

**Poverty and Income in 2008:
A Look at the New Census Data and What the Numbers Mean**

Brookings Workshop

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Ron and Belle, thanks for inviting me. I think Ron invited me this time to keep me from answering questions from the audience as I did last year. It is easier to cut me off when I am within striking distance.

Let me highlight some interesting findings that are part of the data that the Census Bureau released this morning. Then I have an advertisement about one of our products and a challenge for the audience.

In summary, households with children experienced a 2.6% decline in real median income; Poverty rate for children increased 1 percentage point to 19%; Uninsured rate for children fell to the lowest level since 1987 – at 9.9%. And yet the poverty rates for black children, children living in non-working households, female headed households, and families receiving means-tested benefits – families with less attachment to the labor force - saw their poverty rates remain flat.

As Belle stated, this recession places context around these new estimates. The 2009 CPS asked respondents about income in calendar year 2008. Since the recession officially began in December 2007, this year's estimates give a good picture of the impact of the first full year of the economic downturn.¹

Table 1 and Figure 1 show the results for the changes in income and poverty for years surrounding a recession, basically from income peak to trough, and compares them to the change between 2007 and 2008. This first year of this recession has experienced large changes – some similar in size to the entire effects of previous recessions.

The 3.6 percent decline in real median household income between 2007 and 2008 is not statistically different from the declines in the income years surrounding the two most recent recessions in 2001 and 1990/91. And the 1.0 percentage point increase in the child poverty rate between 2007 and 2008 is larger than the apparent change for the years surrounding the 2001 recession. And this table also suggests that inequality has increased between 2007 and 2008, with the fall in the 10th percentile, at 3.7%, larger than the fall in the 90th percentile, at 2.1%, which similarly occurred during the last recession.

¹ Comparing calendar year 2007 to 2008, the number of full time, full year workers (between the ages of 15 and 64) fell by 4.6 million, (from 105.4 million in 2007 to 100.7 million in 2008) and the number of nonelderly who did not work at all during the year was up by 1.6 million (from 49.7 million to 51.3 million).

Turning to a broader picture of the well-being of children, Figure 2 presents the distribution from 1980 to 2008 of children within five ranges of income-to-poverty ratios. One can see the diminishing share of children in the middle of the distribution – implying an increase in inequality (as we have seen for the entire population).

Since 1980, the percentage of children living in families with incomes between 200 and 399 percent of their poverty thresholds (income between \$44,050 and \$88,100 for a family of four) has decreased from 41 to 32 percent. While the percentage of children living in families with incomes greater than 400 percent of their poverty thresholds (income greater than \$88,100 for a family of four) grew from 17 to 28 percent in 2008.

Figure 2 also shows that the percentage of children living in extreme poverty, in families with incomes below 50 percent of their poverty thresholds (about \$11,000 for a family of four), was 8.5 percent in 2008, up from 7.8 percent in 2007. This accounts for much of the increase in the overall child poverty rate as the percent of all children living in families with incomes between 50 percent and 100 percent of their poverty thresholds (income between \$11,012 and \$22,025 for a family of four) was statistically unchanged from 2007, at 10.5%.

Recall that the income source used in the official poverty measure only includes regular sources of money income – employment, government cash transfers, regular retirement income, etc. However, individuals also derive economic well-being from noncash benefits, such as food stamps and housing subsidies; pay taxes, and receive refundable tax credits.

Buried in our multitude of tables on the web, we can find that the percentage of children living in households who received food stamps increased to 15.6% in 2008 (from 13%). And the poverty rates for children in these households, while very high, actually fell (from 70.4% to 66.3%). Hence, food stamps participation has an impact.

The Census Bureau computes a number of other measures of income and poverty that examine these other sources of income. These fall into two categories:

- poverty measures based on the recommendations of the National Academy of Sciences which use different poverty thresholds and a different income definition;
- income and poverty estimates that continue to use the official poverty thresholds but that add or subtract resources from the income definition;

Now the advertisement. The Census Bureau also has a web-based tool, called Table Creator II, which allows one to explore alternative income and poverty measures.² A key feature of Table Creator II is to see the incremental impact of the addition or subtraction of a single resource element. For example, one can determine the percentage of people (and kids) who fall below the official threshold before and after we include the cash value

² With this tool, one can examine the sensitivity of the poverty rate to changes in the resource definition and the poverty threshold definition; estimate relative poverty rates; and calculate poverty rates using the methods suggested by the NAS panel. The tool is available in a link from the “Microdata Access” page on the poverty web site, <<http://www.census.gov/hhes/www/poverty/poverty.html>>.

of food stamps.

As I showed this morning, if the cash-value of food stamps were added to the resources of families, this would move 2.2 million people above the poverty line (and 1 million children), which is larger than last year's impact (of 1.7 and 0.8 million children).

Here is the challenge – THINK about what it means to be in poverty and what resources and poverty threshold level should be used. What about food stamps, taxes, what about capital gains or losses, how do we account for medical care expenses or Medicaid receipt. What is a reasonable poverty level – current threshold is about 22000 for a family of 4. Then check out the tabulator and examine the impact of your choices.

Finally, since the Census Bureau released it's first report 10 years ago examining the NAS recommendations, we have continued to examine alternative measures that include more than just food stamps. Figures 3 and 4 compare the official poverty rates to alternative poverty rates calculated following the NAS methodology.

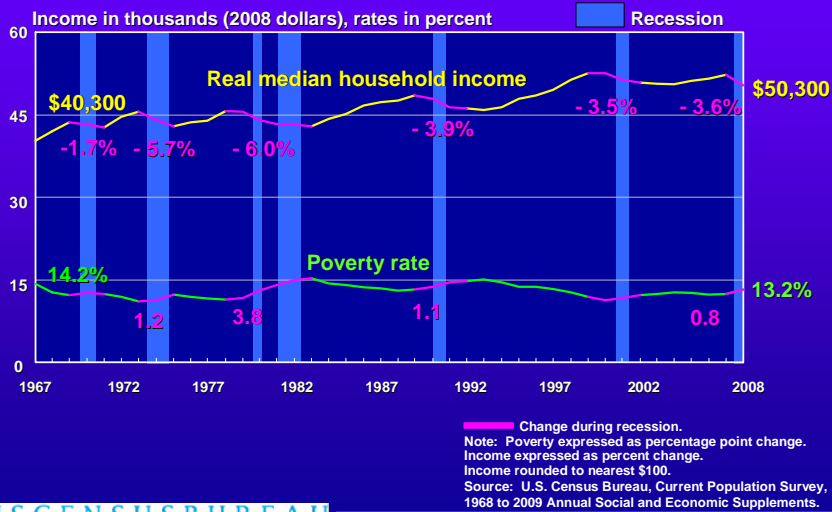
Figure 3 shows that the overall poverty rate similarly tracks the NAS poverty rate, if one uses the inflation rate to update the threshold from year to year. While increasing the threshold more than inflation – using actual consumer expenditures – increases the poverty rate more than the official rate.

The key difference between the official rate and the CPI adjusted NAS rate is what happened during the last recessionary period around 2001, where it looks like the NAS measure changed less between 2000 and 2002, and how will the alternative measure change in 2008? Today's data suggest that there was an increasing reliance on government transfers that are not included in the official measure. We will find out this Fall when the Census Bureau releases the alternative income and poverty estimates – and updates the table creator with 2008 data.

Figure 4 shows the NAS poverty rates for elderly and children – and I leave you with this slide. Recent news stories have discussed these differences – that the NAS measure yields a poverty rate for elderly higher than that for children.

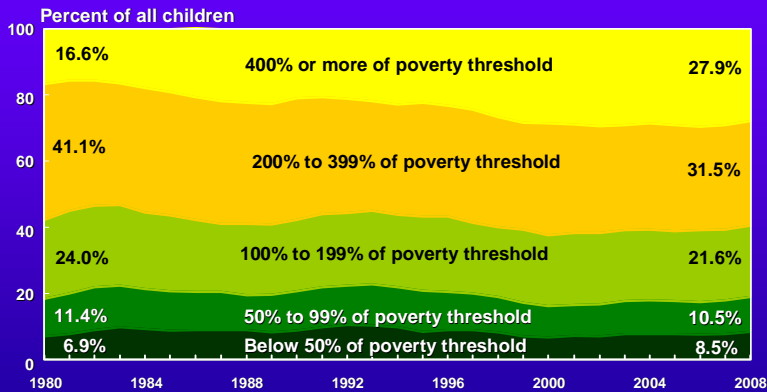
So think about poverty measurement – read our reports and tables – and try out the table creator. Thanks.

Figure 1: Real Median Household Income and Poverty Rate: 1967 to 2008



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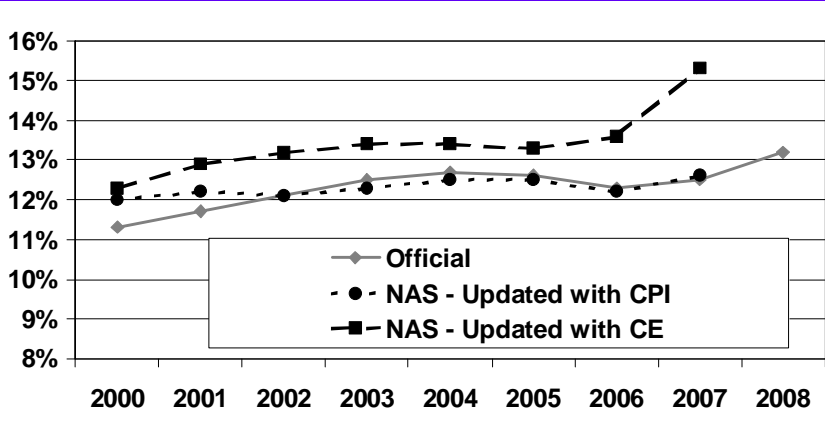
Figure 2: Children with Income Below Specified Ratio of Their Poverty Threshold: 1980 to 2008



Source: U.S. Census Bureau, Current Population Survey, 1981 to 2009 Annual Social and Economic Supplements.

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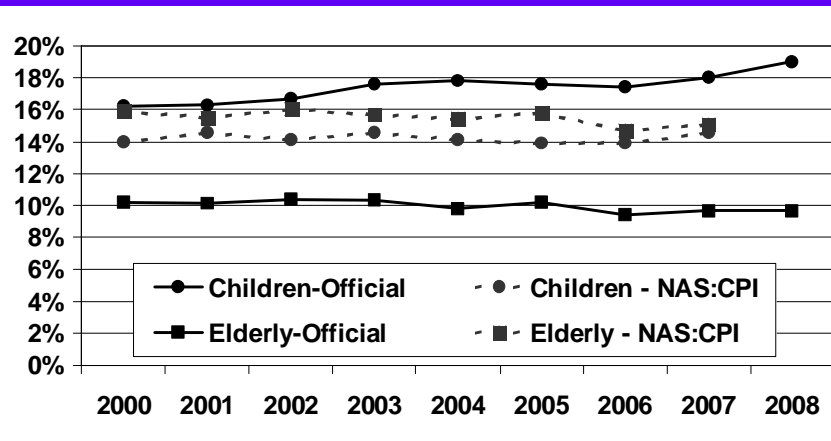
Figure 3: Official Poverty and Alternative NAS Poverty measures, 2000-2007



Source: U.S. Census Bureau, Current Population Survey, various Annual Social and Economic Supplement.s

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Figure 4: Official poverty and Alternative NAS Poverty measures for children and elderly



Source: U.S. Census Bureau, Current Population Survey, various Annual Social and Economic Supplement.s

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