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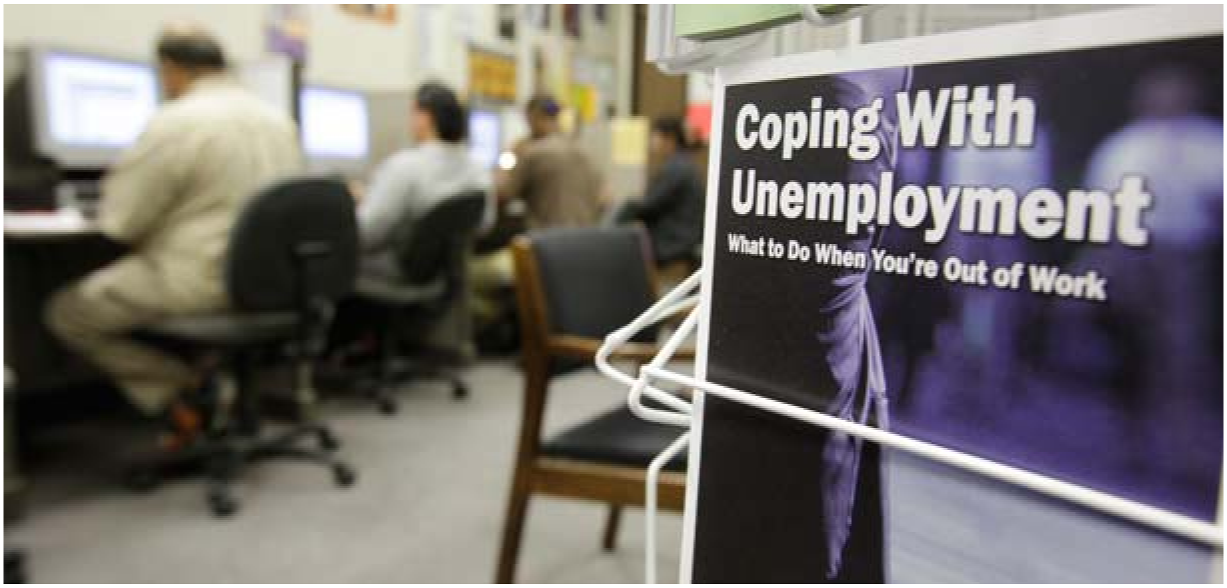
Back to this item

Family Income Free Fall

Census Data Underscores Need for Policies to Bring Down Unemployment



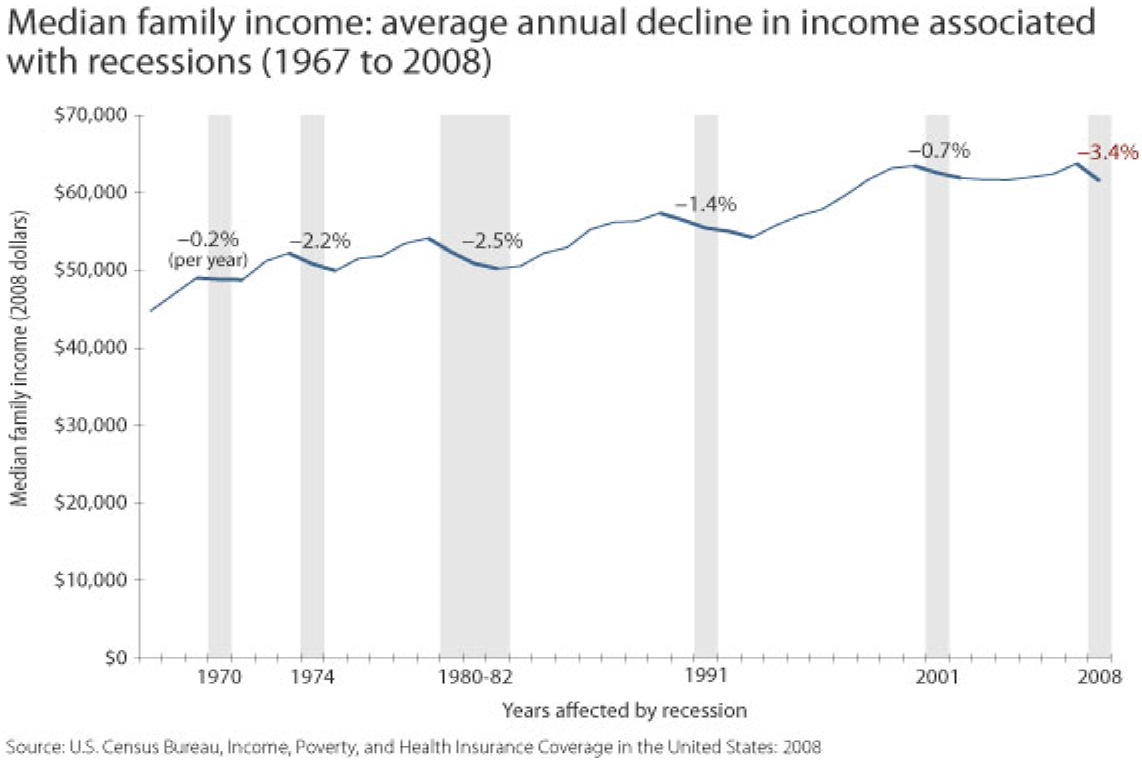
SOURCE: AP/Paul Sakuma

New numbers show family income in 2008 as lower than at any time since 1997.

By Heather Boushey | September 10, 2009

The U.S. economy has been in recession for 22 months, and today's Census Bureau release of 2008 income data gives us an initial snapshot of the damage being doing to families around the nation. The 2008 data shows that the first year of the recession left the typical family with an income of $61,521, which is lower than at any time since 1997 in inflation-adjusted dollars. As of a year ago, this recession—and the high unemployment and hours cuts associated with it—had deprived families of over a decade's worth of potential income gains. The clear implication of this data is that a key goal of our economic policies must be to bring down unemployment.

This urgency is underlined by the fact that today's data does not provide the full measure of the recession's harm to families. The economy did not begin to shed massive numbers of jobs until late 2008 and early 2009, so the data for 2008 is indeed only a prelude to the true devastating costs of this recession. The percent decline in income between 2007 and 2008 is larger than any one-year fall since 1947, but the pain of this recession is still not fully evident (see figure).



Today's data is also a clear indictment of the economic policies of the past decade. Families started this recession with lower incomes than they should have had. This recession follows the weakest economic recovery in the post-World War II era—the economic cycle from 2000 to 2007 is the only one where family incomes were lower at the end than at the pre-recession economic peak. Family incomes fell from 2000 to 2007, even as productivity grew at annual rate of 2.5 percent. On top of this, families were highly indebted at the beginning of this recession, which prevented them having a cushion to fall back on as home values plummeted and jobs were lost.

Households have seen their incomes fall across the board. As a result, the Census data shows that income inequality remains unchanged since last year. Yet some groups saw exceptionally large declines in income, including middle-aged households, Hispanic and foreign-born households, and households without a female breadwinner:

- Households headed by someone between the ages of 45 and 54 saw the largest drop in income between 2007 and 2008 across age groups. This group saw their incomes fall by 5.4 percent between 2007 and 2008, on top of a decline of 5.7 percent from 2000 to 2007, which also was a larger drop than for any other age group. The income decline will be especially hard for these households as they face big ticket expenditures, such as saving for their impending retirement or putting a child through college.
- Hispanic households saw their incomes fall by 5.6 percent between 2007 and 2008 and foreign-born households saw their incomes fall by 5.3 percent. Workers in these households have been hard hit by the recession. Hispanic unemployment averaged 7.6 percent in 2008, higher than for whites (5.6 percent), but lower than for African Americans (10.1 percent). The unemployment rate for Hispanics has grown faster than for African-American workers, however, which helps to explain why their incomes fell more even though their unemployment rate is lower.
- Households headed by an unmarried man saw their incomes fall by 5.0 percent and unmarried men living on their own or with friends or partners saw their incomes fall by 5.7 percent. The recession has been especially hard on male unemployment—men have lost three-out-of-four jobs since the recession began in December 2007. It is no surprise that the median income for male-headed households has fallen.

Both men and women who worked full-time, full-year in 2008 saw their median earnings fall, but women's fell more than men's. Women's earnings fell by 1.9 percent while men's fell by just 1.0 percent from 2007 to 2008. The ratio of female to male pay therefore fell slightly—and statistically insignificantly—from 77.8 to 77.1 percent.

One thing is very clear from today's report: Policymakers must have a laser-like focus on reducing unemployment in order to pull the United States out of this economic malaise. It is high unemployment that is causing incomes to fall, which is causing consumers—the single-largest driver of our economy—to pare back their spending. On top of this, the collapse in home prices and the increased stringency in lending rules means that families cannot tap into credit to the extent they could even a few years ago. The resulting de-leveraging makes earnings—and family income—a more important driver of consumption patterns than in years past. Until we get unemployment down, family budgets will remain in an impaired state and consumers will keep their wallets closed. Our economy cannot grow if we do not address this fundamental issue.

Congress and the administration have already taken steps to ameliorate the recession and address unemployment. The American Recovery and Reinvestment Act is pumping billions of dollars into communities around the nation to spur employment and, with it, economic growth. We need to continue to focus on policies that will push employment higher, rather than risk steps that will lead to further cut-backs. Addressing the problem of the long-term unemployed and those about to exhaust their benefits is a critical piece of this puzzle.

But policymakers should keep their eye on the long term as well. Addressing the issue of health insurance will help make our economy more competitive and vibrant. Pursuing an energy policy that will encourage investments in alternative energies, and the jobs and added productivity that will follow, should also remain a top priority. On top of this, we need to move forward on reforming our financial regulatory structure so that we can rest assured that the financial sector will not again come so close to the brink and be able to wreak such havoc on everyday people.

Heather Boushey is a Senior Economist at the Center for American Progress. For more on this topic, please visit our Economy page.

For more information, see:

- Census Losses in Health Coverage Make Reform More Urgent, by Karen Davenport.
- Poverty in the Obama Era: New Census Numbers Fail to Reflect the Severity of Inherited Problems, by Joy Moses.
- Interactive Graphic: Equal Work Without Equal Pay, by Heather Boushey.
- A Good Job Is Hard to Find, by Heather Boushey.

To speak with our experts on this topic, please contact:

Print: Suzi Emmerling (foreign policy and security, energy, education, immigration)
202.481.8224 or semmerling@americanprogress.org

Print: Jason Rahlan (health care, economy, civil rights, poverty)
202.481.8132 or jrahlan@americanprogress.org

Radio: John Neurohr
202.481.8182 or jneurohr@americanprogress.org

TV: Andrea Purse
202.741.6250 or apurse@americanprogress.org

Web: Erin Lindsay
202.741.6397 or elindsay@americanprogress.org

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