STATE of the UNION

The Stanford Center on Poverty & Inequality

The Poverty and Inequality Report 2014

The Stanford Center on Poverty and Inequality

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THE POVERTY AND INEQUALITY REPORT

The Stanford Center on Poverty and Inequality

The Stanford Center on Poverty and Inequality (CPI), one of the country's three federally-funded poverty centers, is a nonpartisan organization dedicated to monitoring trends in poverty and inequality, examining what is driving those trends, and developing science-based policy on poverty and inequality. We present here our first annual report documenting trends across seven key domains and evaluating how the country is faring in its efforts to reduce poverty and inequality and equalize opportunity.

The purpose of establishing this annual series of reports is to ensure that the key facts on poverty and inequality enjoy the same visibility as other indicators of the country's health. As it stands, there are all manner of analyses that focus on particular aspects of poverty and inequality, including excellent studies that take on separately such issues as employment, income inequality, wealth inequality, health inequality, or educational access. This report instead provides a unified analysis that brings together evidence across seven key domains, thereby allowing a global assessment of where problems exist, where achievements are evident, and how a coordinated effort to reduce poverty and equalize opportunity might be undertaken. In future years, we plan to expand the domains that we cover, and we also hope that many states and cities will join in this annual assessment of how we are faring on core poverty and inequality indicators.

Methodology

For each domain, top experts in the country have been asked to report on current conditions, the objective being to crisply characterize the best and most current evidence available. As a summary of their results, Table 1 presents *some* of the indicators relevant to the analyses, with a more detailed description of sources and definitions provided in the individual chapters. The rankings in Table 1 allow us to assess how each indicator stacks up across the 13 years since 2000 (with a ranking of 13th meaning that the current year is the very worst over this period).[1]

The Big Picture

What, then, are the main conclusions of this report? It is difficult not to be struck by the sheer number of indicators in Table 1 for which the current year is one of very worst over the period we have covered. If an overall assessment is to be had, it is that *the country's economy and labor market remain in deep disrepair, whereas our various post-market institutions (e.g., the safety net, educational institutions, health institutions) have a mixed record of coping with the rising poverty and inequality that has been handed to them by a still-struggling economy and labor market.* The latter conclusion holds across a variety of indicators. For example, we will show that the economy continues to fall well short of providing enough jobs, whereas the safety net has "stepped up" by supplementing at least some of the foregone earnings and raising many above the poverty threshold. Although the safety net thus deserves credit for responding well to the jobs disaster, it still falls short of meeting all the rising need. It therefore deserves a mixed grade insofar as it is held to the very stringent standard of fully addressing the need that is generated even during times of profound economic distress.

The same characterization holds for the other post-market institutions that are covered in this report. As with the safety net, we again ask our health and educational institutions to perform rather the miracle, confronting as they do a population with high levels of poverty and inequality and all the health and educational problems that are thereby generated. This challenge has been met with only partial success. If one holds our health and educational institutions to the same high standard of fully rectifying the damage that the economy has wrought, then our report shows that they have fallen somewhat short and that much work remains to be done.

Key Findings

This simple theme, that of a failing economy and struggling post-market institutions, plays out across many of the domains examined here. Although we will review some of the relevant results, we of course encourage readers to explore the far richer display of evidence within each chapter.

A FAILING LABOR MARKET

- In November 2013, six years after the start of the Great Recession, the proportion of all 25-54 year olds who hold jobs (i.e., "prime age employment") was almost five percent lower than it was in December 2007, both for men and women alike. The ratio for men, currently at 82.7, is the 10th worst ratio over the last 13 years, while the ratio for women, currently at 69.2, is the 12th worst ratio over the last 13 years.

- The long-term unemployment rate for men and women alike is near the all-time high for the period since 2000.

Implication: Although the Great Recession ended over four years ago, the economy is still not delivering enough jobs. In the past, recoveries have not produced substantial employment gains beyond the sixtieth month after the recession began, a result that suggests that full recovery from the latest recession will likely not occur absent major labor market reform and intervention.

RISING POVERTY

- The official poverty rate increased from 12.5 percent in 2007 to 15.0 percent in 2012, and the child poverty rate increased from 18.0 percent in 2007 to 21.8 percent in 2012. The current poverty rates for the full population and for children rank among the very worst over the 13 years since 2000 (i.e., both are ranked 11th).

- The latter increases in poverty, although substantial, would have been yet larger had the effects of the labor market downturn not been countered with aggressive safety net programs. Absent any safety net benefits in 2012, the supplemental poverty measure would have been 14.5 percentage points higher.

Implication: In the recessions of the early 1980s and early 1990s, the poverty rate was also approximately 15 percent, even though these were more moderate downturns. Although the latest recession was more extreme than those prior ones, the rise in poverty has nonetheless been partly held in check by a responsive safety net.

A RAMPED-UP SAFETY NET

- In 2012, safety net programs in the U.S. provided 32 percent of the support that low-income households needed to reach 150 percent of the official poverty line a level of "poverty relief" that is the third highest in the 13 years since 2000 (and also the third-highest over the last quarter-century). This support level is only slightly lower than the all-time high of 36 percent reached in 2010 as the Great Recession ended.

- The safety net is increasingly fashioned to incentivize market work. As the Earned Income Tax Credit expanded in the early 1990s, households that increased their market earnings were better protected from sharp declines in their safety net support, a reform that ramps up the incentive to pursue market earnings. This rate of "relief falloff" has continued to grow gradually smaller up to the present day. As a result, our safety net is now better fashioned to incentivize market work, which is precisely the type of safety net that many people want.

Implication: The safety net responded reasonably well to the challenges of the Great Recession. It delivered substantial poverty relief during the Great Recession because (a) a recessionary labor market generates precisely the type of need (e.g., unemployment) that our safety net is relatively well equipped to handle, and (b) the safety net was also modified in ways that responded well to the particular demands of this recession (e.g., extended unemployment benefits).

RISING INCOME INEQUALITY

- The Great Recession increased the amount of income inequality, but not the amount of consumption inequality or the share of total income going to the top one percent.

- After the Great Recession ended in mid-2009, income and consumption inequality increased, thus resuming what has been a nearly relentless growth in inequality over the last 30 years. The lowest income quintile secured only 3.4 percent of total income in 2012. In the 1990s, it appeared as if the long-standing decline in the lowest quintile's share had been staunched, but that downward march has now resumed.

Implication: The equalizing effects of tax and transfer policy had a mild compressive effect on some forms of inequality in the Great Recession, but the longer-term trend towards growing inequality has resumed as more ambitious tax and transfer policies are relaxed. Likewise, the financial crisis had an initial compressive effect (by reducing returns on assets that were disproportionately held by the advantaged), but that effect dissipated as capital markets recovered after the crisis.

RISING WEALTH INEQUALITY

- Wealth inequality rose for the first time since the early 1980s. The Gini coefficient for 2010, the latest available year, is higher than any level recorded in nearly three decades.

- The Great Recession reduced the net worth of blacks and Hispanics much more than it reduced the net worth of whites.

Implication: The decline in house values during the Great Recession increased wealth inequality because houses are the main asset of less advantaged groups. Although there are *some* new "safety net" programs oriented toward rectifying such losses in wealth (e.g., the Home Affordable Modification Program), these programs evidently did less compressive work than those programs offsetting declines in market income (e.g., extended unemployment insurance). It follows that wealth inequality, unlike income inequality, was not well held in check by our post-market response.

A MIXED RECORD ON HEALTH INEQUALITY

- Although there is improvement in some key health indicators, there is moderate deterioration in others. For example, 9.8 percent of Americans reported that they were in poor or fair health in 2012, an increase of 0.6 percentage points since 1997.

- Economic, racial, and ethnic disparities in health outcomes are often substantial and are sometimes increasing. The proportion of Blacks and Hispanics, for example, who could not afford necessary care rose at a faster rate during the Great Recession than did the corresponding proportion for Whites.

- Since 2000, the proportion of Americans who have any health insurance coverage has declined (to 84.6 percent in 2012), although there has been a slight reversal in this decline since 2010. The proportion of children, however, who are insured has increased during this same period and is now at the highest level since 2000.

Implication: The decline in some health outcomes likely reflects recent increases in the poverty rate and the characteristically poorer health outcomes of those in poverty. It remains an open question whether future increases in health insur-

ance coverage (under the Affordable Care Act) will reverse some of these trends. Because health outcomes are affected by many forces other than coverage alone, the sizable health disparities currently observed may be resistant to any dramatic change.

A MIXED RECORD ON EDUCATIONAL INEQUALITY

- The record on black-white educational inequality is mixed, with black-white disparities in academic achievement declining by approximately forty percent over the last four decades, while disparities in college completion have increased over the same period.

- The record on economic inequality is less favorable. The income gap, measured as the difference in average test scores between children whose families are at the 90th and 10th percentiles of the family income distribution, grew by forty percent across cohorts born in the early 1970s and late 1990s (although there are also hints of a more recent narrowing of this gap). This income gap is already very large when children enter kindergarten and grows only modestly thereafter.

Implication: Because income gaps are already well in place when children enter kindergarten, it is clear that out-of-school factors are implicated in their growth. The key open question is whether substantial headway in closing such gaps can nonetheless be made via school reform alone.

A Second War on Poverty?

The foregoing suggests a broadly deteriorating poverty and inequality landscape. As Table 1 summarizes, such deterioration is revealed across a host of key indicators, including prime-age employment, long-term unemployment, poverty, income inequality, wealth inequality, and even some forms of health inequality. The facts of the matter, when laid out so starkly, are quite overwhelming.

It is important to conclude by briefly discussing the choices that our country faces in addressing such rising poverty and inequality. Although one of our objectives is simply to document changes in poverty and inequality across a variety of domains, another is to ask whether the pattern of results tells us anything about how a second War on Poverty, were we to choose to wage one, might have the greatest chance of bringing about meaningful and permanent change.

The distinctively American approach is to blame our post-market institutions for the current state of affairs. The safety net is blamed for failing to make a dent in poverty; our schools are blamed for failing to eliminate income or racial disparities; and our healthcare institutions are blamed for poor health among the poor. We accordingly propose all manner of narrow-gauge safety net reforms, narrow-gauge school reforms, and narrow-gauge health care reforms; and we imagine that, if only we could find the right such reforms, all would be well.

We should of course commit to getting our post-market institutions right, but that very same critical scrutiny might also be applied to our economic and labor market institutions. The results presented here reveal an economy that is failing to deliver the jobs, a failure that then generates much poverty, that exposes the safety net to demands well beyond its capacity to meet them, that produces too many children poorly prepared for school, and that places equally harsh demands on our healthcare, penal, and retirement systems. These are profound downstream costs that are challenging and costly to address in a piecemeal institution-specific fashion. Although we should continue to tinker with each of these institutions to better meet the challenges that an ailing economy generates, it is worth considering whether a no-holds-barred commitment to job-delivering reform might be a more efficient and sustainable way forward.

These are of course big and complicated questions. The current tendency, unfortunately, is to shirk them altogether and move directly to piecemeal discussions about piecemeal reform. If our second war on poverty is to be a real war founded on a real commitment to win it, it is important that we step back and ask just such big questions, no matter how daunting they may be. ■

NOTE

1. For the labor market indicators, we have data extending into 2013. We have averaged values for 2012 and 2013 for this domain alone to make the number of observations (13) the same across domains and hence the rankings more nearly comparable. Also, the wealth inequality indicators only go up to 2010, thus for this domain a rank of 11th is the worst possible. In cases where there are ties across two or more years, our ranking algorithm assigns the best rank to the earliest year. We thank all of our contributors for sharing their data and especially thank Liana Fox, Irwin Garfinkel, Neeraj Kaushal, Jane Waldfogel, and Christopher Wimer for sharing their historical Supplementary Poverty series (see "Waging War on Poverty: Historical Trends in Poverty Using the Supplemental Poverty Measure," 2013, CPRC Working Paper 13-02, http://cupop.columbia.edu/publications/2013). For methodological details on the measures, please consult the relevant domain reports.

TABLE 1. Selected List of Poverty and Inequality Indicators by Domain

Domain	Type of Measure	Subpopulation	Most Recent Value	Rank
Poverty	Official Poverty Rate	Full population	15.0	11
		Children	21.8	11
		Black non-Hispanic	27.0	11
		Hispanic	25.6	12
	Supplemental Poverty Rate (Hist.)	Full population	16.0	12
		Children	18.7	12
Labor Market	Official Unemployment Rate	Full population	7.8	10
		Men	8.0	10
		Women	7.5	10
		Black	13.5	10
		Hispanic	9.8	10
	Discouraged Workers (U-4 Rate)	Full population	8.3	10
	Marginally Attached (U-5 Rate)	Full population	9.2	10
	All Underutilization (U-6 Rate)	Full population	14.3	10
	Employment to Population Ratio	Men 25-54	82.7	10
		Women 25-54	69.2	12
		Black men 25-54	70.7	10
		Hispanic men 25-54	83.6	10
	Long Term Unemployment (as percent of unemployed)	Men	42.5	11
		Women	41.5	11
		Black	45.1	11
		Hispanic	36.6	11
Safety Net	Poverty Relief Ratio	Full Population	0.32	3
	Baseline Relief	Full Population	3.77	3
	Relief Falloff	Full Population	-0.09	2
Income Inequality	Household Income Share	Lowest Quintile	3.4	13
		Second Quintile	9.0	13
	Gini Coefficient	Household Income	0.44	12
		Disposable Income	0.38	11
		Consumption	0.29	10
	Top 1 Percent Share	IRS	22.5	11
Wealth Inequality	Gini Coefficient (to 2010 only)	Net Worth	0.87	11
	Mean Net Worth (to 2010 only)	Black/White	0.14	11
		Hispanic/White	0.15	11
Health Inequality	Poor or Fair Health	Poor/Rich	5.30	12
		Near Poor/Rich	4.07	12
		Middle Class/Rich	2.36	13
	Asthma (from 2001 only)	Black/White	2.03	10
		Hispanic/White	1.11	10
	Insurance Coverage	Full Population	0.85	10
		Children	0.91	1
	Delayed Care	Full Population	0.11	9
	Foregone Care	Full Population	0.08	9
		Black	0.12	9
		Hispanic	0.11	9

ROSTER OF EXPERTS

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LABOR MARKETS

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The Stanford Center on Poverty and Inequality

BY MICHAEL HOUT AND ERIN CUMBERWORTH

KEY FINDINGS

- Men's and women's prime-age employment declined more during and after the Great Recession than at any time since record keeping began in 1947 and shows only weak signs of recovery. In November 2013, six years after the start of the Great Recession, men's and women's prime-age employment ratios were almost five percent lower than they were in December 2007.
- Although job loss affected most sectors of the American society, people who lacked educational credentials bore a disproportionate burden. Over the course of the recession, the prime-age employment ratio dropped 15 points for men without a high school diploma compared to 10 points for men with high school diplomas and just 5 points for men with college degrees.
- Unemployment in industries that drove the recession, such as construction or financial services, rose from the onset of the recession until its end, but then almost fully recovered after the recession ended. "Bystander industries," such as public administration, education and health care, have failed to recover, implying that the austerity in public spending is delaying recovery.

Americans work for their living. For most people, a job is both an economic and moral imperative. The wages they earn fuel the rest of the economy. Employment begets the spending that begets more employment. In good times, it is a virtuous cycle reinforcing consumer-driven capitalism. Events like the financial crisis of 2007 and 2008 can reverse the cycle, spinning the economy downward with a momentum that can be hard to break. Job losses reduce spending, which kills more jobs, reducing spending even more.

The Great Recession of 2007 to 2009 played out these general principles of recession economics in every aspect, but with an uncommon intensity. The "housing bubble" burst, the financial sector tumbled, banks stopped lending, construction workers lost their jobs, sales of building materials and appliances plummeted, tax revenues fell, and the downward spiral threatened to spin ever lower. The government saved the banks and stimulus spending broke the fall in employment. But employment has barely kept pace with population growth since the recovery began in the summer of 2009. The U.S. economy enters 2014 with 7 percent of the labor force unemployed and millions more out of the labor force.

In this brief, our aim is to assess the current standing of the U.S. labor market, a task that inevitably requires us to address the enduring effects of the Great Recession. We will put the Great Recession in historical context, looking both at its overall impact and at how the burdens were distributed across the population by gender, level of education, and industry.

Historical Context

The single best index of employment is the prime-age employment ratio—the ratio of employed 25-54 year-olds to the population of that age. The more familiar unemployment rate gives a reasonably accurate picture of employment during good times, but during recessions many people who would prefer to be working will stop looking. The unemployment rate does not count them so it makes the economy look better than it is. As a recovery starts, those people reenter the labor market, making unemployment look worse until they find a job. The prime-age employment ratio overcomes this "discouraged worker" problem by keeping tabs of everyone whether they are looking for work or not.

Figure 1 plots the prime-age employment ratio for men and women separately from the earliest to the most recent data, with recession months shaded gray. When the Great Recession began in December of 2007, 87.5 percent of American men 25-54 years old were employed; at the low point two years later, 80.4 percent were (a decline of 8.1 percent). The path upward from that low point has been very unsteady; by November of 2013, men's prime-age employment ratio was still a very low 82.8 percent (5.0 percent below its level at the onset of the recession). Women's employment declined more slowly but shows practically no sign of recovery. When the Great Recession began in December of 2007, 72.4 percent of prime-age

women were employed; women's employment bottomed out in November 2011 at 68.7 percent (5.1 percent below its level at the onset of the recession) and it had increased by barely one-half of a percentage point to 69.4 percent by November of 2013. At the bottom of the recession, men's prime-age employment was lower than at any time since the data were first collected in 1947; women's employment was lower than at any time in the last twenty-five years.

Men's and women's prime-age employment declined more during and after the Great Recession than at any time on record. For men, that record shows a net decline from a long-ago peak of 96 percent in 1953 to the most recent 83 percent. Each postwar recession reduced prime-age employment, and since the 1970s post-recession employment always fell short of its pre-recession high. Women's employment increased so dramatically during the twentieth century that recessions more often slowed growth than reversed it. After the 2001 recession, however, women's prime-age employment failed to rebound to its pre-recession level for the first time on record; it has happened again after the Great Recession as women's most recent prime-age employment ratio is about where it was when the recession officially ended in the summer of 2009. The point estimate for November 2013 is one point lower than the point estimate for June 2009. Because the margin of error on each is 1.5 percentage points, we cannot say for sure that the ratio is lower now than then.

To learn more about the Great Recession and its aftermath, we align the prime-age employment ratios of three recessions by measuring time relative to the onset of the recession. We picked two recessions for our comparison: the double-dip recession of 1980-1982 and the recession of 2001. The 1980-1982 recession is interesting because until the Great Recession it was the most severe recession of the post-war era; it is useful to compare one strong recession with another. The 2001 recession is interesting because it was the first one in which women's employment failed to recover to pre-recession levels; some commentators referred to the post-recession period as a "jobless recovery."

Figure 2 shows, for women and men separately, the change in prime-age employment relative to its level at the onset of recession plotted against months since the recession started (actually starting the time series six months prior to the onset of recession). We smoothed the time series to remove the distraction of short-term fluctuations best ascribed to statistical sampling error. Men's prime-age employment fell almost 7 percent in the two years following the onset of the Great Recession, recovered two percentage points over the next two years, and changed little in the last two years. Women's prime-age employment fell less but longer so that today, six years after the Great Recession began, men's and women's prime-age employment ratios are both almost five percent lower than they were in December 2007.

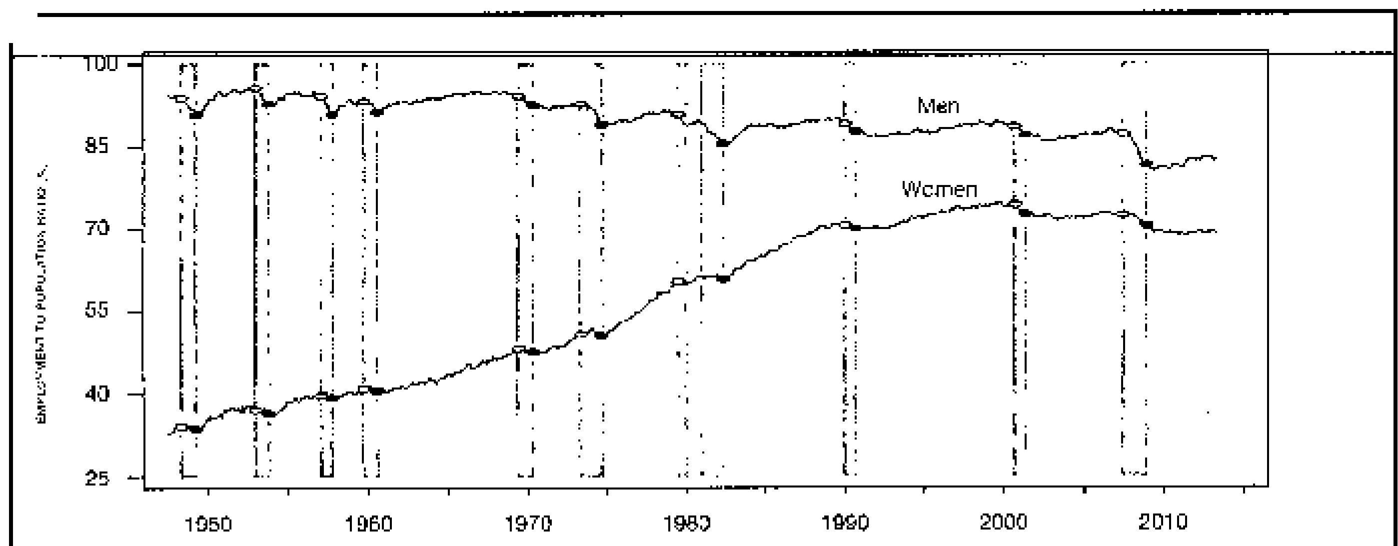


FIGURE 1. Prime-age Employment Ratio by Month and Gender, 1947-2013.

Source: Bureau of Labor Statistics
Note: We used seasonally adjusted data for people who were 25 to 54 years old.

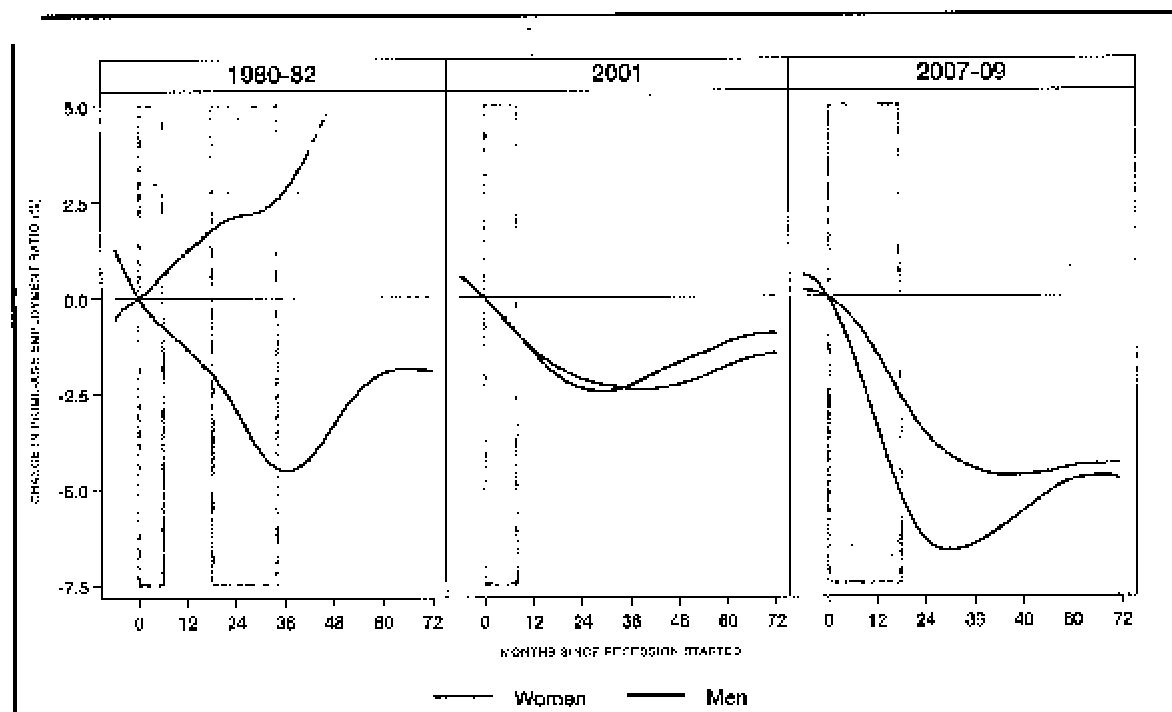
The 2001 recession lasted half as long and was much less severe than the Great Recession, but there were some similarities in the timing and gender patterns. Men's prime-age employment fell for two years before rebounding but failing to reach its pre-recession level. Women's employment fell slower but longer, and it too failed to recover to its pre-recession level.

The double-dip recession of 1980-1982 lasted three years and raised the unemployment rate (not shown) to over 10 percent. Men's prime-age employment fell throughout the recession but began to rebound almost immediately after the recession ended. Five years after the recession began, men's employment was still almost two percent lower than it had been at the beginning in January 1980. Women's employment was on a sharp upward path as the recession started. It slowed but did not fall during the first part of the recession, plateaued during the second, and then resumed its climb as soon as the recession ended.

There are at least three reasons why conditions following the 1980-1982 recession differed from those in recent years. First, deregulation of the savings and loan industry sparked a housing bubble that dramatically increased employment in the construction industry. When that bubble burst in 1990, many savings and loan banks failed and the economy went into recession, but its immediate impact was to put men (especially) to work building new housing. Second, personal computers became popular. Most were made in the United States, increasing employment in manufacturing. Third, Chrysler and other car makers started making minivans and sport utility vehicles that revived American automobile manufacturing. Nothing of that sort has emerged in recent years to stimulate employment growth.

None of these recoveries (and none of the others we looked at but do not show) produced significant employment gains beyond the sixtieth month (i.e., five years) after the recession began. In the 1950s, 1960s, and 1970s, recessions were about five years apart. Since 1980, recessions have been less frequent, but no recovery has been sufficient to return prime-age employment to pre-recession levels. That strongly suggests that full recovery from the Great Recession will not occur unless and until the federal government enacts a second stimulus package. The political environment makes a stimulus highly unlikely, but the slack in the U.S. job market implies that the economy needs it.

FIGURE 2. Change in Prime-age Employment Ratio by Gender and Months Since the Beginning of the Recession, 1980-1986, 2001-2007, and 2007-2013.



Source: Authors' calculations from seasonally adjusted data provided by the Bureau of Labor Statistics, 2013.
Note: Time series smoothed to reduce the influence of statistical sampling error. Women's employment rose linearly from 3.5 at the end of the recession in 1982 to 10.0 in month 72. To highlight other aspects of the data we truncated the women's time series at 5.0 and indicated that it continued with dashes.

Human Capital

Accounts of the recession in the popular media frequently feature struggling college graduates. The data suggest that this storyline may not be totally without foundation, but it is misleading and overstated.

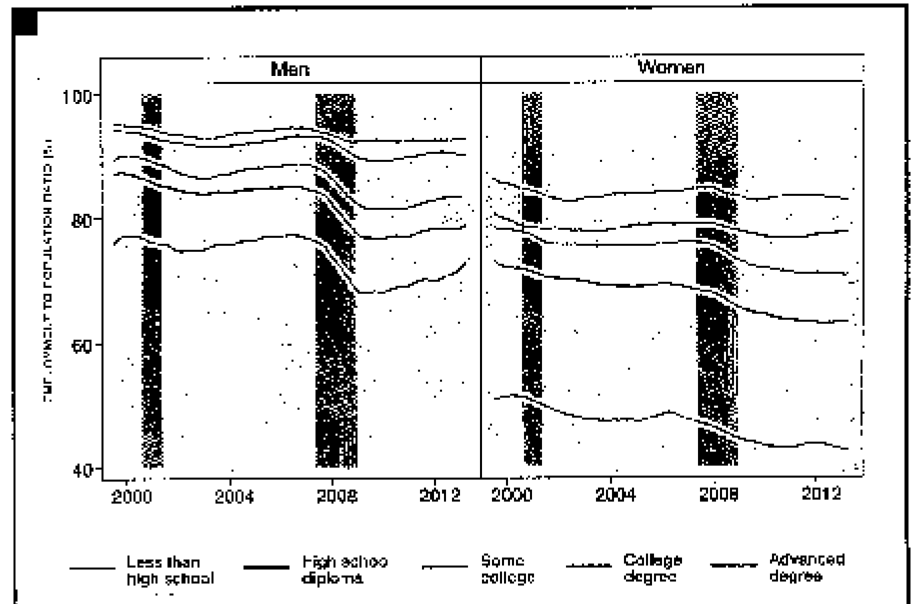
Figure 3 shows that prime-age employment is more likely among the better-educated—in good times and bad. The recession has amplified college graduates' advantages, not eroded them. The need to take a lower-paying job may make paying back college loans harder, but at least college graduates are getting jobs. The jobs college graduates now get typically go to high school graduates in tighter labor markets. It is high school graduates and high school dropouts who have borne the brunt of the Great Recession.

Prior to the recession, unemployment for people with less than a high school degree hovered around 7 percent, while unemployment for college graduates was only about 2 percent. As unemployment spread, the rate for each educational category rose more or less proportionally. At peak unemployment in 2010, the rate for people without a high school degree had increased from 7 to nearly 15 percent and the rate for college graduates had increased from 2 to about 4.7 percent. The baseline differences were so large that proportional increases raised unemployment most for the least-educated and least for the most educated. Even though unemployment rose for everyone, people without a high school degree bore a much greater unemployment burden.

Industry

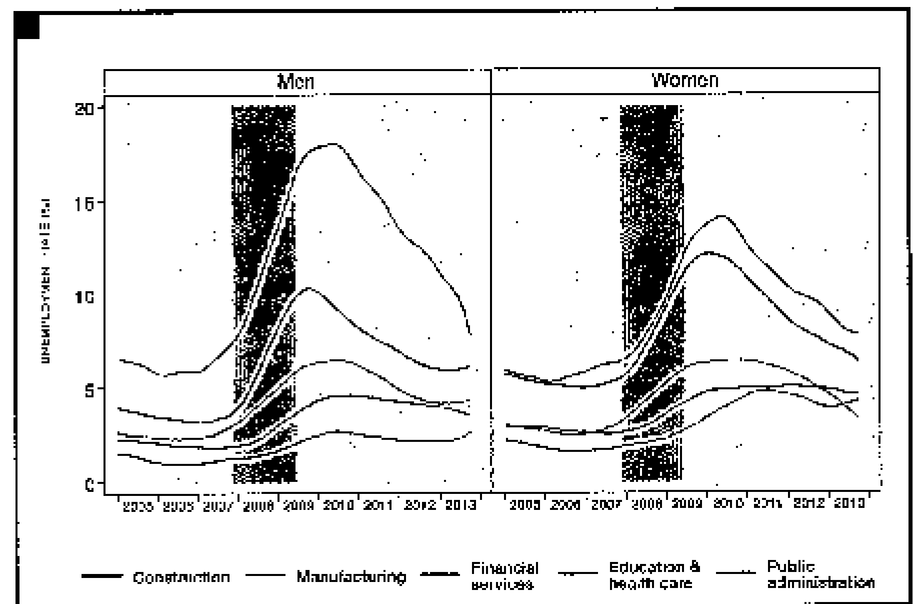
The Great Recession started with a financial crisis that pushed both banks and homeowners to the brink of insolvency. A federal bailout saved the banks and subsequent legislation helped some homeowners. But the immediate fallout was a credit crunch that reduced consumers' ability to borrow money. That, in turn, reduced the demand for manufactured goods. All of these changes affected employment. We should see the effects in data on employment in some industries more than others. For this analysis we switch from the prime-age employment ratio to the more conventional unemployment

FIGURE 3. Prime-age Employment Ratio by Month, Educational Attainment, and Gender, 2001-2013.



Source: Authors' calculations from Bureau of Labor Statistics data, 2013.
Note: Time series smoothed to reduce the influence of statistical sampling error.

FIGURE 4. Unemployment Rate by Month, Industry, and Gender, 2005-2013.



Source: Authors' calculations from Bureau of Labor Statistics data, 2013.
Note: Data restricted to persons 25-54 years old. Industries selected from a full set of 13. Time series smoothed to reduce the influence of statistical sampling error.

rate, though we do keep the age restriction and limit our attention to 25-54 year olds.

Figure 4 shows the unemployment rates in five key industries from January 2005 to November 2013. The recession months are marked in gray. Again we smooth the data because the relatively small sample sizes in specific industries produce substantial statistical sampling error.

Unemployment increased first in construction, manufacturing, and financial services—the three industries most affected by the financial crisis that precipitated the Great Recession. Construction workers typically live with spells of unemployment, so their unemployment rate was already 6.5 percent before the recession started. At its peak in the summer of 2010, the unemployment rate in construction was 15 percent for women and over 18 percent for men. Unemployment in manufacturing doubled for both women and men. Unemployment in financial services also rose from the onset of the recession until its end. Significantly, the unemployment rates in these three industries also started to decline almost as soon as the recession ended. The decline was faster for men than women, but the most recent data show that unemployment in all three of these most-affected industries is now only slightly higher than before the recession.

Unemployment in public administration and in education and health care increased later than it did in the industries that were directly affected by the recession. But these two industries show no signs of recovery. Unemployment is significantly lower in these industries than in construction or manufacturing in each year, but the lack of any recovery-based trend since 2010 is telling. What it tells is the tale of austerity in public spending. The recession dramatically reduced tax revenues. Governments did not respond instantly, but once they did their cutbacks raised unemployment in education and public administration.

Conclusions

The Great Recession was a jobs disaster that took unemployment to heights seen only once before in over fifty years—in 1982. In 2009 and 2010, the U.S. economy hit postwar highs in job loss, the portion of the labor force unable to find work, and the duration of unemployment spells.

The Great Recession was the sixth recession since 1970. In all six post-recession recoveries, men's prime-age employment was lower four years into recovery than when the recession started; in the last two, women's prime-age employment was also below the pre-recession level. It is almost as if the economy recovers because of job losses not despite them.

The latest employment data suggest that the consumer-driven private economy cannot spark an employment recovery on its own. Productivity increased, profits soared, and Wall Street recovered since 2009. But overall employment languishes at levels barely above recession lows.

Americans value work and need to work. The private sector economy seems incapable of delivering on that goal. The public sector seems incapable of anything but austerity. History and logic caution that full employment will not return without a private-sector breakthrough or a public sector stimulus. ■

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NATIONAL REPORT CARD

POVERTY

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The Stanford Center on Poverty and Inequality

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KEY FINDINGS

- While the official poverty rate has declined from 22 percent to 15 percent since 1959, most of this progress occurred before the early 1970s. Since then, the direct connection between poverty and economic growth has weakened.
- Some subgroups, like young adults and less-educated Americans, have fared worse than others, as poverty rates for these subgroups have risen over time. Others, such as the elderly, have fared much better than others.
- The Official Poverty Measure masks important progress that has been made in fighting poverty because it doesn't count many of the antipoverty programs that have accounted for an increasing share of all safety net benefits in recent years.
- If the benefits from noncash programs like food stamps and the Earned Income Tax Credit are counted, the poverty rate would stand at about 11 percent today instead of 15.
- Poverty remains high primarily because the economy has failed the poor. The expanded safety net has kept poverty from being even higher than it is today.

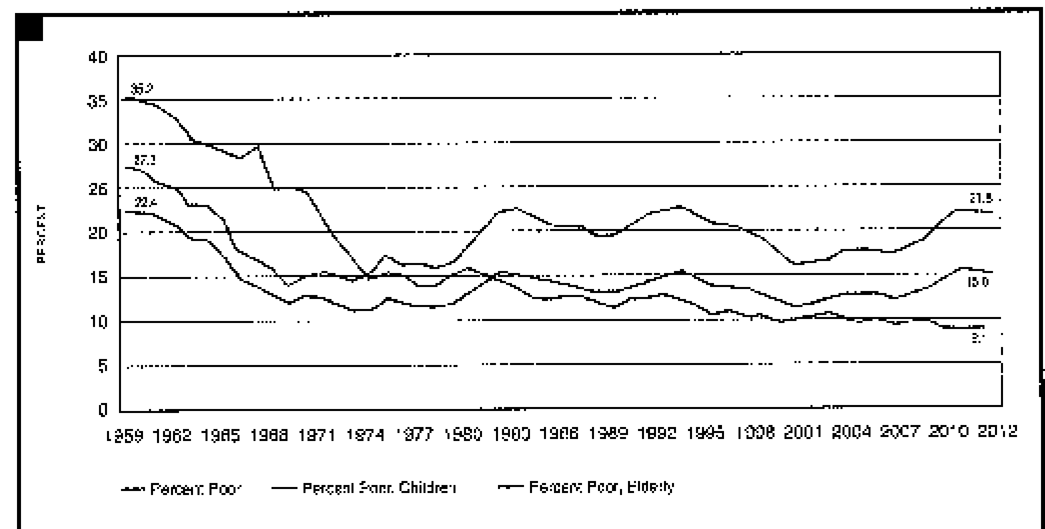
What has happened since President Lyndon Johnson declared an unconditional War on Poverty in his January 8, 1964 State of the Union Address? There is no doubt that the United States has become a more affluent nation since that famous declaration: Real gross domestic product (GDP) per capita has in fact *doubled* over the past 50 years. Despite this growth, the official poverty rate for 2012 now stands at 15 percent, a full 4 percentage points higher than it was during the early 1970s. And the poverty rate is only 4 percentage points lower than the 19 percent rate of 1964.

This apparent lack of progress against poverty cannot be blamed on the economic devastation wrought by the Great Recession, although that certainly increased poverty over the last five years. Rather, the direct connection between economic growth and poverty reduction is now much weaker than in the past. Poverty remains high because many workers have not shared in the economic gains of the past 40 years; instead most of those gains have been captured by the economic elite.

Over these same decades, the official poverty measure has increasingly obscured some of the progress that *has* been made in reducing poverty because it fails to account for many government benefits the poor now receive, such as Food Stamps and the Earned Income Tax Credit. If these safety net benefits were counted as family income, today's official poverty rate would fall from 15 to about 11 percent.

The purpose of this research brief is to lay out where we now stand on the war on poverty. We first describe long-term trends in

FIGURE 1. Trends in Official Poverty



Source: U.S. Census Bureau, Historical Poverty Tables

poverty for the full population and for key subpopulations; we next examine why poverty has remained stubbornly high; we then discuss more appropriate ways to measure poverty that reveal how the modern safety net significantly reduces poverty. We conclude by discussing trends in extreme poverty and deep poverty. The theme throughout is that labor market failures—not safety net failure—is a main reason why progress against poverty has been so difficult.

Key Trends in Poverty

Figure 1 shows trends in the official poverty rate for all persons, the elderly, and children. In 1959, 22.4 percent of all persons were poor according to the official measure. This was cut in half by 1973 because of rapid economic growth and the expansion of safety net programs in the aftermath of the War on Poverty.[2]

But nothing much happened for the next four decades. The poverty rate has never fallen below the historic low of 11.1 percent reached in 1973, and only in the booming economy of the late 1990s did it come close to that mark. Instead, the trend over the past 40 years consists of ups during recessions and downs during economic recoveries, but no long-term progress. Most disturbing, the child poverty rate in 2012, 21.8 percent, was as high as it was in the mid-1960s.

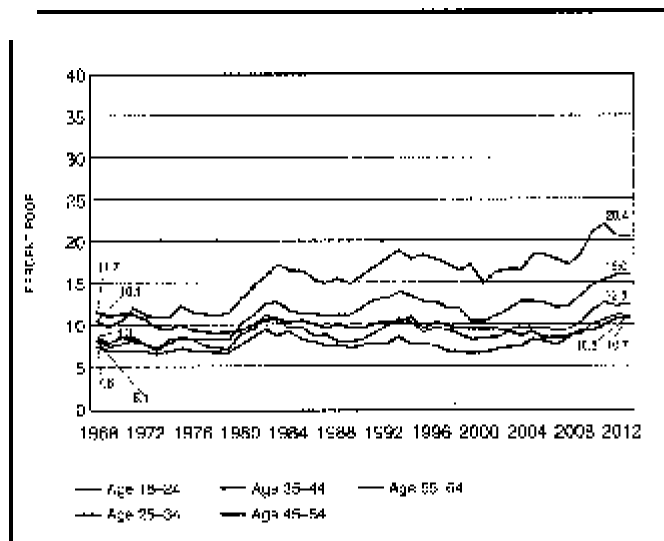
Worse yet, some groups have experienced an increase in their poverty rates.[3] We examine the official poverty rate for adults classified by age cohort (Figure 2), educational attainment (Figure 3), and race or ethnicity (Figure 4). As shown in Figure 2, the poverty rate for 18-24 year olds increased by about 11 percentage points and the rate for 25-34 year olds by about 5 points since 1968.[4] Figure 3 shows that adults without a college degree have fared badly, with the poverty rate for those without a high school degree increasing by almost 20 percentage points and the rate for high school graduates by about 10 points since 1968. Figure 4 shows that poverty rates for both Hispanics and White non-Hispanics are higher in 2012 than in 1970, while the rate for Black non-Hispanics is slightly lower.[5]

Cleary, the goals of the war on poverty have not been achieved. Although there have been many important successes (as will be discussed subsequently), much remains to be done. In the next section, we ask what went wrong as well as what went right, questions best addressed by taking an historical perspective.

What Went Wrong? And What Went Right?

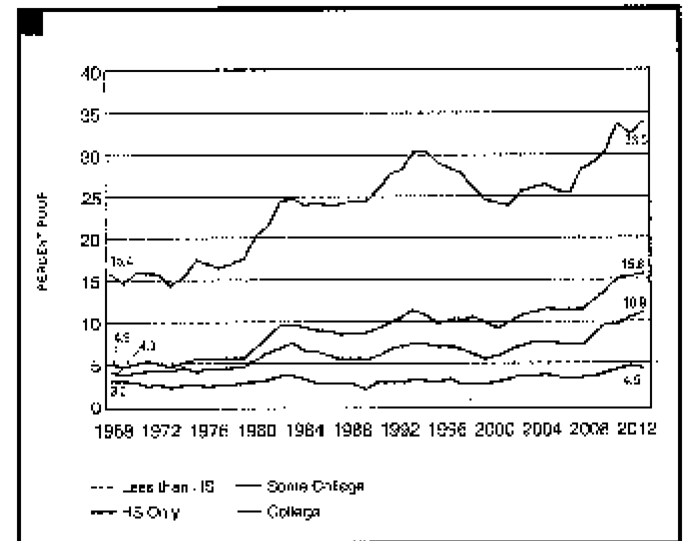
To understand recent trends in poverty, we begin with the economic situation in the quarter century after the end of World War II. Rapid economic growth at that time translated into more employment, higher earnings, and increasing family incomes for most Americans. Poverty fell as the living standards of the poor and the middle class increased as rapidly as they did for the rich.

FIGURE 2. Poverty Rates for Nonelderly Adults by Age Cohort 1968-2012



Source: Stanford Center on Poverty and Inequality calculations using March CPS microdata downloaded from IPUMS (King et al., 2010).

FIGURE 3. Poverty Rates by Educational Attainment, Persons Ages 25-64



Source: Stanford Center on Poverty And Inequality calculations using March CPS microdata downloaded from IPUMS (King et al., 2010).

Yet, many families were being left behind during this period of rapid growth, as careful observers such as Michael Harrington, John Kenneth Galbraith, and Robert Lampman pointed out. The paradox of "poverty amidst plenty" led President Johnson to declare "unconditional" war on poverty in his first State of the Union address on January 8, 1964. He emphasized that the fight against poverty could not rely solely on economic growth:

> "Americans today enjoy the highest standard of living in the history of mankind. But for nearly a fifth of our fellow citizens, this is a hollow achievement. They often live without hope, below minimum standards of decency.... We cannot and need not wait for the gradual growth of the economy to lift this forgotten fifth of our nation above the poverty line. We know what must be done, and this Nation of abundance can surely afford to do it. ...Today, as in the past, higher employment and speedier economic growth are the cornerstones of a concerted attack on poverty... .But general prosperity and growth leave untouched many of the roots of human poverty."

The Johnson administration proposed many strategies for reducing poverty. The 1964 *Economic Report of the President* argued for maintaining high levels of employment, accelerating economic growth, fighting discrimination, improving labor markets, expanding educational opportunities, improving health, and assisting the aged and disabled. Indeed, these remain important antipoverty priorities.

This last goal, assisting the aged and disabled, is widely accepted as the greatest achievement of the War on Poverty. Elderly poverty has fallen dramatically, from 35.2 percent in 1959 to 9.1 percent in 2012 (see Figure 1). Medicare and Medicaid, introduced in 1965, greatly expanded access to medical care and improved the health of the elderly and disabled. An expanded safety net raised their incomes and insulated them from both recessions and inflation, through the expansion and indexation of social security benefits and the introduction of the Supplemental Security Income program. The poverty rate for the elderly has been lower than the rate for working-age adults for the past two decades.

But the Johnson administration's optimism that macroeconomic policies and an expanded social safety net could eliminate poverty for all persons had all but disappeared by the 1980s. Many observers focused on the limited progress that had been made in reducing poverty among the population as a whole. The War on Poverty programs came to be seen as the *cause* of the problem, to the point that in his 1988 State of the Union Address President Reagan declared:

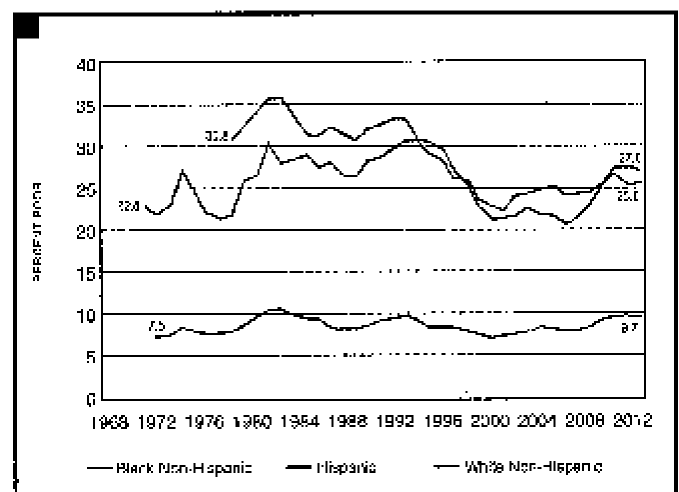
> "In 1964, the famous War on Poverty was declared. And a funny thing happened. Poverty, as measured by dependency, stopped shrinking and actually began to grow worse. I guess you could say "Poverty won the War." Poverty won, in part, because instead of helping the poor, government programs ruptured the bonds holding poor families together."

Was President Reagan right? Are safety net programs to blame for the stagnation in the official poverty rate since the early 1970s? The short answer: No. A careful analysis reveals that the lack of progress results from two opposing forces —an economy that has increasingly left more of the poor behind and a safety net that has successfully kept more of them afloat.

The primary reason that poverty remains high is that the benefits of economic growth are no longer shared by almost all workers, as they were in the quarter century after the end of World War II. In recent decades, it has been difficult for many workers, especially those with no more than a high school degree (see Figure 3), to earn enough to keep their families out of poverty.

This economic trend represents a sharp break with the past. Inflation-adjusted median earnings of full-time year-round male workers grew 42 percent from 1960 to 1973. But, four decades later, median earnings were $49,398 in 2012, four percent lower than the inflation-adjusted 1973 value,

FIGURE 4. Poverty Rates by Race/Ethnicity Persons Ages 18-64



Source: http://www.census.gov/hhes/www/poverty/data/historical/people.html and Stanford Center on Poverty and Inequality calculations using March CPS microdata downloaded from IPUMS (King et al., 2010).

$51,670.[6] Men with no more than a high school degree fared even worse.

Further, men are less likely to be working today than in the past. The annual unemployment rate for men over the age of 20 was below 5 percent in 92 percent of the years between 1950 and 1974, but in only 37 percent of the years since (see the Labor Market brief for more details).

Stagnant earnings for the typical worker and higher unemployment represent a failure of the economy, not a failure of antipoverty policies. Most economists agree that several factors have contributed to wage stagnation and increasing earnings inequality. These include labor-saving technological changes, the globalization of labor and product markets, immigration of less-educated workers, the declining real value of the minimum wage, and declining unionization.

This evidence refutes President Reagan's view that poverty remains high because the safety net provided too much aid for the poor and thus encouraged dysfunctional behaviors. Studies do show that poverty would be somewhat lower if fewer low-skilled men had withdrawn from the labor market, if marriage rates had not declined so much, and if there had been less immigration of workers with little education. But these effects are small compared to the role of turbulent labor markets, slower growth, and rising inequality.

(Mis)measuring Poverty

The poverty-fighting role of the safety net can only be revealed by using a more accurate poverty measure. The official poverty rate is so high in part because it does not actually *count* many of the benefits now provided to the poor, especially noncash benefits and refundable tax credits.

One reason that Reagan's critique of the safety net resonates with the public is that the official poverty measure, the main statistical tool to gauge progress against poverty, understates the effects of government programs. The official measure was adopted in the late-1960s to represent the income necessary to provide a minimally decent standard of living. The poverty line varies with family size. For example, in 2012, it was $11,011 for an elderly person and $23,283 for a married couple with two children.

Each year, this official statistic provides the main message to policymakers and the public about trends in poverty, even though many have questioned whether a minimally decent standard of living can mean the same thing today as in the mid-1960s.[7] Yet, the measure has not been updated for almost 50 years.

Wherever the poverty line is set, however, the poverty rate should be based on a full accounting of family resources. Families are considered poor under the official measure if their *money income* from all sources and all family members falls below the line. Money income includes wages and salaries, interest, dividends, rents, cash transfers from the government, such as social security and unemployment insurance, and other forms of pretax cash income.

The official measure excludes non-cash benefits such as those from the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) and refundable tax credits such as the Earned Income Tax Credit (EITC). Noncash benefits were not common when the official poverty line was developed, but they have grown rapidly in recent decades.

The Census Bureau has developed a "Supplemental Poverty Measure"–or SPM–in response to the recommendations of a National Academy of Sciences panel on how to better measure poverty.[8] The SPM has been released for each year since 2009.[9] It does count *all* the resources we channel toward ameliorating poverty, such as SNAP and the EITC. According to the SPM, poverty has increased slightly from 15.1 in 2009 to 16.0 in 2012.

Recently, researchers at Columbia University estimated the SPM for every year from 1967 to 2012. They document the importance of counting all benefits the poor receive.[10] They estimate what the poverty rate would have been in the absence of (1) the cash safety net programs that *are* counted in the official measure (OPM); and (2) all the safety net programs, including near cash benefits and refundable tax credits.

In Figure 5, we show the percentage of all persons removed from poverty by safety net programs according to each measure. In the left-hand bar, we show the percentage point difference in poverty between the actual OPM and what it would have been if all cash benefits had been "zeroed out;" in the right-hand bar, the analogous difference for the SPM.

In 1967, when most safety net benefits were cash transfers (e.g., social security benefits, unemployment insurance, cash welfare), moving from the OPM to the SPM made little difference, as the safety net reduced poverty by about 5 percentage points using either measure.

But during subsequent decades, noncash benefits and refundable tax credits grew more rapidly than cash ben-

efits, with the result that the OPM increasingly understates the "antipoverty impact" of safety net programs. By 2012, according to the OPM, the safety net reduced poverty by 9 percentage points; but the SPM shows that the *full* safety net reduced poverty by 14.5 percentage points. Thus, the official measure fails to account for about a third of the antipoverty impact of safety net programs.[11]

To be consistent with the priorities of the War on Poverty planners, Figure 6 maintains the official poverty lines but counts all resources, including noncash benefits and refundable tax credits. According to Arloc Sherman,[12] counting these resources reduces the official poverty rate to 10.9 percent in 2011 from 15.0 percent (the difference between the top and bottom lines). This means that the poverty rate would have fallen by 8 percentage points, not 4 points, since 1965.

Beneath the Poverty Line: Extreme Poverty and Deep Poverty

We now consider measures of extreme and deep poverty. The OPM and SPM focus on a single point in the income distribution. For instance, if the poverty line for a given family is $23,000, the OPM or SPM simply document whether a family falls above or below that line. Over recent decades, however, there have also been substantial income changes among those below the poverty line.

In a recent paper, H. Luke Shaefer and Kathryn Edin examine trends in "extreme poverty," which they define as living on less than $2 a day, the World Bank metric of global poverty.[13] They find that, for households with children, extreme poverty based on money income has rapidly increased from 1.7 percent in 1996 to 4.3 percent in 2011. If non-cash benefits and refundable tax credits are counted as income, extreme poverty rises by much less, from 1.1 to 1.6 percent over these years. Thus, even though extreme poverty has increased, the situation would have been much worse without additional resources provided by safety net programs.

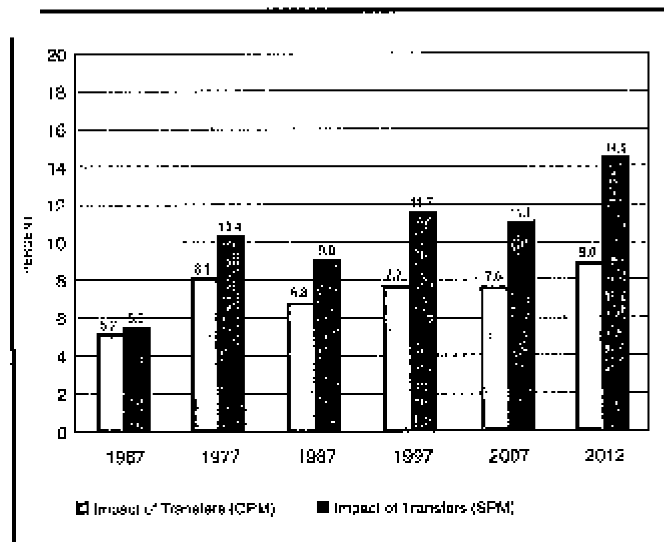
A similar result holds for "deep poverty," defined as income less than 50 percent of the poverty line. According to the Columbia study, deep poverty for children would have risen to over 20 percent in some years without government benefits.[14] When all safety benefits are counted, however, deep child poverty is around 5-6 percent in almost all years since 1967.

Taken together, these studies suggest that safety net programs raise the living standards of millions of people even though they are not always large enough to raise them out of poverty.

Where do We Go from Here?

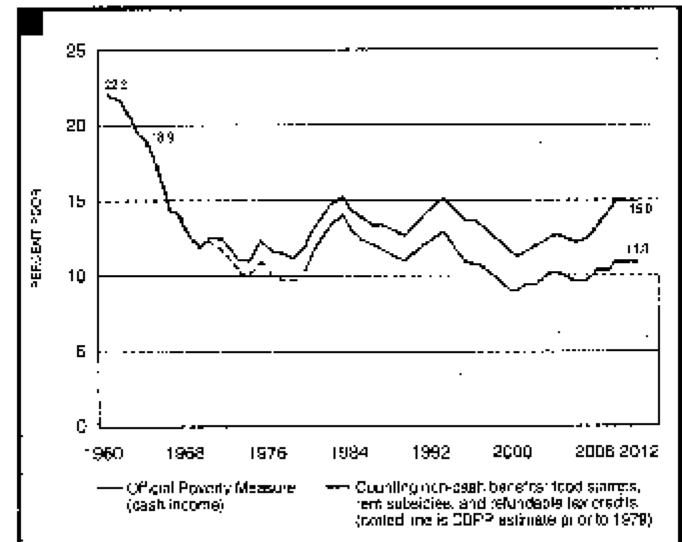
Poverty remains high because, since the early 1970s, unemployment rates have been high and economic growth has been less effective in reducing poverty than it was in the quarter century following World War II. Although the economy has largely failed the poor, safety net programs that were introduced or expanded in response to the War on Poverty take more people out of poverty today than was the case in the early 1970s. This increased antipoverty impact is obscured

FIGURE 5. Percentage Point Impact of Transfers Under OPM and SPM, 1967-2012



Source: Fox et al. (2013)

FIGURE 6. Poverty Rate Shows Greater Improvements Since 1960s When Non-Cash Benefits are Counted



Source: Arloc Sherman, Center on Budget and Policy Priorities (2013)

because the official poverty measure does not value the poverty-reducing effects of noncash benefits and refundable tax credits.

President Johnsons' vision and policy priorities of 1964 remain relevant today. If poverty is to be significantly reduced, we must find ways to ensure that the benefits of economic growth are more widely distributed than they have been in recent decades. The best way to do this is to adopt policies to increase the employment and earnings of the poor. Even with such a renewed focus on raising the market incomes of the poor, we must also continue to strengthen the safety net programs to prevent even more families from falling through the cracks. ■

NOTES

1. Miles Corak, David Haproff, H. Luke Shaefer, and Jane Waldfogel provided thoughtful feedback on a previous draft.

2. See Danziger and Gottschalk, 1995, and Bailey and Danziger 2013.

3. These analyses begin in 1968 given limitations in the available data for earlier years. The chart on race/ethnicity begins in 1970 as it is difficult to identify Hispanics in prior years.

4. As the population has become more educated, dropouts are an increasingly smaller group. The long-term trend for all persons without a college degree is also toward greater poverty.

5. Over time, immigrants comprise a larger share of all Hispanics, causing their poverty rate to rise because recent immigrants are more likely to be poor than the native-born.

6. See U.S. Bureau of the Census, 2013

7. See Citro and Michael, 1995.

8. See Citro and Michael, 1995.

9. See Short, 2012.

10. See Fox, Garfinkel, Kaushal, Waldfogel, and Wimer, 2013.

11. The SPM addresses the effects of having public health insurance, such as Medicaid and Medicare, by subtracting medical out-of-pocket expenses from income. Sommers and Oellerich (2013) estimate the extent to which Medicaid reduces out-of-pocket medical expenses of the poor and conclude that, without Medicaid, an additional 2.6 million persons would have been poor in 2010 according to the SPM.

12. See Sherman, 2013.

13. See Shaefer and Edin 2013.

14. See Fox, Garfinkel, Kaushal, Waldfogel, and Wimer, 2013.

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