

Statement before the Congressional Out of Poverty Caucus Hearing on "An Emergency Response to the Crisis of Poverty in America"

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Thank you very much for the opportunity to speak today to the Congressional Out of Poverty Caucus on the poverty crisis facing America.

In 2009, the national poverty rate hit 14.3 percent, its highest level in 15 years and one of the highest rates in the last five decades. Even in the midst of the worst recession since the Great Depression, however, the United States remains a fantastically wealthy country and to have one-in-seven Americans living in poverty is nothing short of shameful.

Why is poverty so high? The most immediate cause of the high poverty rate is the economic downturn. The economy has almost eight million fewer jobs today than it did when the recession began at the end of 2007.¹ Currently, almost 15 million workers are unemployed. About 11 million more are underemployed, including a large number who are working part-time hours because no full-time work is available.² As a result, since the Great Recession started in 2007, the inflation-adjusted income of the typical American household has fallen continuously³ and the poverty rate has risen by almost two percentage points, adding more than six million people to the poverty rolls.⁴

But, even before the Great Recession, the poverty rate was high by historical standards. Between 1979 and 2007, two business cycle peaks, which allows for the most sensible comparisons over time, the Gross Domestic Product per person grew almost 70 percent after adjusting for inflation. Despite this enormous increase in national income, the share of the US population living in poverty was higher in 2007 (12.5 percent) than it was in 1979 (11.7 percent).⁵

This point is worth a deeper look. Remember that the poverty measure is based on an *absolute* threshold. We don't declare someone poor *relative to* what a middle-income person or a high-income person makes in any given year. Instead, we use a measure that asks whether a person *today* has an income *today* that provides a standard of living that exceeds what *we considered to be poor more than 50 years ago* when we established the national poverty line that we still use today. Even at the peak of the last business cycle in 2007, one in eight people in this country had an income that we would have considered to be poor a half a century ago. Over the last thirty years, even as the economy grew by almost 70 percent per person, the share of the population that we judge to be poor has actually increased.

What can we do to lower poverty? In the short term, the most effective anti-poverty program is to get the country back to work. Lower unemployment and lower underemployment translate directly into higher incomes, especially for families at the bottom and the middle. Lower unemployment and lower

1 See John Schmitt and Tessa Conroy, "The Urgent Need for Job Creation," Center for Economic and Policy Research Briefing Paper, July 2010. <http://www.cepr.net/documents/publications/urgent-need-2010-07.pdf>

2 Bureau of Labor Statistics, "Employment Situation," September 3, 2010, <http://bls.gov/news.release/empsit.nr0.htm>, Tables A-1 and A-15.

3 Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States, 2009. <http://www.census.gov/prod/2010pubs/p60-238.pdf>

4 See Shawn Fremstad, "One in Three Americans Lacked the Income Needed to 'Make Ends Meet' in 2009," Center for Economic and Policy Research, September 16, 2010, <http://www.cepr.net/index.php/data-bytes/poverty-bytes/poverty-2010>.

5 Census Bureau, <http://www.census.gov/hhes/www/poverty/data/historical/hstpov2.xls>.

underemployment also work indirectly to raise incomes of all workers, by giving them the leverage they need to negotiate higher wages and better benefits. (We saw the tremendous benefits of sustained low unemployment at the end of the 1990s, when wages and incomes at the bottom did better than at any time since the 1970s.⁶)

But even if we could restore --overnight-- the economy to where it was in 2007, poverty would still be unacceptably high. Fortunately, we already know how to lower poverty dramatically. In the 1960s, in less than a decade, we cut poverty by almost half. The keys were economic institutions that linked workers wages and benefits to overall economic growth, and the expansion of the social safety net. This is also the same basic formula used by the rest of the world's rich economies to produce poverty rates that are consistently lower than ours, despite our higher GDP per capita.⁷

The obstacles to cutting poverty today are not economic, but political.⁸ For thirty years, we have weakened and dismantled the institutions that connected workers' incomes to overall growth. The share of private-sector workers in unions has plummeted. The inflation-adjusted value of the minimum wage is lower in 2010 than it was in the 1960s. Deregulation has cut labor standards in airlines, trucking, telecommunications, and other traditionally well paying industries. Privatization of state and local government jobs, from school bus drivers to cafeteria workers to benefits administrators, have undermined workers' wages and benefits with few clear benefits to tax payers. Trade deals shaped by corporate rather than community needs have done tremendous damage to our national manufacturing base. A dysfunctional immigration system often pits immigrants with no legal rights against US-born workers with few options. And our social safety net is in tatters. We have an unemployment insurance system that is by international standards stingy and that must now rely on an increasingly hostile Congress to continue even the current level of benefits. We ended welfare as we knew it, but replaced it with a system that was not up to the task of the "jobless recovery" of the mid-2000s, let alone the serious challenges posed by the Great Recession.⁹

In both the short- and the long-run, fighting poverty means committing our country's resources to that fight. The first step is a large-scale stimulus program to breathe life back into a dying labor market. The most obvious options include: extending unemployment benefits, including assistance with COBRA payments;¹⁰ bailing out our recession-wracked state and local governments (the TARP offered three-quarters of a trillion dollars to Wall Street, our nation's teachers, police, and fire fighters don't deserve anything less); and direct job-creation programs in communities that have been hardest hit by the downturn.

Economic analysts from the White House, to the non-partisan Congressional Budget Office, to former

6 Jared Bernstein and Dean Baker, *The Benefits of Full Employment: When Markets Work for People*, Washington, DC: Economic Policy Institute, 2003.

7 For international comparisons of poverty and inequality, see Timothy Smeeding, "Poor People in Rich Nations: The United States in Comparative Perspective," Luxembourg Income Study Working Paper Series No. 419, October 2005; and, David Brody, Andrew Fullerton, and Jennifer Moren Cross, "Putting Poverty in Political Context: A Multi-Level Analysis of Working-Aged Poverty Across 18 Affluent Democracies," Luxembourg Income Study Working Paper Series No. 487, July 2008.

8 The achievements of the 1960s were especially impressive given that, even at the end of the 1960s, GDP per person was only about *half* of what it is today.

9 John Schmitt, "Inequality as Policy: The United States Since 1979," Center for Economic and Policy Research Briefing Paper, October 2009. <http://www.cepr.net/documents/publications/inequality-policy-2009-10.pdf>

10 The unemployment insurance system should also be modernized and expanded to allow for "work sharing" arrangements that would allow employers to reduce hours, rather than lay workers off. See: Dean Baker, "Work-Sharing: An Effective Tool Against Chronic Unemployment," Testimony before the Congressional Black Caucus, March 17, 2010, <http://www.cepr.net/documents/testimonies/baker-workshare-2010-03-17.pdf>

John McCain adviser Mark Zandi all tell us that the February 2009 stimulus package has created millions of jobs. Without those measures, poverty would have increased even more than it did in 2009.¹¹ But, we now know that the stimulus program put forth in early 2009 was just not big enough. The single most important step we could take to combat poverty in 2011 is to implement a large-scale stimulus and jobs program today. Once the labor market is generating jobs fast enough to lower the unemployment rate, the next challenge will be to restructure the labor market so that it once again channels the benefits of growth to workers and their families.

11 See Elise Gould and Heidi Shierholz, "A lost decade: Poverty and income trends paint a bleak picture for working families," Economic Policy Institute, September 16, 2010 http://www.epi.org/publications/entry/a_lost_decade_poverty_and_income_trends/; and Robert Greenstein, "Statement on Census' 2009 Poverty and Health Insurance Data," Center on Budget and Policy Priorities, September 16, 2010 <http://www.cbpp.org/files/9-16-10pov-stmt.pdf>.