NATIONAL REPORT CARD

POVERTY

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.

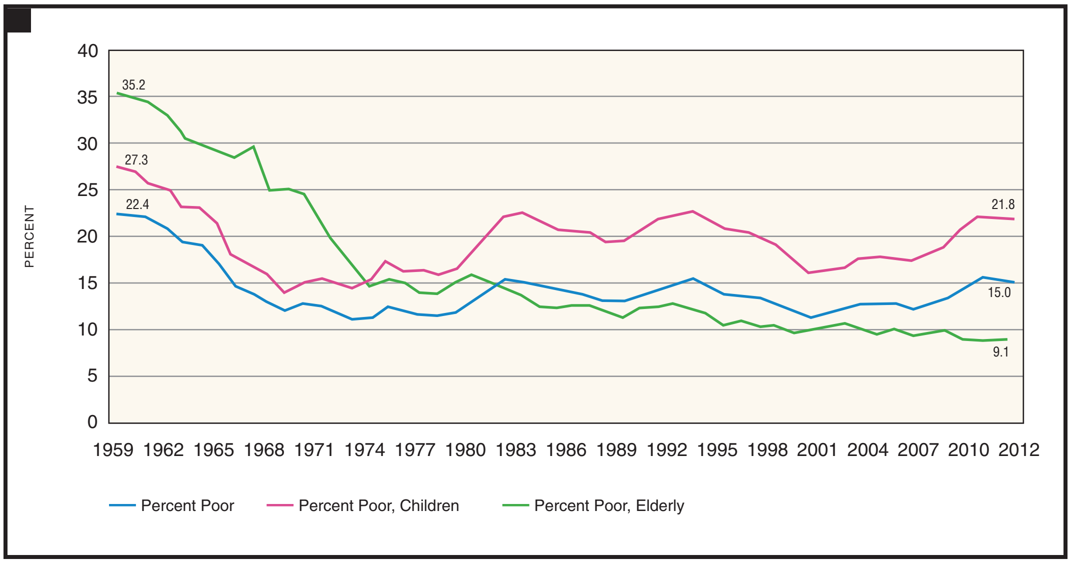
What has happened since President Lyndon Johnson declared an unconditional War on Poverty in his January 8, 1964 State of the Union Address? There is no doubt that the United States has become a more affluent nation since that famous declaration: Real gross domestic product (GDP) per capita has in fact *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.

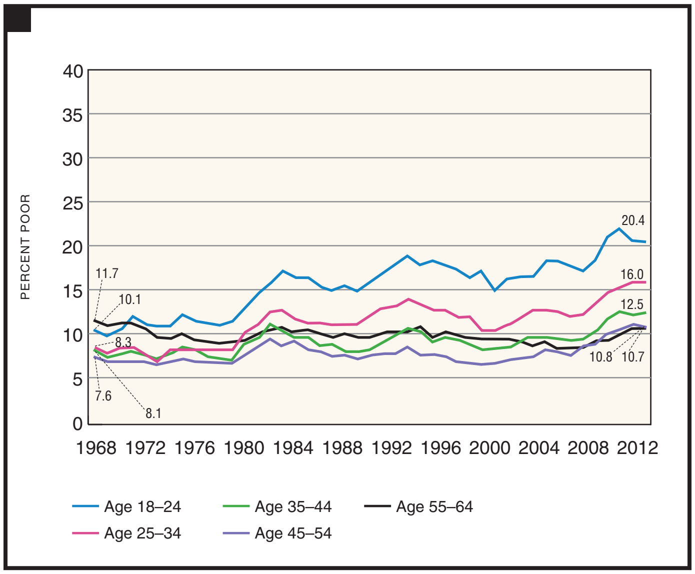
Worse yet, some groups have experienced an increase in their poverty rates.[3] We examine the official poverty rate for adults classified by age cohort (Figure 2), educational attainment (Figure 3), and race or ethnicity (Figure 4). As shown in Figure 2, the poverty rate for 18-24 year olds increased 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]

Clearly, 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?

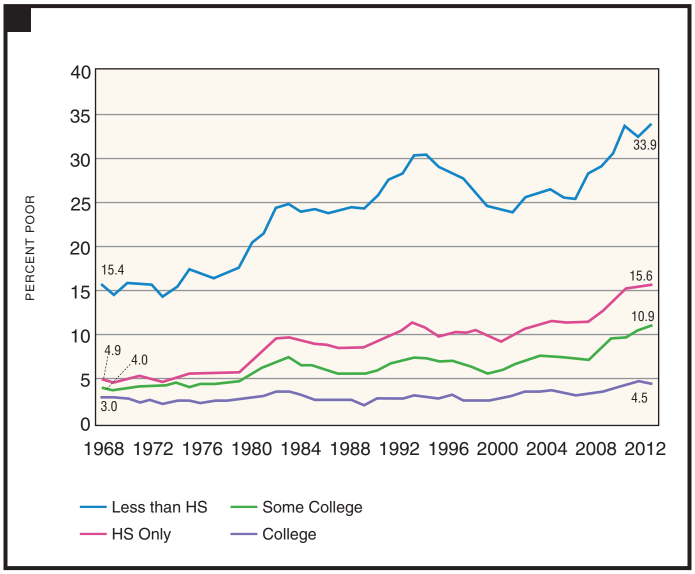
To understand recent trends in poverty, we begin with the economic situation in the quarter century after the end of World War II. Rapid economic growth at that time translated into more employment, higher earnings, and increasing family incomes for most Americans. Poverty fell as the living standards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

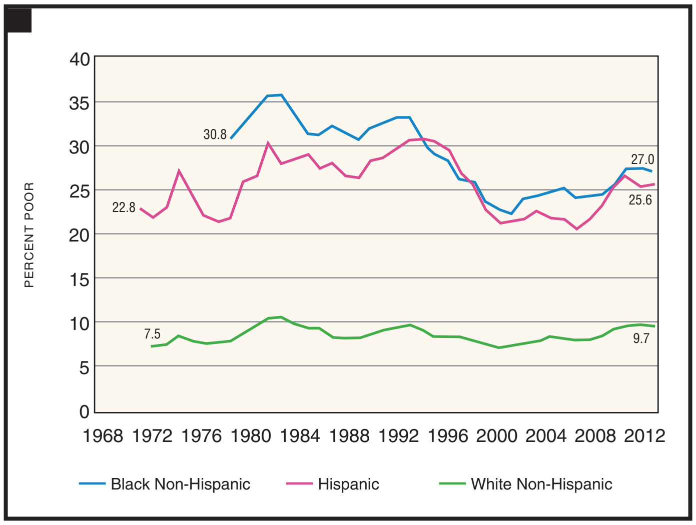
> "In 1964, the famous War on Poverty was declared. And a funny thing happened. Poverty, as measured by dependency, stopped shrinking and actually began to grow worse. I guess you could say "Poverty won the War." Poverty won, in part, because instead of helping the poor, government programs ruptured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

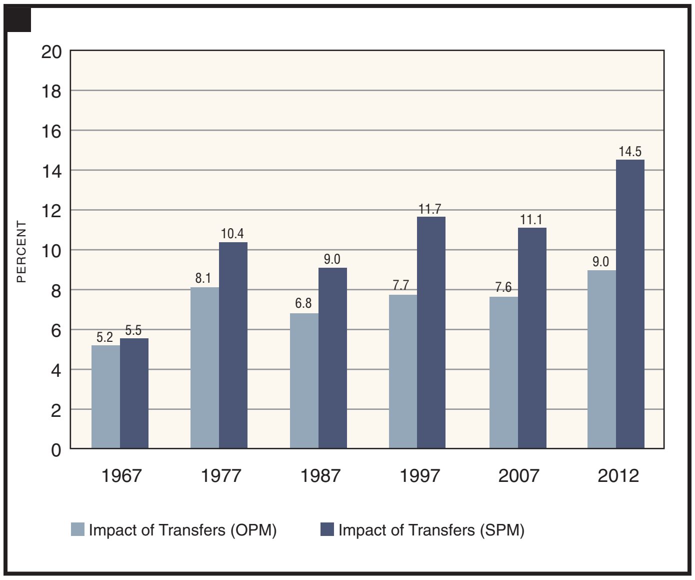
A similar result holds for "deep poverty," defined as income less than 50 percent of the poverty line. According to the Columbia study, deep poverty for children would have risen to over 20 percent in some years without government benefits.[14] When all safety benefits are counted, however, deep child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

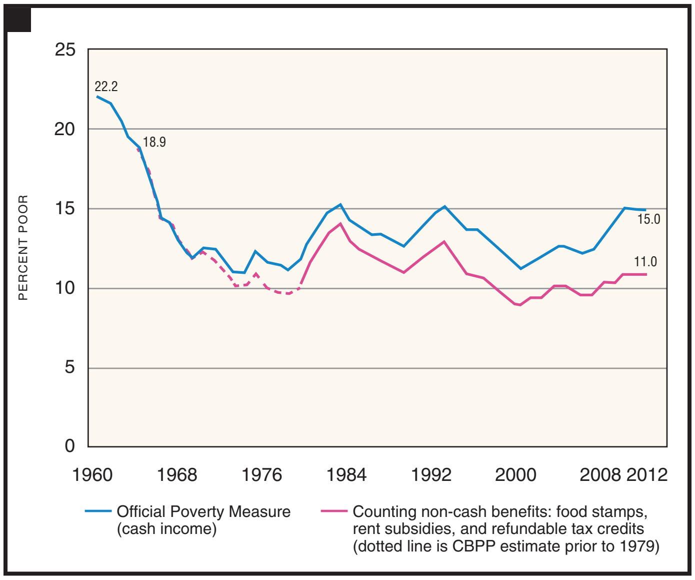
Poverty remains high because, since the early 1970s, unemployment rates have been high and economic growth has been less effective in reducing poverty than it was in the quarter century following World War II. Although the economy has largely failed the poor, safety net programs that were introduced 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 Johnson's 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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