



The Prospects for Reducing Poverty are Dismal - Unless America's Leaders Change Course

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Not long ago, the U.S. Census Bureau delivered very bad news about poverty in the United States. In 2010, 15.1% of Americans had incomes below the poverty line – set at \$22,113 for a family of four – and the poverty rate for 2011 will be even higher. For older people who remember that poverty fell to 11.1% back in 1973, it may seem puzzling that things have gotten so much worse. Rising poverty is not a recent development either. Things were getting worse well before the Great Recession of December 2007 through June 2009. Given the way the U.S. economy works in our era, sluggish growth, high levels of joblessness, and persistently high poverty are likely to persist for years – unless our political leaders change course and do more to help the poor and near-poor.

From a Golden Age to a New Gilded Age

Most Americans still believe that “a rising tide lifts all boats.” They trust that when the economy is growing and unemployment declines, wages will grow and family incomes will improve across the board, so that rich, poor, and middle class prosper together.

The economy worked that way from the end of World II until the early 1970s. As many older people recall, annual earnings increased rapidly, not just for workers with college degrees, but also for those with no more than high school diplomas, even with inflation taken into account. Many families at the time were supported by a single male breadwinner but, even so, family incomes rose rapidly for Americans at all income levels. And poverty fell sharply. According to the official rate, more than a fifth of all persons (22.4%) were poor in 1959, but by 1973 – just fourteen years later! – less than half as many, 11.1%, were poor.

In retrospect, this was modern America’s “golden economic age” of falling poverty and rising earnings for everyone. But since the early 1970s, economic growth has no longer lifted all boats, except briefly at the end of the 1990s. The rich have gotten fabulously richer, while the middle class has struggled and more people have fallen into poverty. In this new gilded age of inequality, the typical annual earnings of men working full-time year-round (adjusted for inflation) have not improved much since 1973; and men with no more than a high school diploma earn less than their counterparts did back then. At the same time, gilded age America has the highest number ever of professionals with annual compensation above a million dollars – and the highest number ever of families whose net worth exceeds billion dollars. Bizarre juxtapositions result. We can turn on the television to see a story about a family struggling to pay its rent or utility bills, followed by a report about hedge-fund billionaires cavorting in the Bahamas on their latest spending spree.

Why did the golden age turned into the new gilded age? The simple answer is that the U.S. economy has grown over the last 40 years, but the fruits have not gone to ordinary workers. Labor-saving technologies reduce the number of middle-class jobs – think about buying books or plane tickets on-line rather than visiting the local bookstore or calling a travel agent. Globalized labor markets and immigrants with low educational attainment also undercut well-paid employment. And public policies matter, too – including failures to increase the minimum wage to keep up with inflations, rules that make it hard for unions to organize, and tax dodges and regulations that swell the fortunes of the wealthy.

An Upsurge of Poverty

Poverty was relatively high even prior to the recent Great Recession. For decades, the economy has not grown fast enough to improve the standing of the poor. Poverty goes up during recessions and declines during periods of economic expansion, but it has remained above 11.1%, the low point hit back in 1973. The only exception came at the end of the long economic boom of the 1990s, when the unemployment rate fell to 4% and poverty fell to 11.7% in response to tight labor markets.

The past quarter century has been bad enough for middle- and lower-income workers. But things are now worse as the country slowly recovers from the Great Recession. Even though the recession officially ended in June 2009, more than 15% of Americans subsist below the poverty line and the monthly unemployment rate has remained above 8% for more than 4 years.

Current Policy Remedies are Not Sufficient

Joblessness and poverty today would be much worse would if not for the boost given by the American Recovery and Reinvestment Act of 2009 – the Stimulus – which dramatically increased government spending on unemployment insurance and other social safety net programs and provided funds to state and local governments to prevent layoffs of teachers and other public sector workers.

More effectively than government interventions in other recent recessions, the stimulus did a good job of mitigating income losses for millions of Americans. But the provisions that helped low-income people the most have already expired or will expire by the end of 2012. President Obama has proposed extensions, but the current Republican Congress refuses – in part due to partisan and ideological reasons and in part because they place a higher priority on reductions in government spending and low tax rates for millionaires than on protecting the poor and the unemployed and boosting national consumption.

If policymakers continue on the same course, today's dismally high poverty rate will persist. Both the Federal Reserve Board and the Congressional Budget Office project that, at the current slow rate of economic growth, unemployment will remain above 6% until late in 2015. Wages will continue to stagnate and poverty will remain high. Matters could get even worse if Congress tries to address deficits simply by cutting back on Food Stamps, unemployment insurance, and tax credits for the working poor. Instead, policymakers need to change directions. The turn to an unequal economy after the 1970s hurt most Americans and set the stage for the Great Recession. Now we need to do more than merely return to the way things were in 2007. We need new policies to promote the kind of inclusive economic growth that, once again, can boost the middle class and help millions escape from poverty.