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Unemployment and Recovery Project

Poverty in the United States

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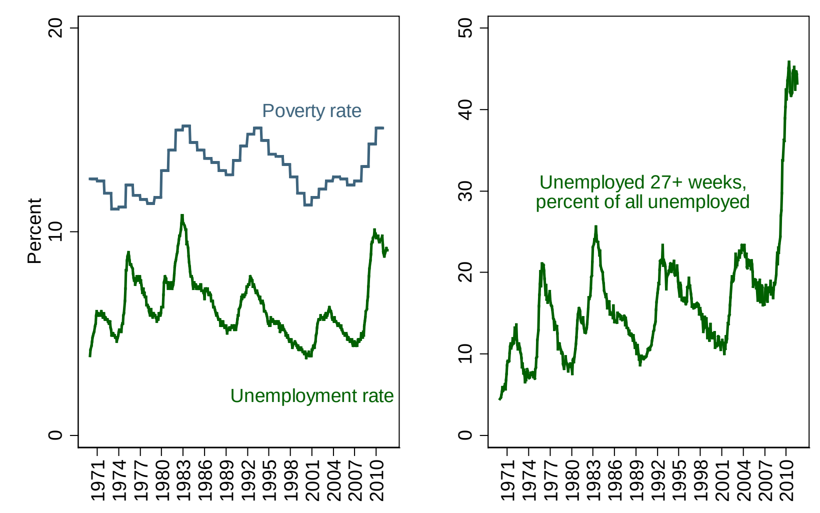
The U.S. poverty rate continued its upward march in 2010, increasing to 15.1 percent from 14.3 percent in 2009 and 13.2 percent in 2008. There were 46.2 million poor people in 2010, compared with 43.2 million in 2009. The poverty rate now looms higher than it has since 1993, and median income has fallen to $49,445, erasing the gains made since 1996. The gradual rise in poverty understates the full effect of the current unemployment crisis, as is hinted at in figure 1, which shows the dramatic rise in long-term unemployment. The devastation of poverty grows more severe over time, as individuals exhaust private resources and temporary benefits, and many of those now poor face reduced prospects for escaping poverty in the near future. The "Great Recession" that began in December 2007 officially ended in June 2009, but the employment rate has continued to fall (reaching its lowest level since 1983 in July 2011).

Figure 1. Poverty and Unemployment Over 40 Years



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

History shows that unemployment and poverty rates keep rising after a recession ends. This has proved even more true in the last three recessions of 1990, 2001, and 2007 than in those of 1973, 1980, and 1981. Poverty rates likely will continue to rise in 2011 because the job market remains sluggish. The Unemployment and Recovery Project examines the unemployment crisis and its effects; see http://www.urban.org/unemployment/ for more.

If unemployment benefits had not been counted toward family income, 3.2 million more people would have been poor, indicating how important unemployment benefits have been in the past year.

As unemployment remains high, many workers are exhausting the 26-week limit on regular unemployment benefits and the 99-week limit on extended unemployment benefits (Vroman 2010). The proportion of unemployed persons without work for more than 26 weeks jumped from 22 percent in January 2009 to 42 percent in January 2010, and rose even higher to 45 percent in January 2011. The median duration of unemployment peaked in June 2010 at 25.5 weeks, nearly six months without work.

Unfortunately, unemployment benefits do not ensure that unemployed workers will avoid poverty, partly because many low-income workers aren't eligible for benefits. For example, in 2009, only one-third of unemployed families with incomes below two times the federal poverty level received unemployment insurance benefits (Nichols and Zedlewski 2011). Also, as benefits run out for better-off workers, some will compete in lower-wage job markets, further depressing the prospects of the lower-wage unemployed workers.

One fact that can temper our concern is that the noncash assistance families receive isn't counted in income when calculating the official poverty rate. For example, caseloads for the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) reached historical highs during 2010, benefiting nearly one in seven people in December 2010. Families benefited from higher SNAP benefits and lower taxes than in prior years, thanks to provisions in the American Recovery and Reinvestment Act of 2009. If the earned income tax credit were counted as income, 5.4 million fewer people would be called poor, lowering the rate 1.8 percentage points.

The rate of deep poverty (incomes less than half the poverty level, or $11,157 for a couple with two children) jumped from 6.3 percent in 2009 to 6.7 percent in 2010. Deep poverty is more prevalent among black (13.5 percent) and Hispanic (10.9 percent) individuals than among white non-Hispanic individuals (4.3 percent).

Child poverty jumped from 20.7 percent to 22.0 percent in 2010, with an increase among black children from 35.7 percent to 39.1 percent, erasing much of the gains made during the 1990s (Nichols 2006). Holzer (2007) indicates that a 1 percentage point increase in child poverty might cost the economy an extra $28 billion a year in the future, partly because children who grow up poor earn less. Ratcliffe and McKernan (2010) show that persistent childhood poverty is closely tied to negative outcomes later in life.

Poverty continued to disadvantage minorities and single-parent families. Poverty rates among blacks increased to 27.4 percent in 2010 from 25.8 percent in 2009 and to 26.6 percent among Hispanics from 25.3 percent in 2009, compared with an increase to 9.9 percent among white non-Hispanics from 9.4 percent in 2009. Rates for individuals in unmarried female-headed households rose to 31.6 percent, up from 29.9 percent in 2009.

The geography of poverty also become more extreme as the Great Recession hit some places and some industries harder. Poverty increased to 13.9 percent in the Midwest from 13.3 percent in 2009 and to 12.8 percent in the Northeast from 12.2 percent in 2009. Poverty rates in the South increased to 16.9 percent in 2010 from 15.7 percent in 2009, and to 15.3 percent in the West from 14.8 percent in 2009.

The most recent poverty statistics, based on family income received during 2010, cannot capture income deterioration during 2010 and beyond.[1] The unemployment rate remained above 9 percent in every month of 2010, and more than half of all unemployed were unemployed more than four months (i.e., the median duration of unemployment exceeded four months in each month). The long-term unemployed rely on temporary help from benefit programs, family and friends, and dissaving to get by, but the recession already reduced family savings (Bricker et al. 2011). Average family economic well-being no doubt declined throughout 2010 and into 2011.

The ravages of poverty likely will worsen over time as individuals exhaust their resources and support systems. Even if the job market picks up substantially in 2012, families will need more time to recover. Federal government initiatives to promote hiring are laudable, but cash-strapped families scarred by the labor market and housing market collapses will need more direct help, temporary or not. Continuing or renewing food assistance expansions,[2] extension of unemployment benefits, and payroll tax relief are a start, but more help should be directed to families with children, to protect those children from the Great Recession's scars.

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[1] The question about annual family income is asked on the U.S. Census Bureau's Current Population Survey, Annual Social and Economic Supplement, in February to April of the following year.

[2] ARRA mandated that higher SNAP benefit levels would remain fixed until they were supplanted by pre-ARRA benefit levels rising due to inflation, but Congress has since mandated an earlier return to pre-ARRA policy.