

# Poverty and the Great Recession

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## KEY FINDINGS

- The official poverty rate increased from 12.5% in 2007 to 15.0% percent in 2011. In the recessions of the early 1980s and early 1990s, the poverty rate was also approximately 15 percent, even though these were more moderate downturns. The poverty rate did not increase more in the current downturn in part because of federal stimulus spending.
- The groups with the highest poverty rates in normal economic times experienced the largest increases over the course of the recession. For example, the poverty rate for 18 to 24 year olds is always quite high, but it increased by 4.7 percentage points between 2007 and 2010, a far larger increase than for older groups. The same pattern of disproportionate effects holds for racial and ethnic groups.
- The welfare reforms of the Clinton era, combined with a growing economy, generated an increase in “working poverty” in which poor individuals typically lived in families with at least one member working. But the percent of poor individuals living in families with at least one working member decreased between 2007 and 2010 from 66.6 percent to 63.5 percent.

Severe economic downturns, like the Great Depression, are associated with substantial increases in poverty and material hardship. Since the Great Depression, the United States has developed programs and policies, many of which were launched during the New Deal and the War on Poverty-Great Society periods, that aim to protect the poor, the unemployed, children, the disabled, and the elderly against severe deprivation. It is important to examine how these programs performed during the most severe recession the country has experienced since the Great Depression.

This recession brief examines how poverty for the nation and for selected demographic groups has changed in the wake of the Great Recession. We set the stage by examining how poverty fared (a) during the “golden age” from the end of World War II to the early 1970s in which earnings and family incomes were rising for most workers and families, and (b) during the subsequent period from the mid-1970s to the eve of the Great Recession in which wage growth slowed and earnings and family income inequality both increased. Following this brief history, we address three questions about the trend in poverty during the Great Recession and its aftermath:

1. How much did poverty increase during and after the Great Recession? How does the poverty rate compare to what prevailed in recent recessions?
2. Who bore the brunt of the increased poverty? Is it a “democratic recession,” as some have suggested, in which pain has been

shared widely? Or have historically disadvantaged groups been especially vulnerable to the downturn?

3. Has the Great Recession contributed to a growth in the ranks of the nonworking poor? Are unemployment and disengagement from the labor force becoming a more important source of poverty?

These questions are addressed by examining long-term trends in poverty rates by age, educational attainment, race and ethnicity, and family type. We also report on relevant research that involves more complicated models that cannot be presented in any detail here.

## The Golden Age and Its Aftermath

In figure 1, we present trends in the size of the official poverty population and in the official poverty rate, both time series provided by the Census Bureau from 1959 to the present (the most recent data are for 2011). If one examines the period up to the early 1970s, the dramatic decline in poverty is apparent. It was a period of considerable economic growth. Indeed, inflation-adjusted annual earnings increased rapidly for both less-educated and more-educated workers, family incomes rose rapidly for every quintile in the income distribution, and poverty fell rapidly. This was an era during which a “rising tide lifted all boats.” The official poverty rate for all persons fell from 22.4 percent in 1959 to 11.1 percent in 1973. This period, at least in retrospect, may be regarded as a “golden age” of rising family incomes and falling poverty rates.

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The golden age came to an end in the early 1970s as the economy entered an era of slow real wage growth and rising inequalities that persists today. A growing economy with low unemployment rates continues to be necessary, but is no longer sufficient, to reduce poverty in the United States. The official poverty rate has never fallen below the 1973 low achieved at the end of the golden age. It has increased during recessions and fallen during economic recoveries, but even in recoveries, it has remained above that 1973 low. It came closest to meeting that low after the long economic boom of the 1990s, when the unemployment rate fell to 4.0 percent in 2000 and employers faced “labor shortages” in many metropolitan areas. The poverty rate fell to 11.3 percent in that year.

The first decade of the 21st century has been one of slow economic growth and rising poverty. Although the recession of 2001 was mild, there was no wage growth for less-educated workers, or even for the median worker, as the economy recovered from 2001 through 2007. Even though the annual unemployment rate for 2007 fell to 4.6 percent, the poverty rate was 12.5 percent.

### To What Extent Did Poverty Increase During and After the Great Recession?

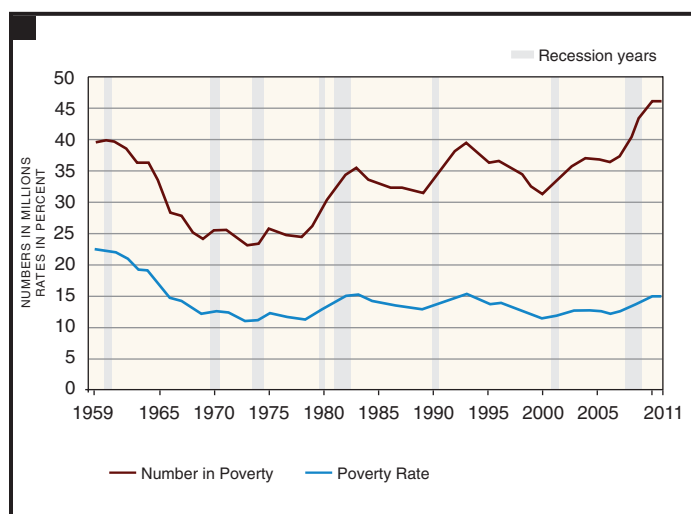
The stage thus set, we address our first question: What happened to poverty because of the Great Recession? Are we experiencing a Depression-style surge in poverty or has the increase been far more moderate?

We see from figure 1 that following the Great Recession the poverty rate increased to 15.1 percent in 2010 and regis-

tered at 15.0 percent in 2011. The recession officially lasted from December 2007 through June 2009, but monthly unemployment rates remained above 9 percent for more than two years after the official start of the current economic recovery. Hence, the increase in poverty extended beyond the formal end of the recession; and poverty is likely to remain high for some time. What is perhaps surprising is that poverty did not increase even more than this in 2009 and 2010. By way of contrast, poverty reached 15 percent in both the recessions of the early 1980s (1982 and 1983) and of the early 1990s (1993), even though these recessions were shorter and the subsequent recoveries more rapid than has been the case for the Great Recession.

What accounts for the relatively slow rise in poverty? The American Recovery and Reinvestment Act (ARRA) of 2009, colloquially referred to as the “stimulus bill,” dramatically increased government spending on unemployment insurance and other safety net programs and provided funds to state and local governments to prevent public-sector layoffs. As Gary Burtless has shown, the stimulus offset a greater percentage of the recession-induced income losses than was the case in recent recessions. According to estimates by Arloc Sherman, the increased unemployment insurance benefits due to the ARRA reduced the number of people in poverty by more than 2 million. Without these increased benefits, the official poverty rate in 2010 would have been about 15.8 percent instead of 15.1 percent. Because many of the safety net aspects of the stimulus bill will have expired by the end of 2012, this offsetting effect cannot be counted upon to the same extent in the post-recession period, which is still characterized by slow economic growth and an 8 percent unemployment rate.

FIGURE 1. Number in Poverty and Poverty Rate: 1959–2011



Note: The data points are placed at the midpoints of the respective years.

Source: U.S. Census Bureau, Current Population Survey, 1960 to 2012 Annual Social and Economic Supplements.

We turn next to figure 2, which shows poverty rates for children under age 18, the elderly above age 65, and nonelderly adults. Although the increase in overall poverty during the Great Recession was moderate, figure 2 shows that the increase was greater for children. From 2007 to 2010, the poverty rate among children increased 4.0 percentage points (from 18 to 22 percent), compared to a 2.8 percentage point increase (from 10.9 to 13.7 percent) in the rate for all non-elderly adults. The gap between the adult and child poverty rates increased in part because children live with younger adults who, as we’ll see, were especially hard hit by the recession.

The official poverty rate among the elderly was, by contrast, unaffected by the Great Recession. Because the elderly have had a European-style safety net since a series of policy changes enacted in the decade following President Johnson’s 1964 declaration of War on Poverty, the elderly have been

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protected against recessions, including the Great Recession, for the last four decades. For example, Social Security and Supplemental Security Income benefits are indexed each year for inflation and are never reduced during recessions, as are the earnings of workers.

The foregoing conclusions are all based on an official poverty rate that was established in the late 1960s and has been subjected to many criticisms in subsequent decades. The official measure is based on money income before taxes and does not count a variety of government benefits that raise the resources available to poor families to make ends meet (e.g., noncash benefits, such as food stamps, and refundable tax credits, such as the Earned Income Tax Credit). It also does not subtract payroll and income taxes or work-related expenses and out-of-pocket medical expenses that reduce the resources available to poor families to pay for necessities such as food, clothing, shelter, and utilities. Lastly, the official measure does not vary geographically, although living costs are much higher in large cities than in rural areas.

In November 2011, the U.S. Census Bureau released its Supplemental Poverty Measure (SPM), which modernizes the poverty measure to respond to a number of flaws, including the ones discussed above. For 2010, the SPM reports a poverty rate of 16.0 percent for all persons, only slightly higher than the 15.1 percent official rate for that year. However, the addition of noncash benefits, like food stamps and the Earned Income Tax Credit (EITC), lowers the poverty estimate

for children from the official 22.5 percent to 18.2 percent. In contrast, because the elderly have high out-of-pocket medical expenses, their SPM poverty level, 15.9 percent, is much higher than their official rate, 9.0 percent.

The SPM tells us that poverty in 2010 was lower than it otherwise would have been because parts of the stimulus package, such as increases in food stamps and the EITC, are counted as reducing poverty by the SPM, but not by the official measure. As Arloc Sherman has documented, because the SPM counts these benefits, it shows a smaller increase in poverty between 2008 and 2010 than does the official measure.

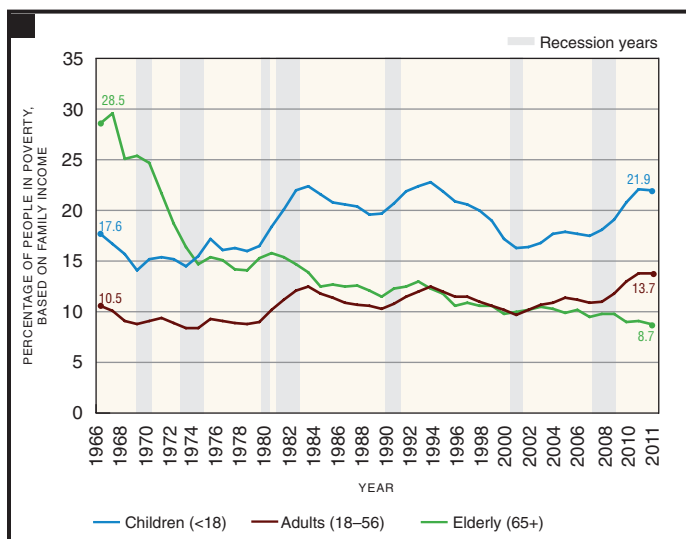
#### Who Bore the Brunt of Increased Poverty During and After the Great Recession?

We next ask whether inter-group differences in poverty rates by age, education, and racial and ethnic groups grew larger or smaller following the severe recession and slow recovery. The theme that emerges in the following analyses is that groups that have the highest poverty rates in normal economic times also experienced the largest increases over the course of the recession. The recession has not in this regard been a democratic one.

This pattern is clear when one disaggregates poverty trends by age groups. As figure 3 shows, the official poverty rates for individuals ages 18 to 24 and ages 25 to 34 have been more responsive to economic cycles in recent decades than those of other adults. Between 2007 and 2010, the poverty rate for 18 to 24-year-olds increased 4.7 percentage points, while the rates for 25 to 34, 35 to 44, and 45 to 54-year-olds each increased by about 3 percentage points, and the poverty rate for 55 to 64-year-olds increased by only 1.5 percentage points. Thus, the Great Recession, similar to other recent recessions, has had a disproportionate impact on younger adults. This is in part because employers tend to follow a “last-hired, first-fired” pattern for mass layoffs of the sort experienced in the early stages of a recession.

Does the same story obtain for education groups? Yes. Although popular discourse on the effects of the Great Recession often focuses on the plight of young college graduates moving back to live with their parents, figure 4 shows that the Great Recession’s effect on the official poverty rate among the college educated is much smaller than its effects on those with less education. Between 2007 and 2010, the poverty rate for those between the ages of 25 and 64 with less than a high school degree increased 5.5 percentage points (from 28.1 to 33.6 percent), whereas the rate for high school graduates increased 3.3 percentage points (from 11.7 to 15.0 percent), and the rate for those with at least a college degree increased

FIGURE 2. Poverty Rates for Children, Adults and the Elderly, 1966–2011



Source: The poverty rates for children, adults, and the elderly are from the U.S. Census Bureau Historical Poverty tables (<http://www.census.gov/hhes/www/poverty/data/historical/people.html>).

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only 1.1 percentage points (from 3.4 percent to 4.3 percent). Because the extent of the increase is roughly proportional to the starting rate, the absolute increase is far more substantial for groups that begin in a disadvantaged position.

The pattern of disparate effects is similar for racial and ethnic groups. As figure 5 shows, the official poverty rates for Black non-Hispanics and Hispanics have been substantially higher and more responsive to the business cycle than the poverty rate for White non-Hispanics. Between 2007 and 2010, the poverty rate increased by 3.7 percentage points for Black non-Hispanics (from 19.6 to 23.3 percent), by 4.5 points for Hispanics (from 17.9 to 22.4 percent), but by only 2.2 percentage points for White non-Hispanics (from 7.7 to 9.9 percent). As with groups classified by educational attainment, the Great Recession disproportionately increased poverty among groups with higher-than-average poverty rates.

The foregoing pattern is hardly a surprising one. Although a recession entails extra risks for most everyone, it is especially dangerous for those who, even in good economic times, are in a precarious economic situation.

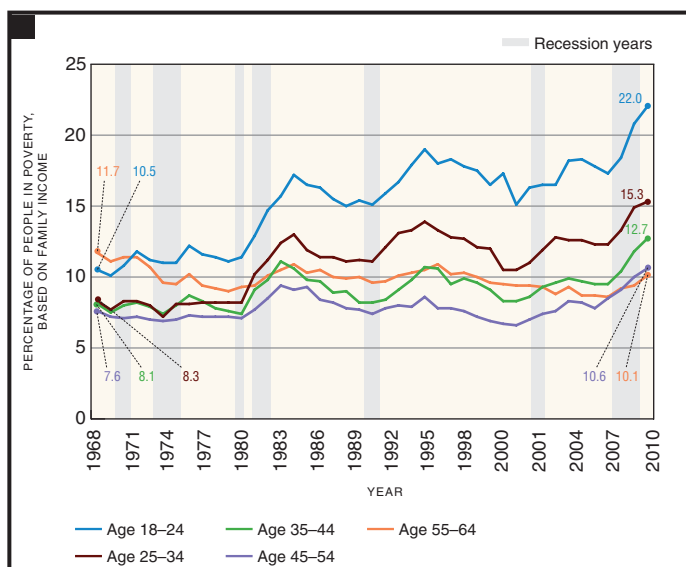
### Popular Narratives About Poverty

We consider next two popular narratives about the sources of poverty increases and consider how the developments of the Great Recession bear on those narratives. The first narrative attributes trends in poverty in part to the growth in the number of households headed by single women. As figure 6 shows,

the official poverty rate is very high for households headed by single women, just as the popular narrative would have it. For example, in 2010, the poverty rate among married-couple households was 7.6 percent, and the poverty rate among households headed by women (with no male present) was 34.2 percent. Over the past 40 years, the rapid increase in the percentage of households headed by women has thus been poverty-increasing, precisely as the narrative would have it. Although this narrative has some merit, it doesn't explain the overall increase in poverty during and after the Great Recession. This is because there was relatively little growth during this period in the female-householder category and because the rate of increase in poverty during this period was much the same for all three family types (as figure 6 shows). If there had been no change in the relative numbers of the three family types, the 2010 poverty rate would have been 14.9 percent rather than the 15.1 observed rate. We can conclude that changes in family type played a very small role in the recent uptick in poverty.

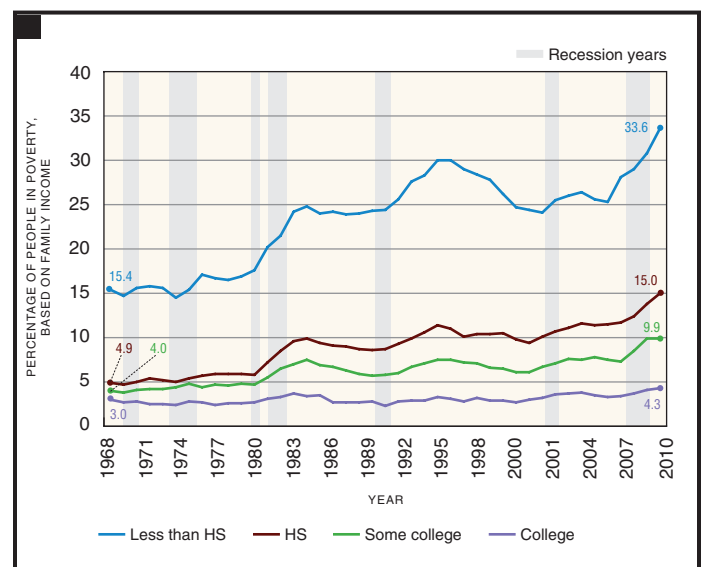
The second narrative of interest has it that a new type of nonworking poverty is in ascendancy and that the Great Recession has been a pivotal moment in its evolution. The backdrop to this narrative is the welfare reforms of the Clinton era. These reforms, combined with a growing economy, led to both an increase in work and a rapid decline in the poverty rate for persons living in households headed by women. As shown in figure 7, persons living in poor families and poor single-mother families were increasingly likely to find themselves

FIGURE 3. Poverty Rates for Nonelderly Adults by Age Cohort, 1968–2010



Source: The poverty rates for the 10-year age groups are produced by the Stanford Center on Poverty and Inequality using March CPS data downloaded from IPUMS.

FIGURE 4. Poverty Rates by Educational Attainment, Persons Ages 25–64



Source: The poverty rates by education are produced by the Stanford Center on Poverty and Inequality using March CPS data downloaded from IPUMS.

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in “working families.” The poverty rate for persons living with female householders fell from 37.2 to 28.5 percent between 1990 and 2000 (see figure 6). The implication: The poverty of the 1990s was increasingly generated by low wages rather than nonwork, especially for single mothers.

Did the Great Recession reverse this trend? It indeed did. As figure 7 shows, between 2007 and 2010, the percent of individuals living in poor families in which at least one family member worked decreased by 3.1 percentage points (from 66.6 to 63.5 percent). For those in poor single-mother families, the percent living with a worker decreased 6.7 percentage points (from 61.7 to 55 percent). In contrast, figure 7 shows that there was a smaller decline in employment among all American families. Between 2007 and 2010, the percentage of individuals in all families with at least one worker decreased only by 1.8 percentage points to 87.7 percent. The Great Recession did not bring about any massive uptick in the amount of nonworking poverty, but it has accelerated the ongoing move to this form.

### The Future of Poverty

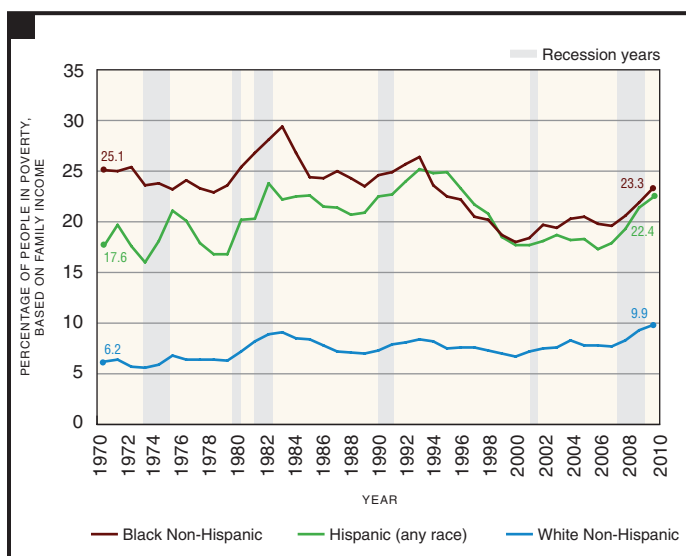
Although poverty increased during the Great Recession, the increase was not as substantial as might have been expected, in part because the 2009 stimulus bill offset some of the

recession-induced income losses. But some groups did experience a dramatically higher risk of poverty. The sharpest increases were experienced by groups (e.g., young adults, the less educated, Hispanics) that entered the recession with already-high rates.

The recession also brought about a further growth in the ranks of the nonworking poor. By 2010, the percent of poor persons living in families with at least one worker had dropped to 55.0 percent, only a shade higher than what prevailed before the Clinton welfare reform.

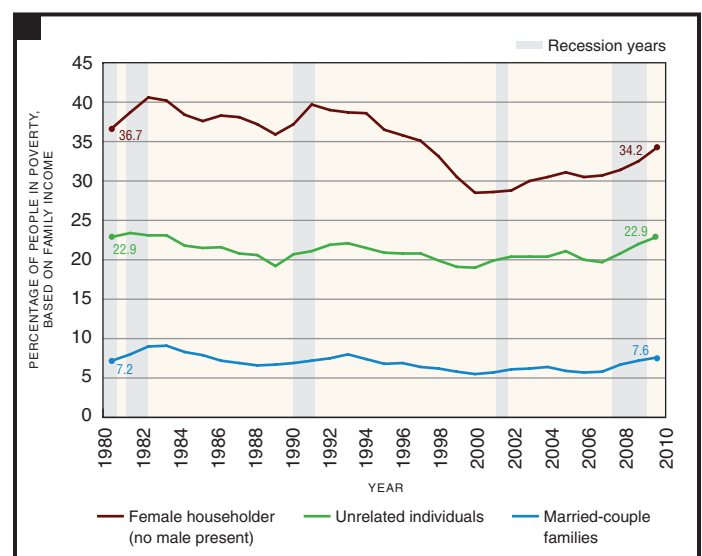
The last time poverty was as high as it is now was in the early 1980s. Unfortunately, the prospects for reducing poverty over the next several years are dismal. The Federal Reserve Board and the Congressional Budget Office project that the unemployment rate is unlikely to fall below 6 percent until late in 2015. If antipoverty policies don’t change, Emily Monea and Isabel Sawhill have shown that these economic forecasts imply that poverty will hardly fall at all during the slow economic recovery. It follows that poverty will remain a major social problem of our time unless either (a) economic growth is far stronger and more widely distributed than one would currently expect, or (b) public policies that have been shown to reduce poverty are expanded.

FIGURE 5. Poverty Rates by Race/Ethnicity, Persons Ages 18–64



Source: “White Non-Hispanic” and “Hispanic any race” are a combination of the Census Bureau’s published poverty figures (Historical Poverty Tables—People, Table 3, <http://www.census.gov/hhes/www/poverty/data/historical/people.html>) and estimates produced by the Stanford Center on Poverty and Inequality using March CPS microdata from IPUMS. For “White Non-Hispanics,” estimates for years 1974–2010 are from the Census Bureau, and estimates for 1970–1973 are produced by the Stanford Center on Poverty and Inequality. For “Hispanic any race,” estimates for years 1976–2010 are from the Census Bureau, and estimates for 1970–1975 are produced by the Stanford Center on Poverty and Inequality. The poverty rate for Black Non-Hispanics is not available from the Census Bureau, and was produced by Stanford Center on Poverty and Inequality using March CPS data from IPUMS.

FIGURE 6. Poverty Rates for People Living in Specified Family Types, 1980–2010

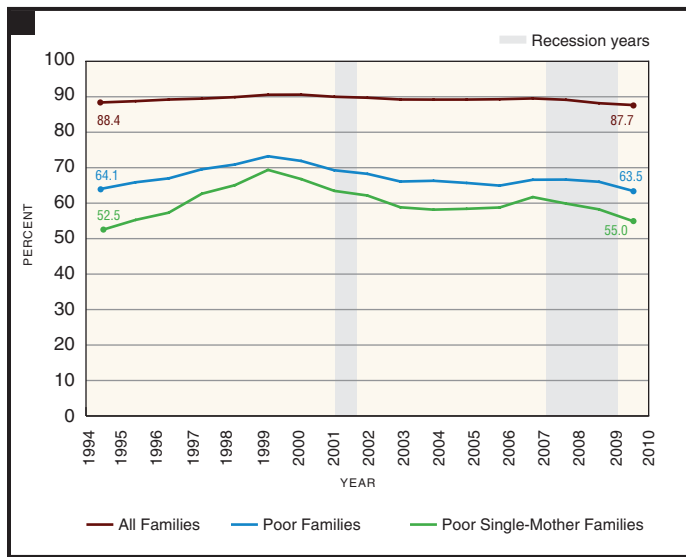


Source: The poverty rates for people living in families with a female householder (no husband present) and unrelated individuals are from the Census Bureau Historical Poverty Tables (<http://www.census.gov/hhes/www/poverty/data/historical/people.html>), Table 2. The rates for people living in married-couple families are produced by the Stanford Center on Poverty Inequality using March CPS data downloaded from IPUMS.



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FIGURE 7. Percent of Persons Living in Families with at Least One Worker



Source: The percentage of people living in working families comes from the Census Bureau's Detailed Poverty Tables (<http://www.census.gov/hhes/www/cpstables/032011/pov/toc.htm>).

### ADDITIONAL RESOURCES

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To further explore the data presented here and to produce customized graphs on recession trends, go to [www.recessiontrends.org](http://www.recessiontrends.org)