

The Wealth of the Nation



By [Mark Zandi](#) in West Chester

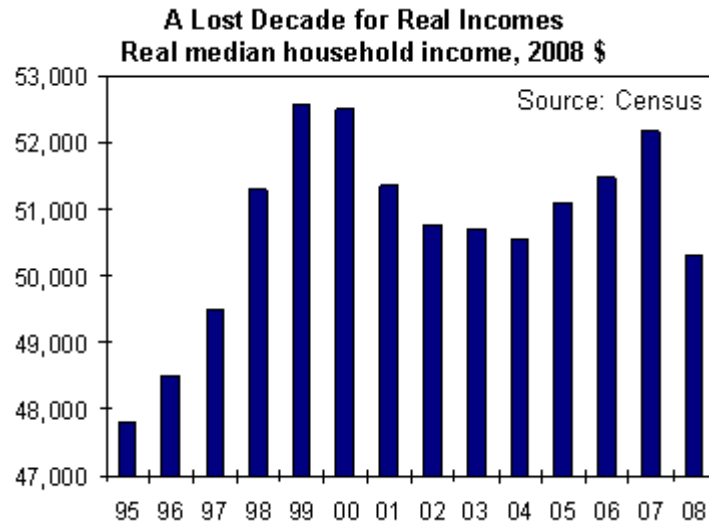
September 10, 2009

[PRINT](#) | [BOOKMARK](#) | [QUESTIONS?](#) | [EMAIL ARTICLE](#) | [EMAIL ALERTS](#) | [XML](#)
[RSS](#)

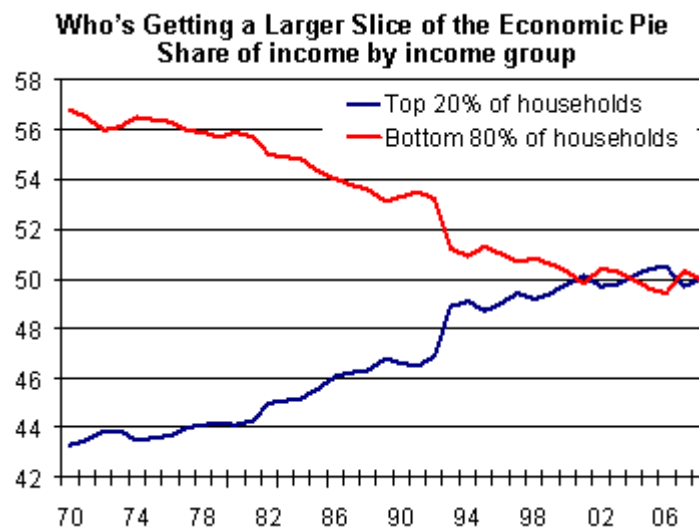
- The latest Census report shows the damage done to U.S. households by the Great Recession.
- Not only are incomes falling, but the distribution has grown more skewed, with lower-income households seeing a declining share.
- Heavy debt loads add to the burden on lower- and middle-income households.
- U.S. consumers can no longer power the global economy as they have done for most of the past quarter century.
- The report highlights the work facing policymakers, beginning with healthcare reform

It is no surprise that 2008 was a very bad financial year for many American households, but today's Census report on poverty, income and health insurance documents just how bad. Poverty rose, incomes fell, and the number of uninsured rose significantly last year. Even more disconcerting, the Census data suggest that households are at best no better off financially than they were a decade ago. The report highlights the seriousness of the fallout from the Great Recession on household finances and the magnitude of the challenge facing policymakers trying to turn these trends around.

The most telling statistic in the Census report is the nearly \$2,000 decline in real median household income to just over \$50,000 last year (in 2008 dollars). This was the largest decline in the 40 years that Census has been doing this calculation, and while it may be a bit overstated given the effect surging energy prices had on inflation last year, the decline is representative of households' severe financial stress. Real median incomes have fallen all the way back to where they were in the late 1990s.



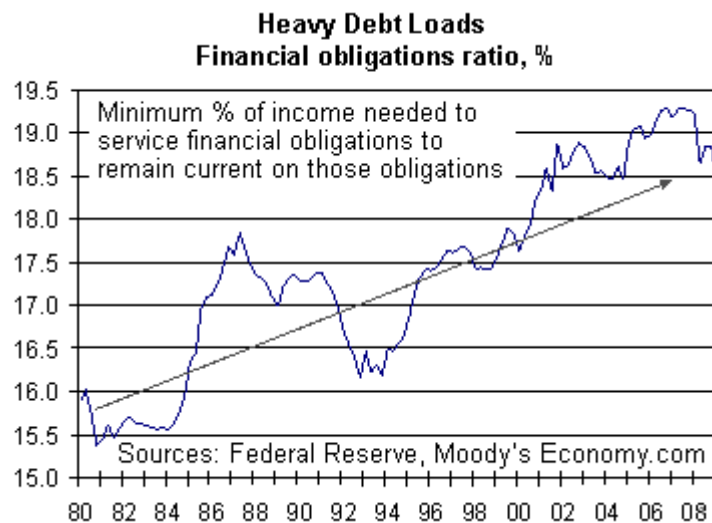
Not only are incomes falling, but the distribution of that income has grown more skewed. According to the Census, households in the top 20% of the income distribution garnered precisely 50% of the nation's income last year. A quarter century ago, this group earned only 45% of the nation's income. The income share accruing to lower- and middle-income groups has thus declined, which is also reflected in the rising share of those living below the poverty line. While the definition of poverty is hotly debated, it hasn't changed over time, and the fact that the share of those living below the line has risen to its highest level since the late 1990s is telling.



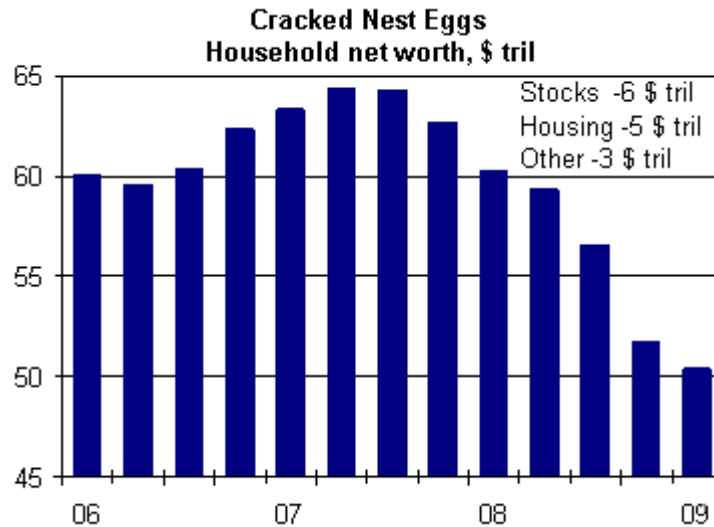
Given all this, it isn't surprising that the numbers and share of the population without health insurance rose significantly in 2008. More than 46 million

Americans now lack health insurance, or well over 15% of the population. Given the millions of jobs lost last year, the biggest erosion in health coverage occurred among working-age adults. The number receiving insurance via government programs increased, but this wasn't enough to make up for all who lost insurance when they lost their jobs.

The Census numbers highlight just how tough financial conditions have become for all Americans, but particularly for those at the bottom of the income distribution. What isn't measured in the Census data are the very heavy debt loads weighing on lower- and middle-income households. Many of these households borrowed heavily earlier in this decade in part because they thought they were growing wealthier as their homes appreciated, but also and more importantly, they borrowed to supplement constrained incomes. The record high and rising number of consumer defaults and foreclosures is the result of these high debt service burdens.



While higher-income Americans aren't in the same dire financial situation, it has been no picnic for them either. Their problem involves vanishing nest eggs. Also not in the Census data is the loss of wealth that occurred last year. According to the Federal Reserve's Flow of Funds report, household net worth—the difference between household assets and liabilities—has dropped by some \$14 trillion since peaking nearly two years ago. Housing wealth is off about \$5 trillion from its peak, stocks have lost nearly \$6 trillion, and other assets have fallen by \$3 trillion.



All this bad news will only get worse when the Census data for 2009 is released a year from now. But what does it all mean? Most obviously, consumers are no longer in a position to power the U.S. economy, let alone the global economy as they have done for most of the past quarter century. With incomes under pressure, debt loads overwhelming and nest eggs diminished, it will be difficult for consumers to simply do their part in contributing to economic growth. Other sources will need to materialize if U.S. and global growth are to match the rates enjoyed for most of the past two decades.

It also means policymakers have a lot of work to do, beginning with reform of the nation's healthcare system. If healthcare reform is done right—which means both credibly paying for broader access to insurance coverage and reining in the long-term growth of healthcare costs—it will make a substantial difference to the economy. If done wrong, the current dark forecast of endless deficits and endlessly growing federal debt will become a reality, and the next decade of Census reports will be just as grim as the latest one.

[PRINT](#) | [BOOKMARK](#) | [PERMALINK](#) | [HOME](#)

This commentary is produced by Moody's Economy.com (MEDC), a division of Moody's Analytics, Inc. (MAI), engaged in economic research and analysis. MEDC's commentary is independent and does not reflect the opinions of