

# Reducing Poverty and Economic Distress after ARRA

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*Earlier this year, the Urban Institute and the Georgetown Center on Poverty, Inequality, and Public Policy brought together senior federal and state officials, leading policy experts, and researchers to propose and debate ideas for combating poverty and its harmful effects after the American Recovery and Reinvestment Act (ARRA) expires in 2010. Papers presented during “Reducing Poverty and Economic Distress after ARRA: The Most Promising Approaches” reflect on lessons learned from the recession, ARRA, and the changing economic, fiscal, and political landscapes to set out clear rationales for the authors’ recommendations and offer concrete policy ideas for Congress, the White House, and states.*

## The Great Recession, Unemployment Insurance, and Poverty—Summary

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Widespread job loss and long spells of unemployment made 2009 the worst year in the labor market since the World War II era. And when jobless rates rise, higher poverty rates typically follow. Congress repeatedly extended unemployment insurance (UI) benefits during the recession, keeping many out-of-work Americans afloat, but others were unable to access benefits.

High unemployment is expected to continue into 2010 and later—and ad hoc UI extensions will not counteract lengthy job separations or get Americans back to work. The unemployed, especially those out of work for a long time, need labor market policies that will provide long-term income support and speed reemployment.

### THE LABOR MARKET IN 2009

While 2009’s annual unemployment rate of 9.3 percent was not the highest since World War II, it was exceeded only by unemployment rates in two other years—9.7 percent in 1982 and 9.6 percent in 1983. Long-term unemployment, permanent job loss, and the jobless rate for men also were up considerably in 2009.

Unemployment lasting six months or longer was higher in 2009 than in any year since 1946. The 4.5 million long-term unemployed made up 31.5 percent of annual unemployment. To place this number in historical perspective, the next-highest percentage since 1946 was 23.9 percent long-term unemployed in 1983.

Men had especially high unemployment rates in 2009. Between 2007 and 2009, unemployment for men

increased from 3.9 million to 8.5 million, or 119 percent. Among women, unemployment increased from 3.2 million to 5.8 million, or 81 percent.

And employers are relying less on temporary layoffs. In 2009, permanent job loss—which means workers lose their jobs and have little or no chance of going back to their former employers—was the highest ever in the 43 years since unemployment reasons have been tracked. It was also the only year when permanent job loss accounted for more than half of total unemployment.

Workers on temporary layoff had shorter periods of unemployment than workers who were permanently let go. Crude estimates of average unemployment length for the two groups in November 2009 were 13 and 32 weeks.

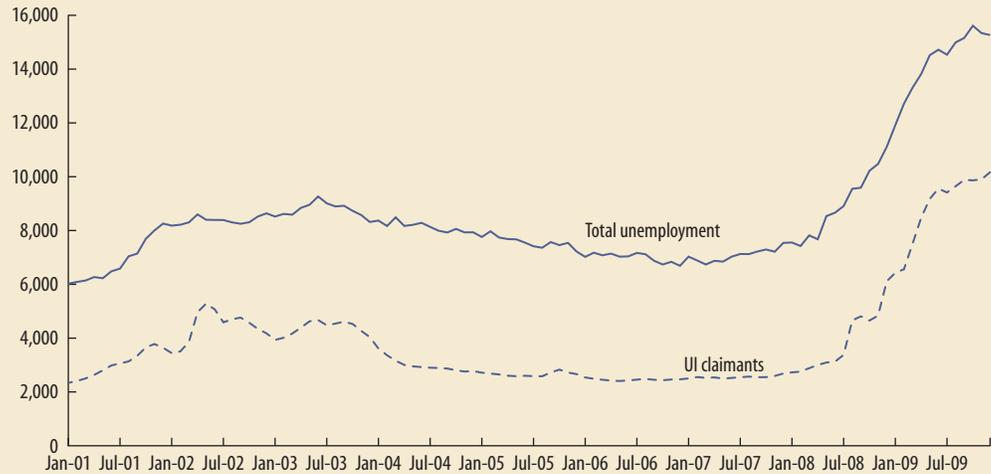
### UNEMPLOYMENT INSURANCE AND POVERTY

The American Recovery and Reinvestment Act of 2009 included provisions to make unemployment insurance benefits more generous and widely accessible than in previous recessions. The \$128.4 billion in UI benefits paid out in 2009 is more than twice the total for 2002 or 2003, the years of high unemployment from the last recession.

Figure 1 plots unemployment and the receipt of UI benefits from 2001 to the end of 2009. In recent months, with total unemployment reaching about 15 million, the number of total UI recipients averaged about 10 million. The recent total represents almost four times the number collecting UI during 2006 and 2007.

A look at family income reveals how UI and other transfer payments (including Social Security, private pensions, food stamps, and welfare) affect poverty. Data are only available for 2008, which had a lower unemployment rate than 2009, but still provide a fair picture of what to expect.

### UNEMPLOYMENT AND UI CLAIMANTS, 2001-09 (MILLIONS)



About 20.1 million families experienced at least one spell of unemployment in 2008, but only one in four (5.49 million) received UI benefits. UI receipt was much more prevalent among families headed by someone age 25 or older. Those with the shortest length of unemployment were much less likely to receive UI than those with longer spells.

If unemployment benefits are taken out of the picture, poverty rates go up for these 5.49 million families receiving UI. The poverty rate increases from 8.2 percent to 13.1 percent if UI dollars are deducted from family incomes. The poverty-reducing effect of UI is greater the longer a family experiences unemployment. The poverty rate difference between getting UI and not is 2 percentage points for those unemployed 1 to 13 weeks and 12 percentage points for those unemployed 40 to 52 weeks.

Other transfer payments have a big effect on reducing poverty as well. Families with unemployment received \$107.1 billion total in transfer payments in 2008.

These transfers reduced the average poverty rate by 6.6 percentage points among all 20.1 million unemployed families. More important, among the 5.49 million receiving UI, transfer payments reduced their average poverty rate by 6.3 percentage points.

### CONCLUSION

The permanent job losses and long-term spells of unemployment that marked 2009 are likely to continue. Unemployment insurance and other income supports help reduce poverty, particularly for families with long unemployment spells. But not everyone who is unemployed receives benefits.

Policymakers need to craft active and passive labor market policies to get Americans back to work and support those who have been unemployed for a long time. Training, counseling, and improved information on job openings should also be emphasized to counter a trend toward longer average periods of unemployment.