

Economic Policy Institute
Research and Ideas for Shared Prosperity

A lost decade: Poverty and income trends paint a bleak picture for working families

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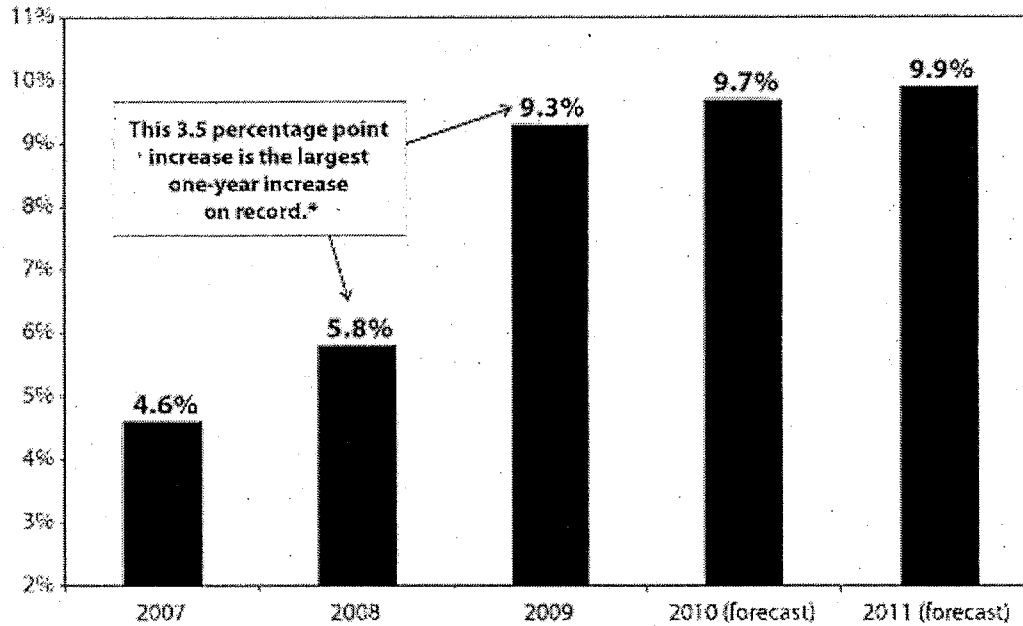
Note: For analysis of health insurance coverage, see [Decline in employer-sponsored health coverage](#), by Elise Gould, director of health policy research at EPI.

This morning's release by the U.S. Census Bureau of the 2009 poverty and income data was yet another reminder of the severity of the Great Recession that began in December 2007. The data show that the poverty rate increased from 13.2% in 2008 to 14.3% in 2009, the highest rate since 1994. Furthermore, for the first time on record, the nominal (non-inflation adjusted) income of the median, or typical, household actually fell, from \$50,303 in 2008 to \$49,777 in 2009. Inflation was negative from 2008 to 2009, dropping by 0.4%, so real (inflation-adjusted) income did slightly better, dropping \$335, or -0.7%, from \$50,112 in 2008 to \$49,777 in 2009.

When unemployment skyrockets and job seekers cannot find work, incomes fall and poverty rises. The fact that the deterioration in both poverty and income from 2008 to 2009 were so dramatic is unsurprising given the deterioration in the labor market. **Figure A** shows that the unemployment rate increased from 5.8% to 9.3% from 2008 to 2009, a 3.5 percentage point increase. This is by far the largest one-year increase on record (these data go back to 1948; the second largest increase was a 2.9 percentage point increase from 5.6% in 1974 to 8.5% in 1975). When we look back on this whole period, we will likely find that the Great Recession that began in December 2007 caused the unemployment rate to rise for four years, from 2007-11. However, the increase from 2008 to 2009, which is what today's data release covers, captures the big collapse in the American economy.

FIGURE A

Average annual unemployment rate, 2007-11



* This data series goes back to 1948.

Source: Authors' analysis of Bureau of Labor Statistics data.

Key findings from today's report

Poverty

- The poverty rate increased from 13.2% to 14.3% between 2008 and 2009, representing an additional 3.7 million people living in poverty for a total of 43.6 million in poverty in 2009. The poverty rate for children was 20.7% in 2009, representing 15.5 million kids living in poverty. In 2009, over one-third (35.5%) of all people living in poverty were children.
- The poverty rate for working-age people (18-64 years old) hit 12.9% in 2009, the highest rate in nearly 50 years. The elderly (65 and older) population saw a -0.8 percentage point decrease to 8.9% in 2009, the lowest elderly poverty rate on record. Social Security provides seniors with an income that insulates them against severe economic downturns like the Great Recession.
- Although significant increases in poverty were felt from 2007 to 2008, it was only the tip of the iceberg.
- While no single group was spared, white non-Hispanics maintained far lower rates. Hispanics and Asians were particularly hard-hit by increases in poverty in this recession, increasing 3.8 and 2.3 percentage points from 2007-09.
- The poor are getting poorer. In 2009, the share of the population below half the poverty line hit a record high of 6.3%.
- In 2009, over one-third of black children (35.7%) and nearly one-third Hispanic children (33.1%) were living in poverty. Families (with children) headed by single mothers hit 38.5% in 2009. Of the 6.6 million families living in poverty, 3.8 million of them were headed by a single mom.
- The poverty threshold decreased, from \$22,025 for a family of four in 2008 to \$21,954 in 2009. In the five decades that this measure has existed, 2009 is the first time that the threshold has ever decreased.

Income

- For the first time on record, the nominal (non-inflation adjusted) income of the median, actually fell, from \$50,303 in 2008 to \$49,777 in 2009. Inflation was negative from 2008 to 2009, dropping by 0.4%, so real (inflation-adjusted) income did slightly better. Real median income declined by \$335 from \$50,112 in 2008 to \$49,777 in 2009, a decline of 0.7%. The real median income of working-age households declined even more, falling by \$754 from \$56,575 to \$55,821.
- African Americans were hit particularly hard in 2009, with the median African American household income dropping by 4.4%.
- The 2009 data show that inequality increased slightly with higher incomes recovering disproportionately in the second year of the recession. In 2009, workers at the 20th percentile saw a decline in income of 0.9%, while workers at the 95th percentile saw an increase of 0.4%.
- Real earnings for the median full-time, full-year female worker rose 1.9% in 2009, from \$35,609 to \$36,278, while the median male working full-time, full year saw an increase of 2.0%, from \$46,191 to \$47,127. Particularly astonishing was the 4.7 million drop in the number of earners working full-time full-year. The job loss and hours reductions of 2009 meant there was a 3.7 million drop in the overall number of workers with any earnings at all in 2009, and a 1.1 million increase in the number of workers working part-time and/or part-year.

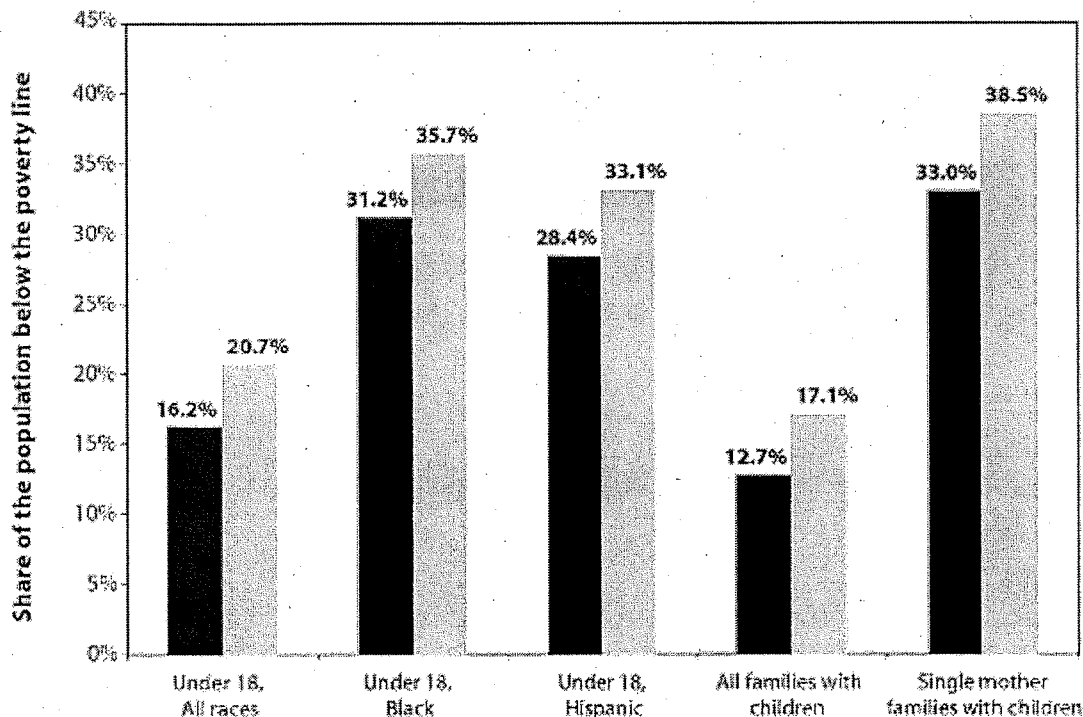
Poverty: Record highs

Between 2008 and 2009, an additional 3.7 million people slipped below the poverty line, as the poverty rate increased from 13.2% to 14.3%, the highest rate since 1994. The poverty rate for children, at 20.7% in 2009, was higher than the overall rate and increased more (by 1.7 percentage points) from 2008. The 2009 rate represents 15.5 million kids living in poverty. In 2009, 35.5% of all people living in poverty were children.

Figure B shows the poverty rate over the last 30 years, both overall and for children. Much of the decline in poverty achieved during the business cycle of the 1990s has now been reversed. Overall poverty declined by 1.5 percentage points, and child poverty dropped by 3.4 percentage points from 1989 to 2000. From 2000 to 2009, however, poverty increased overall by 3.0 percentage points, and by 4.5 percentage points among children. The large increase in poverty suggests that as anti-poverty policies have come to depend more on paid work as the main pathway out of poverty, the safety net has become less effective in reducing economic hardship when the economy and job market are underperforming.

FIGURE F

Poverty rates for vulnerable populations in the 2000s



Source: U.S. Census Bureau, Historical Poverty Tables.

For families headed by single mothers, there was a 5.5 percentage point jump from 2000 to 2009 to 38.5%. In 2009, of the 6.6 million families living in poverty, 3.8 million of them were headed by single moms.

While the largest increase in the unemployment rate in this recession was experienced between 2008 and 2009, it is expected to rise in 2010 and 2011. Therefore, we still haven't seen the full extent of the recession's impact on poverty. We predict the poverty rate to increase to 14.5% in 2010 and could reach 14.6% in 2011.[3]

Income

From 2008 to 2009, real median income declined by \$335 from \$50,112 to \$49,777. This was a decline of 0.7%. The real median income of working-age households (where the householder is under 65 years old) declined even more, falling by \$754 from \$56,575 to \$55,821, a decline of 1.3%. The fact that working-age households saw a larger decline is unsurprising, given that these are the households most affected by the deterioration of the labor market.

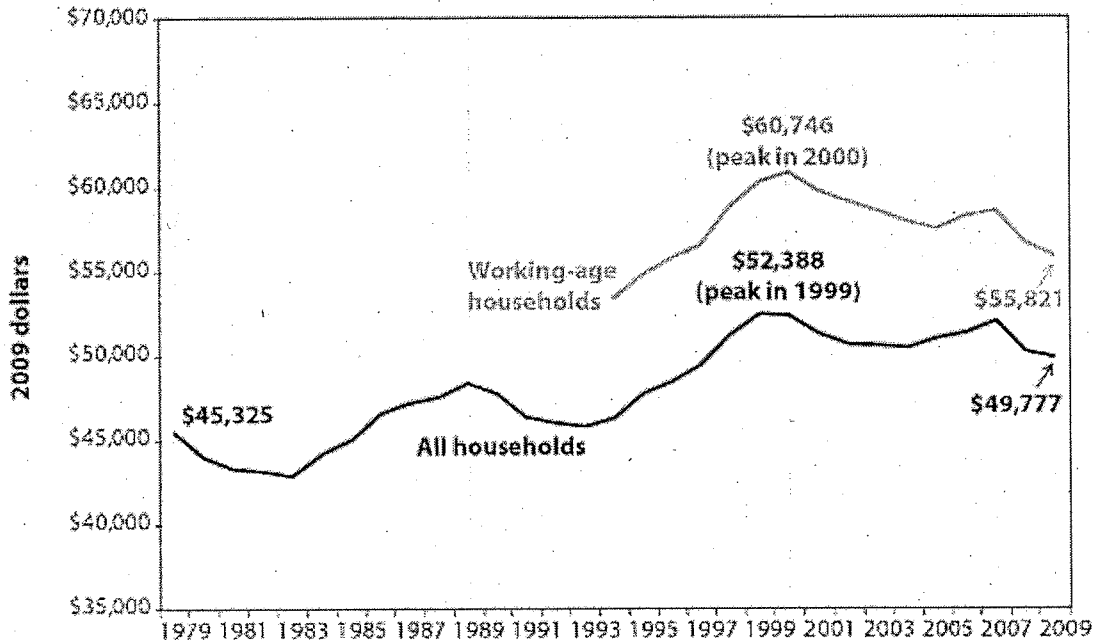
Real earnings in this release were boosted by the lack of inflation in 2009. Inflation was -0.4% in 2009 due to a large drop in energy prices. Core inflation was at 1.7% over this period. If real incomes hadn't gotten the boost from the drop in energy prices over this period, the declines in income would have been much more dramatic—for example, if inflation had been 1.7%, the income decline of the median working-age household, all else equal, would have been -2.7% instead of -0.7%.

Figure G shows real median income over the last 30 years both for all households and, starting in 1994 when the data became available, for working-age households. A key point here is the comparison between business cycles. From 1979 to 1989, real median income grew \$2,954, (from \$45,325 to \$48,279) and from 1989-2000, it grew \$4,022, (from \$48,279 to \$52,301). But for the first time on record, over the business cycle from 2000-07, incomes did not rise, but fell slightly from \$52,301 to \$51,965. And with the weak labor market over this period, the real median income of working-age households fell significantly, from \$60,746 to \$58,495. This means that working families are weathering the current economic downturn on the heels of one of the worst economic

expansions on record. *Real median income for working-age households is now \$4,925 below 2000.*

FIGURE G

Real median household income, 1979-2009



Note: Vertical lines indicate the start of recessions. Median income for workers under age 65 starts in 1994.
Source: Author's analysis of U.S. Census Bureau data.

Some racial and ethnic groups saw large declines in income in 2009, with African Americans getting hit particularly hard. Figure H shows the percentage change in real median incomes for various racial and ethnic groups from 2007-08 and 2008-09. The median white non-Hispanic income declined by 1.6%, while African American households experienced a decline of 4.4%. The median Hispanic household increased slightly by 0.7% and the median Asian household also increased by 0.1%, though both of these groups saw particularly large declines in the first year of the recession, from 2007 to 2008.