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OFFICIAL MEASURES UNDERESTIMATE U.S. POVERTY RATES BY IGNORING ASSET AND WEALTH LEVELS, NEW LEVY STUDY ASSERTS

ANNANDALE-ON-HUDSON, N.Y.—The economic boom of the late 1990s marked one of nation's longest expansionary periods. Yet despite high levels of growth and a rising stock market, the boom failed to improve wealth inequality and asset poverty rates in the United States, according to a new study from the Levy Economics Institute of Bard College. The study also argues that official measures of poverty, which focus mainly on income levels, underestimate the importance of household wealth to overall economic well-being.

In their public policy brief, *Asset Poverty in the United State: It's Persistence in an Expansionary Economy*, Senior Scholar Edward N. Wolff and Research Scholar Asena Caner contend that the 1990s boom gave a false impression that everyone was accumulating wealth. Using data from the Panel Study of Income Dynamics and the Survey of Consumer Finances, the authors explore household net worth and liquid wealth and find that asset poverty stagnated during the 1990s and that debt levels increased among the poorest 10 percent of the American population. "We find that, contrary to a sharp decline in the official measure of poverty, which is based on income, the asset poverty rate has barely changed over the 1984-99 period and the severity of poverty increased, despite economic growth and a booming stock market," the authors write. "Our asset-based poverty rates are, on average, two to four times higher than the official poverty rates for almost all groups."

Rather than looking strictly at income levels, Wolff and Caner explore poverty by estimating the population that would be unable to sustain consumption at or above the poverty level, due mainly due to a loss of income. "Wealth provides economic protection during hard times and enables people to invest in their future," the authors write, stressing that their study of households from

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1984-1999 showed that, "while mean net worth increased substantially, the share of the population that is vulnerable to economic shocks, due to a lack of sufficient assets, remained the same."

The study explores the impact that major events such as changes in job status, marital status, and home ownership can have on the probabilities of moving in or out of asset poverty. Among the authors' key findings are that the racial gap in poverty rates is not diminishing over time, and the poverty gap between homeowners and renters has not subsided. They find that changes in age, education, and home ownership had some impact on overall poverty rates and that the asset poor are more likely to be younger, nonwhite, female-headed households with children, renters, and or less educated.

The authors conclude by suggesting that policies aimed at reducing poverty rates in the United States have focused too heavily on income maintenance. "While such government programs have benefited many families, they are not adept at making the poor self-sufficient," Wolff and Caner write. "The programs' short-term focus and, especially, their asset limits, make some families dependent on government assistance. These programs, therefore, should be supplemented with new ones that provide incentives for the poor to accumulate assets."

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Public Policy Brief 76, *Asset Poverty in the United States: It's Persistence in an Expansionary Economy*

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