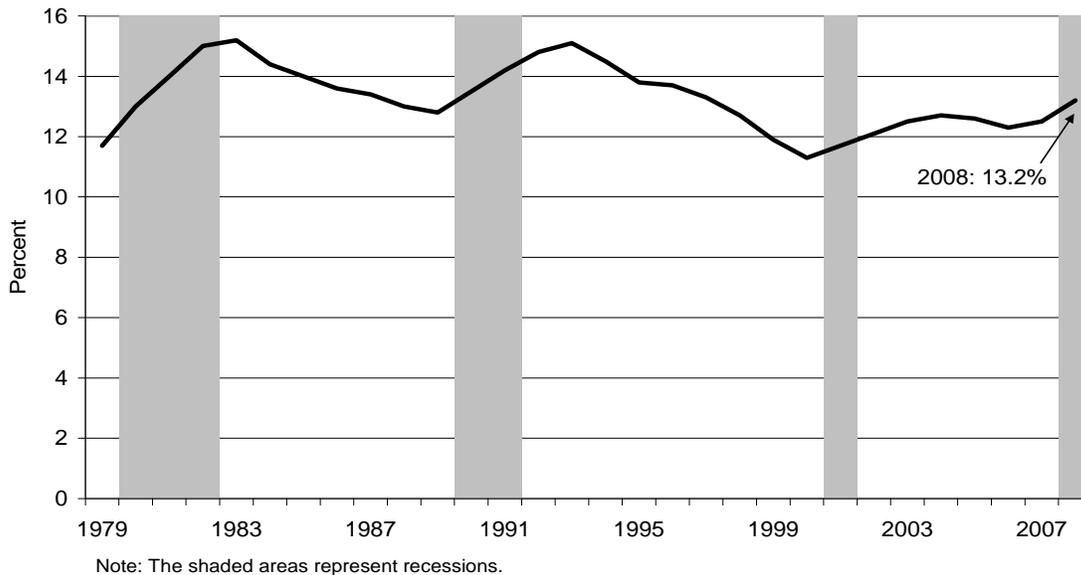
eight years. Middle-income American households made no gains in income over this time period.

Table 1
Trough-to-Peak Changes in Income and Poverty in Three Recent Recessions

	Real Median Household Income	Poverty Rate
	Percent Change	Percentage Point Change
1982-1990	10.7	-1.5
1991-2000	13.0	-2.9
2001-2007	1.6	0.8

We see a similar pattern when we look at poverty rates. Figure 2 shows the poverty rate from 1979 through 2008. As the figure shows, the poverty rate always rises steeply during recessions, but falls during expansions. As Table 1 indicates, poverty fell by 1.5 percentage points during the expansion of the 1980s and by almost 3 percentage points during the expansion of the 1990s. In the recession of 2001, poverty went up as anticipated, but never really came down. Rather than falling, poverty rose by eight-tenths (0.8) of a percentage point during the expansion of the 2000s, so that a higher share of the population was poor in 2007 than in 2001. The 2008 data show a further steep upward increase, as expected in a recession year. But the fact that the expansion of the 2000s did nothing to reduce poverty means that the increases in 2008 are off a higher base.

Figure 2
Poverty Rate: 1979-2008



Clearly, the bad news about income and poverty in today's data release mirrors the bad news throughout the economy in 2008. The reduced income and higher poverty numbers

directly reflect the increases in unemployment over 2008 that lowered earnings among American families.

But we are already seeing some signs of recovery in the economy and private-sector forecasts all predict positive GDP growth during the second half of this year. I expect that the economy will not show the same declines from 2008 into 2009 as it did between 2007 and 2008. Unfortunately, even with an improving economy, the higher unemployment rates during 2009 will almost surely lead to further declines in income and further increases in poverty. Unemployment lags the business cycle and until job growth is strong, income will not recovery.

The long-term challenge is to assure that the economic recovery that we are entering brings better economic times to all Americans, with increases in income throughout the income distribution. Greater earning opportunities among lower-income workers provides the best way to assure future declines in poverty.

This Administration, since taking office at the beginning of 2009, is working on a host of policies designed to improve the lives of American families. We are focused on improving educational opportunities from preschool through college; reforming health care so that all Americans have access to insurance and families are not bankrupted by health emergencies; and helping to create a growing sector of Green Businesses and Green Jobs, to both improve energy efficiency and employ more Americans in jobs that make the environment healthier for us all. Furthermore, the stimulus package approved by Congress this past winter, raises incomes and helps create jobs, improving family well-being in 2009 relative to what it would have been without this additional assistance.

Today's data tell us what we already knew: 2008 was not a good year economically for Americans. Fortunately, this is old news. There are signs of economic recovery throughout the economy, aided by the measures that Congress and this Administration have taken to restore credit markets and stimulate economic growth. We have good reason to believe that the news in future years will be better.