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Unemployment and Recovery Project

Poverty in the United States

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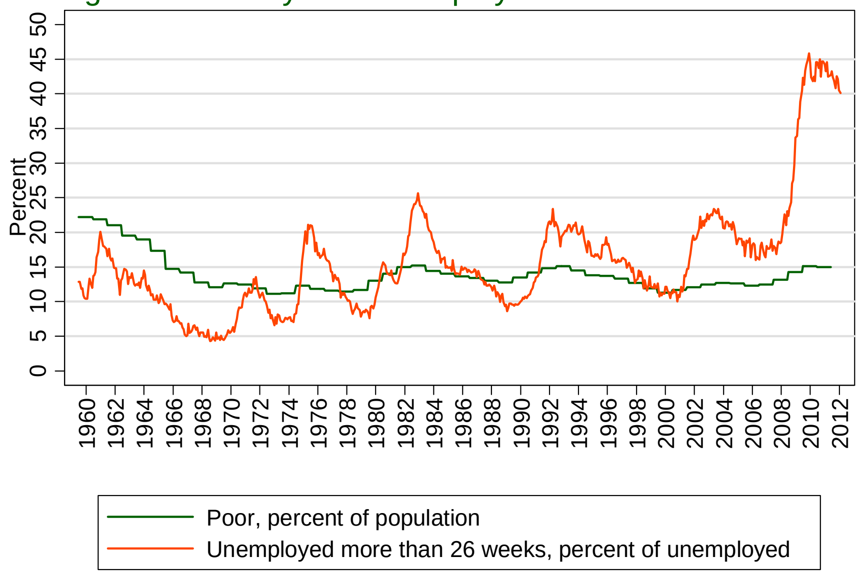
The U.S. poverty rate remained high at 15 percent in 2011, with 46.2 million people poor. Median family incomes fell 1.5 percent between 2010 and 2011.[1] The poverty rate was roughly as high in 2010 and 2011 as it has been in any year since 1965 (the last year poverty was significantly above 15 percent), but it has been lower than one would expect from looking at the dramatic rise in long-term unemployment following the 2007 Great Recession (see figure 1). Unemployment has been closely tied to poverty over the past 50 years, but government safety net programs and individual ingenuity seem to have enabled many American workers to forestall the dire poverty rates of the mid-1960s.

Figure 1. Poverty and Unemployment Duration 1960-2012



Sources: Federal Reserve Economic Data repository, Census P-60 reports, and author's tabulations of Current Population Survey data.

Expansions of unemployment benefits (Lindner and Nichols 2012) lifted 2.3 million people out of poverty in 2011. But unemployment benefits do not ensure that all unemployed workers will avoid poverty, partly because many low-income workers aren't eligible for benefits.[2] Also, as benefits run out for better-off workers, some higher-wage workers compete in lower-wage job markets, depressing the prospects of lower-wage unemployed workers; 2.7 percent of full-time full-year workers were poor in 2011, while 2.5 percent were poor in 2010.

Annual official poverty estimates based on the Current Population Survey (CPS) have remained essentially unchanged in 2010 and 2011, but unofficial monthly poverty first increased, then decreased, from 2009 through 2011. Estimates based on the Survey of Income and Program Participation (SIPP) show monthly poverty rates increasing by a tenth of a percentage point per month through 2009, exhibiting no trend during 2010, then falling about a twentieth of a percentage point per month in 2011.

These monthly data indicate poverty may be lower in 2012 than in 2011, even as the percentage of unemployed workers remains high and many unemployed workers remain out of work for long periods.

We are not out of the woods yet. History shows that unemployment and poverty rates keep rising after a recession ends. This has proved even more true in the 1990, 2001, and 2007 recessions than in those of 1973, 1980, and 1981. Poverty rates likely will remain high as long as the job market remains sluggish.[3]

SIPP monthly data can also tell us about poverty dynamics for individuals over time, a question the CPS cannot address. During 2009 and 2010, 28 percent had at least one spell of monthly poverty lasting two or more months. Extremely persistent poverty was rare, with only 4.8 percent poor all 24 months in 2009 and 2010. Over this period, however, risks of large drops in annual income were at record highs (Hacker et al. 2011, 2012) and were broadly shared across groups.

[1] The 2011 poverty rate of 15.0 percent does not differ statistically from the 15.1 percent rate in 2010 but is higher than 2008 and 2009 levels (14.3 and 13.2 percent, respectively). See DeNavas-Walt, Proctor, and Smith (2012) for details on Census estimates. A single person under age 65 with income under $11,702, or a couple with two children and income under $22,811, was poor in 2011.

[2] See Nichols and Zedlewski (2011), Zedlewski and Nichols (2012), and Nichols and Simms (2012).

[3] The Unemployment and Recovery Project examines the unemployment crisis and its effects; see http://www.urban.org/unemployment/ for details on policy options and characteristics of the unemployed.

The devastation of poverty grows more severe over time. For example, when unemployment is prolonged, many workers exhaust unemployment benefits (Vroman 2010); the regular benefit lasts for 26 weeks, and federal extensions are phasing out during 2012. The duration of unemployment fell throughout 2011 and 2012, but 39.6 percent of unemployed workers had been out of work more than 26 weeks in August 2012, and many workers had left the labor force.

One fact that can temper concerns about ongoing high poverty levels is that noncash assistance isn't counted in income when calculating the official poverty rate. Food assistance including the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) reaches nearly one in seven people, and lower tax rates help families make ends meet in the short run (though artificially low taxes in the present entail higher taxes in future, no matter who wins elections). Were the federal earned income tax credit counted as income, 5.7 million fewer people would be counted as poor, bringing the poverty rate under 13.2 percent. Were SNAP benefits included, 3.9 million fewer people would be counted as poor, bringing the rate down to 13.7 percent. Unfortunately, many provisions in the American Recovery and Reinvestment Act of 2009 aimed at economic relief for individuals and families have now expired.

Annual poverty rates fell for some groups in 2011, and full-time full-year employment rates increased, as the job market improved for some. Noncitizens and people living in the South and the suburbs had lower poverty rates in 2011 than in 2010 and higher full-time full-year employment rates. The number of poor Hispanics in 2011 was 13.2 million, essentially unchanged from 2010, but the Hispanic poverty rate fell from 26.5 to 25.3 percent, returning to 2009's prevailing rate.

For most groups, the number of people in poverty either decreased very slightly or did not change significantly, remaining at high levels. Child poverty remained high overall, at 21.9 percent in 2011 and 22.0 percent in 2010, and especially among black children, at 37.4 percent (37.8 percent in 2010). Persistent childhood poverty is closely tied to negative outcomes later in life (Ratcliffe and McKernan 2010).

Poverty continues to disproportionately affect minorities and single-parent families. Annual poverty rates among blacks increased to 27.6 percent in 2011 from 27.4 percent in 2010, compared with an decrease to 9.8 percent from 9.9 percent among non-Hispanic whites. Rates for individuals in unmarried female-headed households remained high at 31.2 percent, compared with 13.1 percent for individuals in other types of families.

Poverty also remains unequally distributed geographically; the Great Recession hit some places and some industries harder, and recovery has proceeded at different rates. Poverty remained a steady 14 percent in midwestern states across 2010 and 2011, up from 12.4 percent in 2009. It increased to 13.1 percent in the Northeast from 12.9 percent in 2010 and 12.2 percent in 2009. Poverty rates in the South fell from 16.8 to 16.0 percent, still not back to the 2009 level of 15.7 percent. Poverty rates in the West rose from 15.3 to 15.8 percent, up for a second year from 14.8 percent in 2009. Poverty remains highest in urban areas, increasing to 20 percent in 2011 from 19.8 percent in 2010 and 18.7 percent in 2009. Falling poverty in suburban areas (from 11.9 to 11.3 percent) has not yet reached the 11 percent rate of 2009. Outside metropolitan areas, poverty rose to 17 percent in 2011 from 16.5 percent in 2010.

The rate of deep poverty (incomes less than half the poverty level, or $11,406 for a couple with two children), was 6.7 percent in 2010 and 6.6 percent in 2011, up from 6.3 percent in 2009. Deep poverty is more prevalent among non-Hispanic blacks (12.5 percent) and Hispanics (10.5 percent) than among non-Hispanic whites (4.4 percent), and among individuals in unmarried female-headed households (15.3 percent) than among individuals in households with a married head (2.2 percent).

While the unemployment rate has begun to fall, the consequences of poverty likely will worsen over time as individuals exhaust their resources and support systems. Even if the job market picks up substantially in the next year, families will need more time to recover. Federal government initiatives to promote job creation are laudable, but cash-strapped families dragged down by the labor market and housing market collapses will need more direct help. Food assistance, unemployment benefits, and tax relief are important short-run solutions. More help should be targeted to protect children from the long-run economic scarring due to the Great Recession, but fiscal pressures will likely mean cuts to the safety net, not expansions, putting families at greater risk.

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