

Testimony on Income and Poverty in the United States: 2008

Before the Joint Economic Committee of the United States Congress

By

Harry J. Holzer

**Professor of Public Policy, Georgetown University and
Institute Fellow, Urban Institute**

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Thank you for giving me the opportunity to speak before you this afternoon about the income and poverty numbers for 2008 that were released this morning by the Census Bureau.

We now know that the years 2000–2007 represented a complete business cycle, and comparing 2000 and 2007 enables us to infer the secular trend that the nation experienced for most of the current decade. And the differences between 2007 and 2008 represent only the beginning of the most serious economic downturn since the 1930s.

While there is a great deal to discuss in a short period of time, I would like to emphasize the following four points:

- (1) *The numbers for the period 2000–07 are quite disturbing—real median income failed to rise over this entire period, while poverty did rise.* Indeed, the poverty rate rose substantially (by about 2 percentage points) for certain groups, like children and African Americans. Moreover, these trends occurred while the nation’s productivity rose by nearly 20 percent. Thus, both low- and middle-income American families largely failed to share in the economic prosperity generated during this period.

Of course, there are important questions about how these numbers are measured, and especially how we adjust for inflation and health care costs over time. But faulty measurement likely does not account for most of these findings.

- (2) *Between 2007 and 2008, the beginning of the current recession caused real income to fall and poverty to rise.* The data show that some groups (like Asians and Hispanics) and some regions of the United States (like the Midwest) were harder hit than others. But it is also noteworthy that the deterioration we see so far has been very widespread.
- (3) *The worst is yet to come.* Even if the recession officially ends this year—meaning that the production of goods and services in the economy begins to recover—the unemployment rate will likely continue to worsen for the rest of this year and into next year. This is because employment is a “lagging indicator,” with employers creating new jobs and hiring more workers only after they are confident of a strong recovery in product demand that cannot be met from their current inventories and current workers. Real income, therefore, will continue to fall and poverty will continue to rise for a few more years—and almost certainly by much more than what we have witnessed between 2007 and 2008. It will likely take several years beyond 2010 before real income and poverty fully recover from the effects of the downturn (that is, return to 2007 levels).
- (4) *Economic policy over the next few years must focus both on the severe near-term impacts of the current recession and on the longer-term stagnation experienced*

by low- to middle-income Americans, with the greatest attention paid to those who are most vulnerable.

How might we accomplish these policy goals? Over the next few years, we must ensure that those who cannot find work due to no fault of their own, and their families, are protected by an adequate safety net. Unemployment insurance (UI) will need to be extended beyond the provisions in this year's recovery legislation. For low-income and part-time workers ineligible for UI, other forms of cash assistance and perhaps community-service jobs will need to be provided. States facing severe fiscal crises may need some assistance as well.

But we must also begin to implement policies that address the longer-term stagnation in the incomes of American workers and their families. When the economy and the labor market do begin to recover, jobs will be created that require more skills than many Americans currently have—even in positions that do not require four-year college degrees. Therefore, we need to invest more effectively in the education and training of our workers through everything from pre-kindergarten programs to higher education and job training for disadvantaged youth and adults. Other approaches to earnings enhancement, such as higher minimum wages and more collective bargaining, might be encouraged as well.

For the hard-to-employ poor whose skills and wages might not improve over time, we need to create stronger incentives and supports for them to work in greater numbers, even at low wages. And health insurance reform must remain a top priority—to ensure coverage for the millions of families who now lack such protection, and to ensure that growing medical costs do not continue to absorb the earnings growth of productive American workers.

I will be happy to elaborate more on these points during the discussion period to follow.