

Fighting Poverty: The Progress Made and Challenges Ahead

Jason Furman
Spotlight on Poverty and Opportunity
January 8, 2014

Following the financial crisis that began in 2007, our economy lost more than 8 million jobs, the economy underwent the sharpest contraction of the postwar era, and \$17 trillion in household wealth was wiped out—five times more as a percent of the economy than during the Great Depression. But even as most of our economic statistics told a frightening story, one important indicator barely budged. The poverty rate, measured using modern methods, rose only 0.5 percentage points from 2007 to 2010 according to new estimates from a research team at Columbia University.

The explanation for this surprising and little-known development? It was not that low- and moderate-income households were spared from the recession—they saw lost jobs and lost income like everyone else. In fact, the Columbia research team finds that without government cash, tax, and in-kind transfers, poverty would have increased by nearly 4.5 percentage points over that same period, nearly 9 times greater than the actual 0.5 percentage point increase.

That is because the poor, the near-poor, and middle class families were insulated from many of the worst effects of the recession thanks to the crucial safety net we have built up over decades—including tax credits for working families, nutrition assistance, and unemployment insurance. The expansions in all of these programs included in the Recovery Act lifted an estimated 6 million people out of poverty in 2009 and have lifted approximately 4 million out of poverty each year since then.

But the prevalence of poverty is still unacceptably high, with 49 million people, including 13 million children, living in poverty in 2012. We need to do much more to bring poverty down, help families ascend into the middle class, and raise the incomes of middle-class households.

The good news is that we have made progress on poverty in the last several decades, cutting the poverty rate by nearly 40 percent from 1967 to 2012 if you count income from tax credits, cash benefits like Social Security, and in-kind benefits like nutrition assistance, all of the same programs that prevented poverty from rising in the wake of the Great Recession. Since 1967, the safety net programs have prevented 1.2 billion people-years of poverty (that is, the reduction in the number of years spent in poverty cumulated over all people in the population in this period). But the progress we have made in reducing poverty over the last 45 years is *almost entirely* because of these programs—on a pre-tax and transfer basis the poverty rate actually rose slightly between 1967 and 2012, meaning that growing inequality and stagnating wages among low-income Americans would have led to growing poverty in the absence of the safety net.

Going forward, we need to continue to defend the gains we have made through public policies. This means protecting nutrition assistance from those who propose draconian cuts, extending emergency unemployment insurance for another year for those who are working hard to find jobs, and making permanent President Obama's expansion of refundable tax credits for working

families like the Earned Income Tax Credit and the refundable child tax credit (expansions which are currently scheduled to expire at the end of 2017).

But this alone will not be enough. To continue to bring the poverty rate down we will have to not only defend and improve critical elements of the social safety net, we will also have to move forward and focus on raising wages and earnings.

The most obvious and direct way to raise wages for low- and moderate-income working families is to raise the minimum wage. At \$7.25 an hour it is currently lower than it was in real terms in 1950. Since then, real per capita GDP and labor productivity have both more than tripled. Aggregate household wealth adjusted for inflation has risen nearly eightfold. Despite these profound transformations in our economy and tremendous improvements in overall living standards, those who struggle the most to keep up have not gotten a net raise in inflation-adjusted dollars in sixty-three years. President Obama has proposed raising the minimum wage so that, together with tax credits for working families, a parent working full-time at the minimum wage will not have to raise his or her children in poverty. Once raised, the minimum wage should be indexed to inflation to end the continual erosion of its value once and for all.

In addition, President Obama is also focused on pursuing other policies that will help speed the recovery in the short run, boost growth in the long run, and ensure that the growth benefits families across the income spectrum. Those focused on poverty – and incomes more broadly – have a stake in these proposals such as investing in human capital and mobility through high quality preschool, modernizing high schools, reforming job training programs, a grand bargain for jobs that could involve investing in infrastructure while reforming the business tax code, and comprehensive immigration reform, which would ensure a level playing field for workers and businesses alike.

None of these measures is a panacea that will immediately undo the long-term trend of stagnant wages and rising inequality. But the President will not be deterred by the difficulty of these challenges as we continue to dig our way out of the deep hole left by the Great Recession and build a more solid foundation for future growth.

Jason Furman is the Chairman of the Council of Economic Advisers.