

**After the Great Recession:
Poverty, Inequality and Public Policies**

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Innovative Programmatic and Policy Responses
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Outline

1. The Historical Context: from a golden age of shared economic prosperity to a gilded age of rising inequality
2. The Great Recession exacerbates already-large inequalities
3. The Current Context and dim prospects for reform

The Golden Age: A Rising Tide Lifts All Boats, 1947-73

- Rapid Economic Growth, modest recessions
- Rapid wage growth for all workers
- Spread of employer-provided health insurance & pensions
- Minimum wage rises relative to inflation
- Rapidly falling poverty
- Slowly falling income inequality

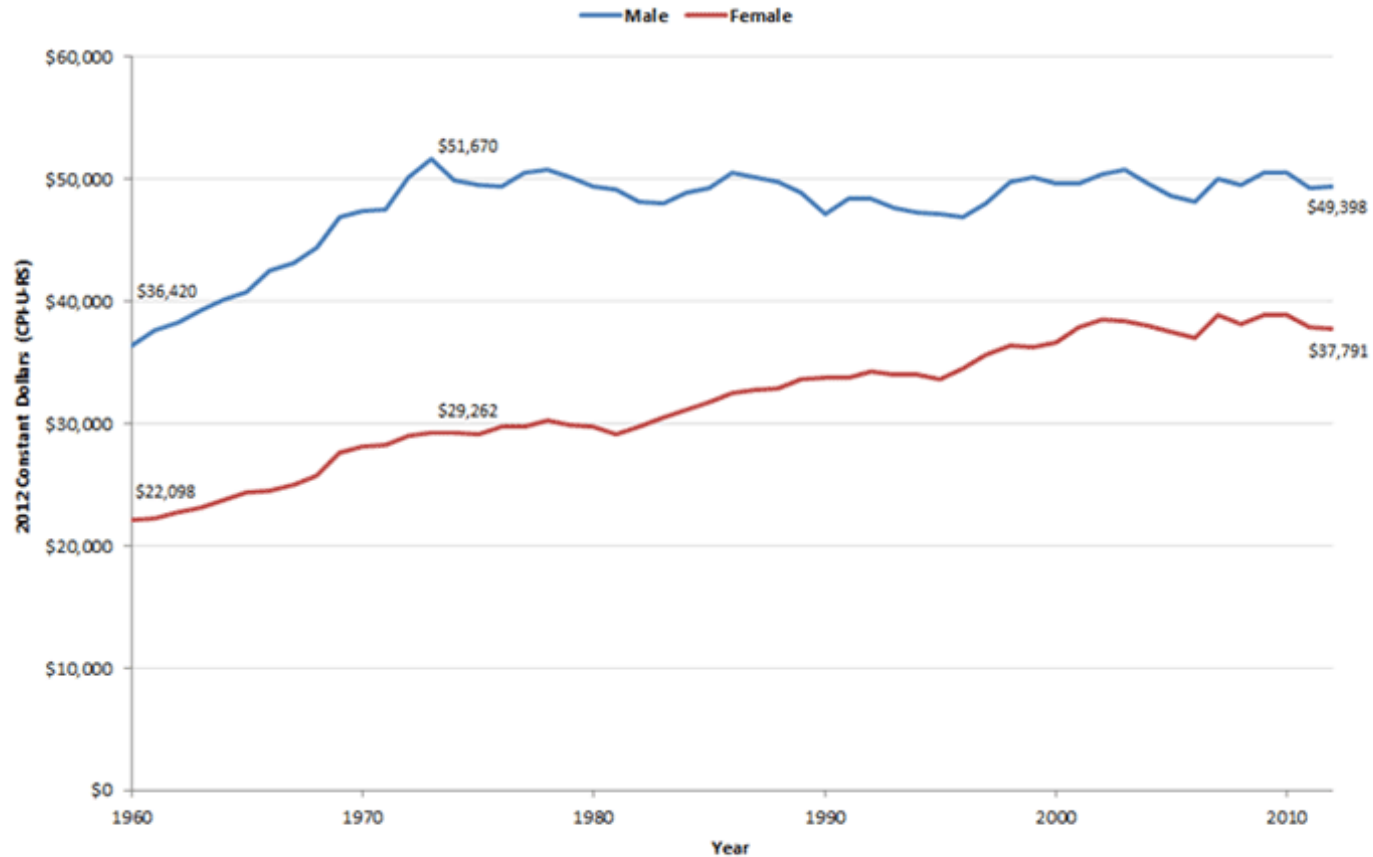
The Post-War on Poverty Decade

- A golden age of social program growth at the end of a golden age of economic growth.
- Optimism about government's ability to solve complex social problems.
- Willingness to spend federal funds to reduce poverty and promote opportunity in the face of state and local opposition (a) in social spending: first major federal spending on education programs and (b) enforcement of civil rights

A Gilded Age of Rising Inequality 1973-present

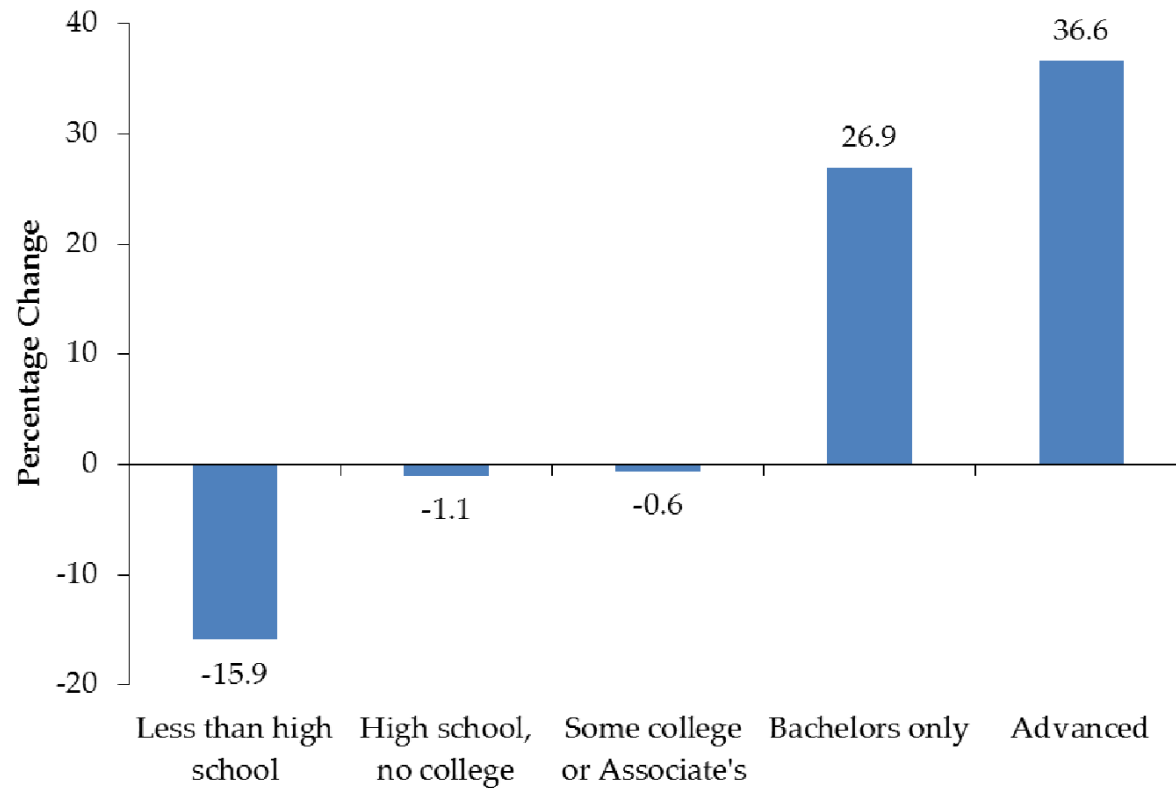
- Poverty rises above 15% during severe recessions of early 1980s, milder recession in early 1990s, and Great Recession of 2007-09
- Poverty falls during recoveries, but not to 1973 level
- Less-educated workers & median male worker no longer benefit much from economic growth
- Inequality increases rapidly
- Effective safety net only for elderly

Median Earnings, Full Time, Year Round Workers, 1960 - 2012 (inflation-adjusted)



Source: U.S. Census Bureau

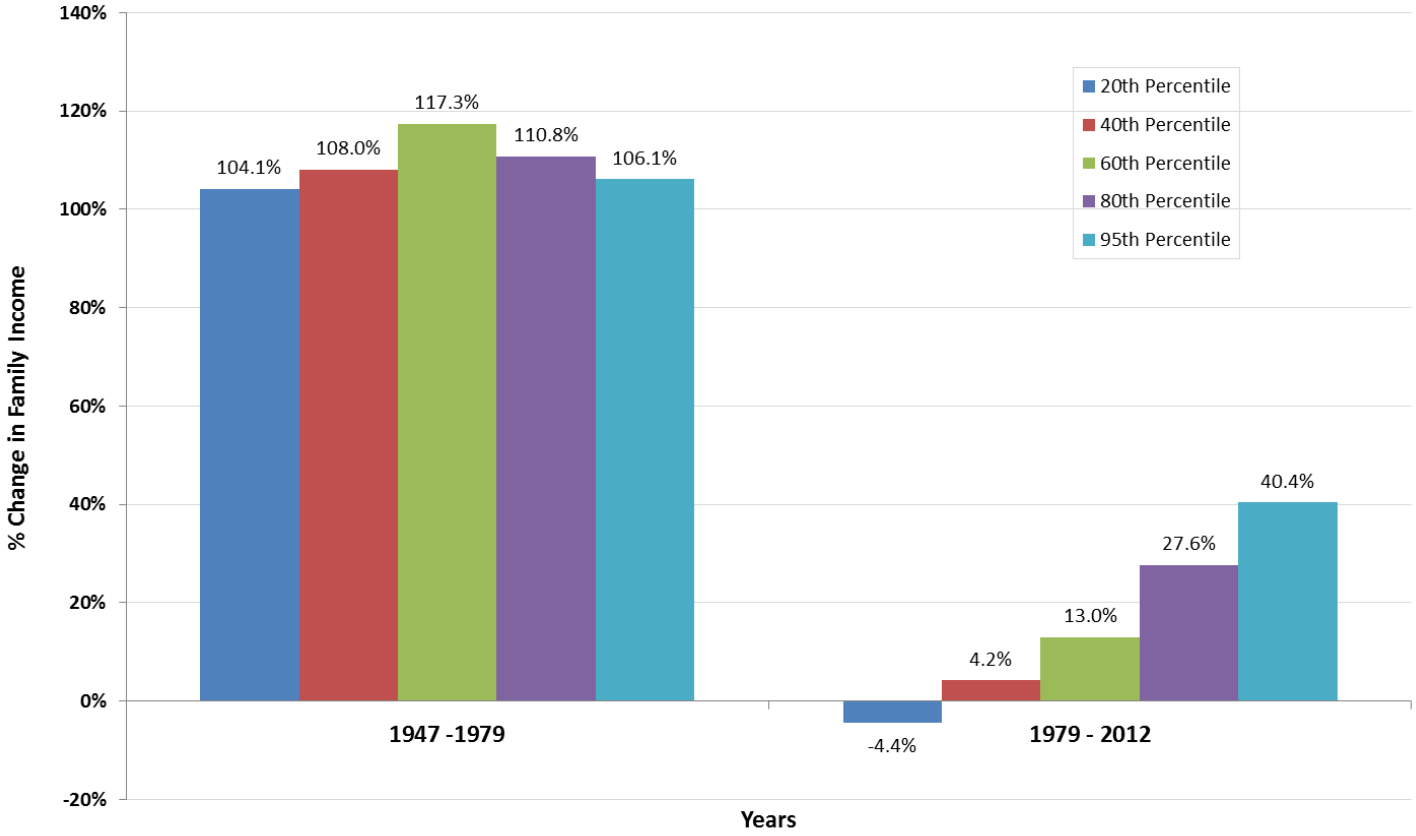
Real Median Weekly Earnings by Educational Attainment* Percent change 1979 - 2010



Source: Census Bureau

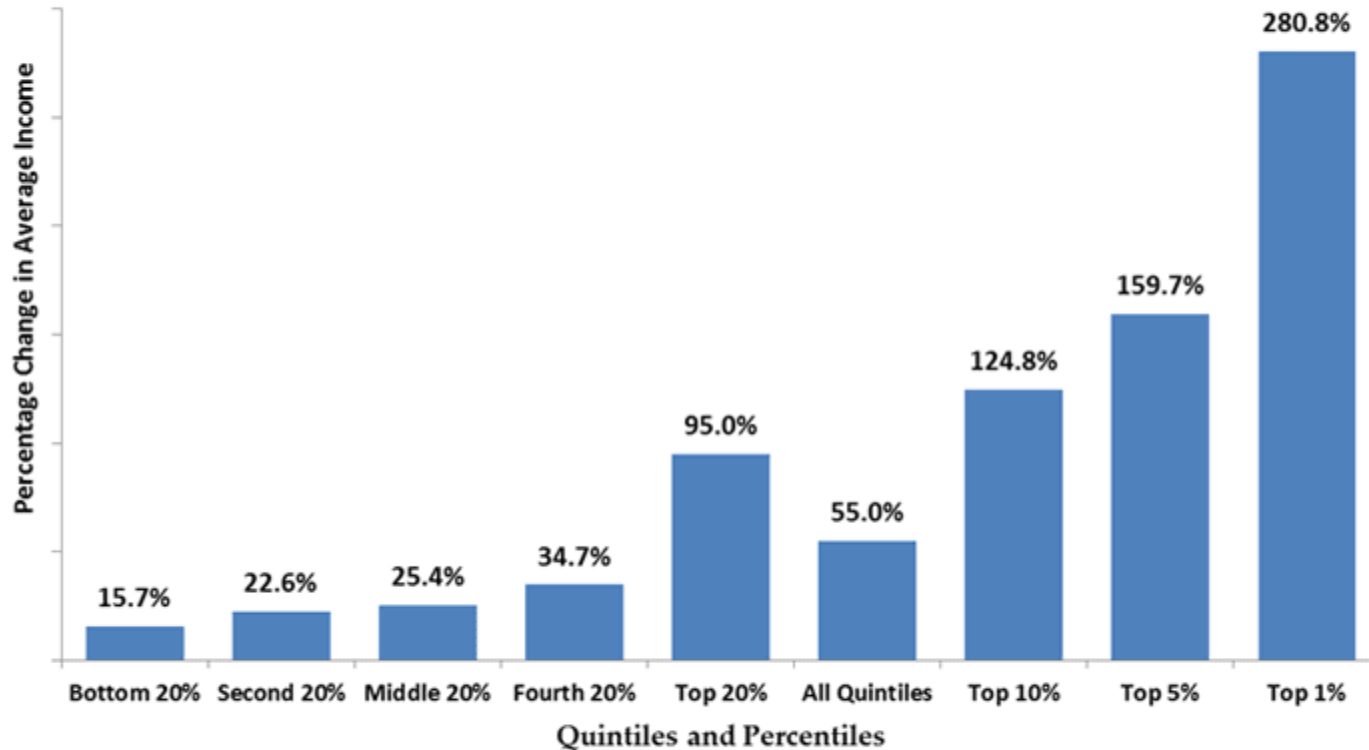
*For full time wage and salary workers, deflated by the PCE deflator

Change in Family Income (inflation-adjusted) at Selected Points in the Distribution



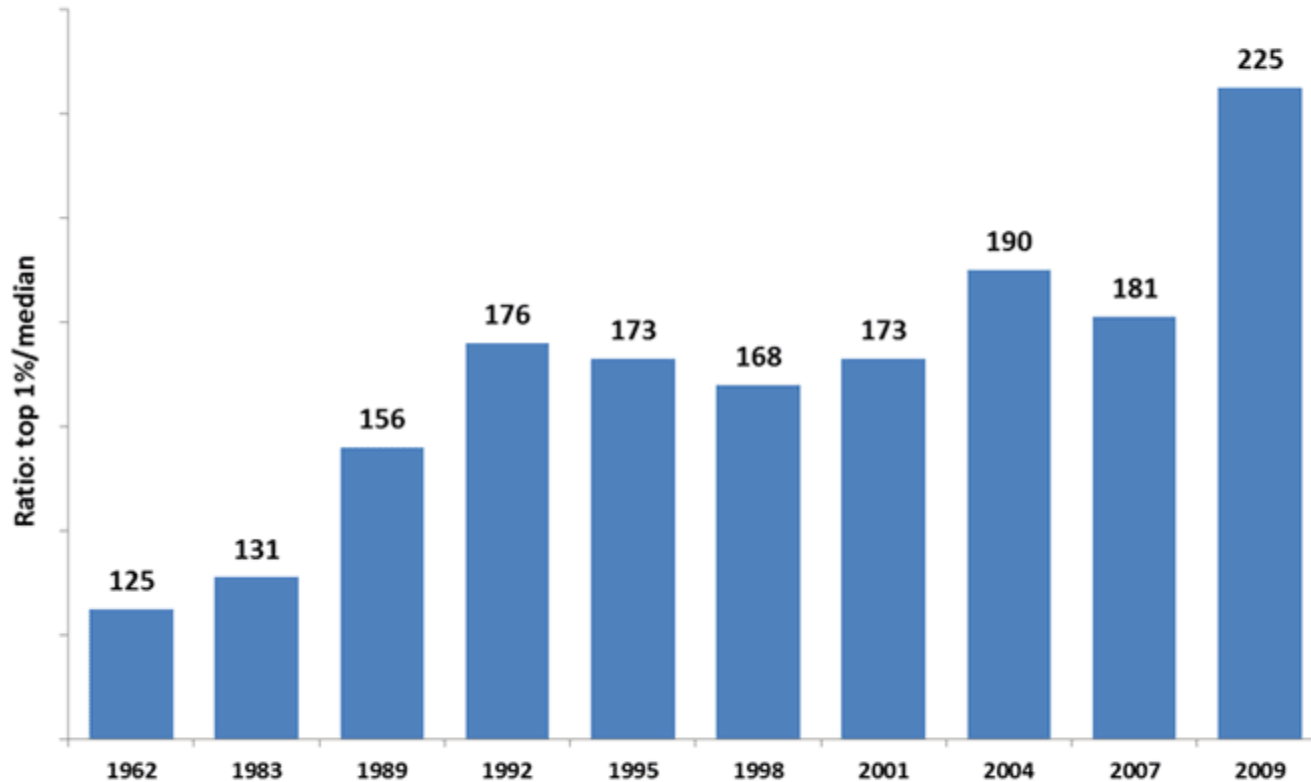
Sources: U.S. Census Bureau, Table F-1. Income Limits for Each Fifth and Top 5 Percent of Families, from Historical Income Tables.
Retrieved from: <http://www.census.gov/hhes/www/income/data/historical/index.html>

Percentage Change in Average After-Tax Household Income between 1979 and 2007 by Quintiles and Top Percentiles (in 2007 \$)



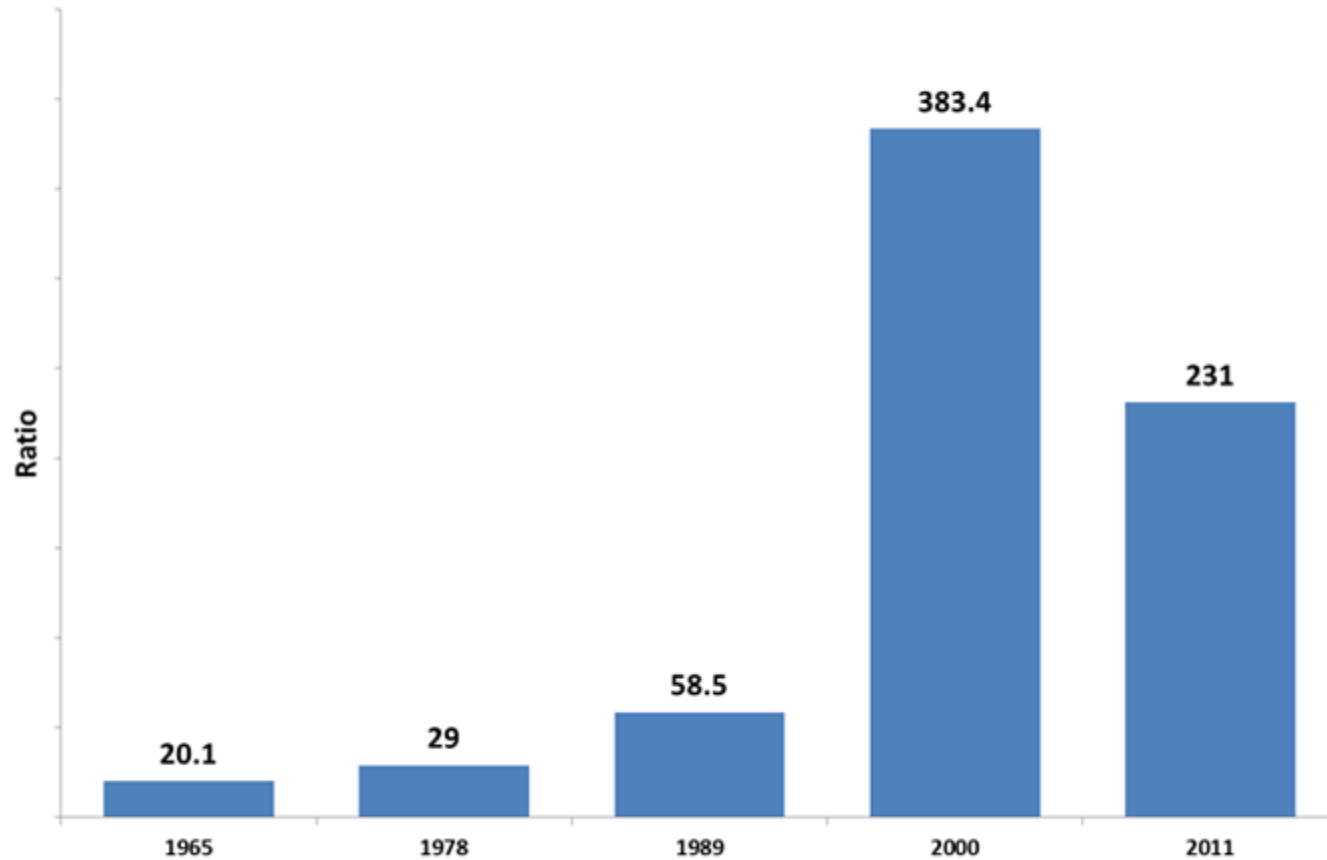
Data Source: Congressional Budget Office. June 2010. *Distribution of Federal Taxes: Average Federal Tax Rates and Income, by Income Category (1979-2007)*. [Available at <http://www.cbo.gov/publications>].

Wealth of the Wealthiest 1% Compared to that of the Median Household, 1962 - 2009



This figure shows the ratio of the average wealth of the wealthiest 1% compared to the median American household's wealth. Source: Allegretto, Sylvia. 2011. "The State of Working America's Wealth, 2011." Economic Policy Institute Briefing Paper #292

CEO-to-worker compensation ratio, selected years, 1965 - 2011



Source: Economic Policy Institute

Failure of Economy, Not Safety Net: Poor would be worse off without War on Poverty

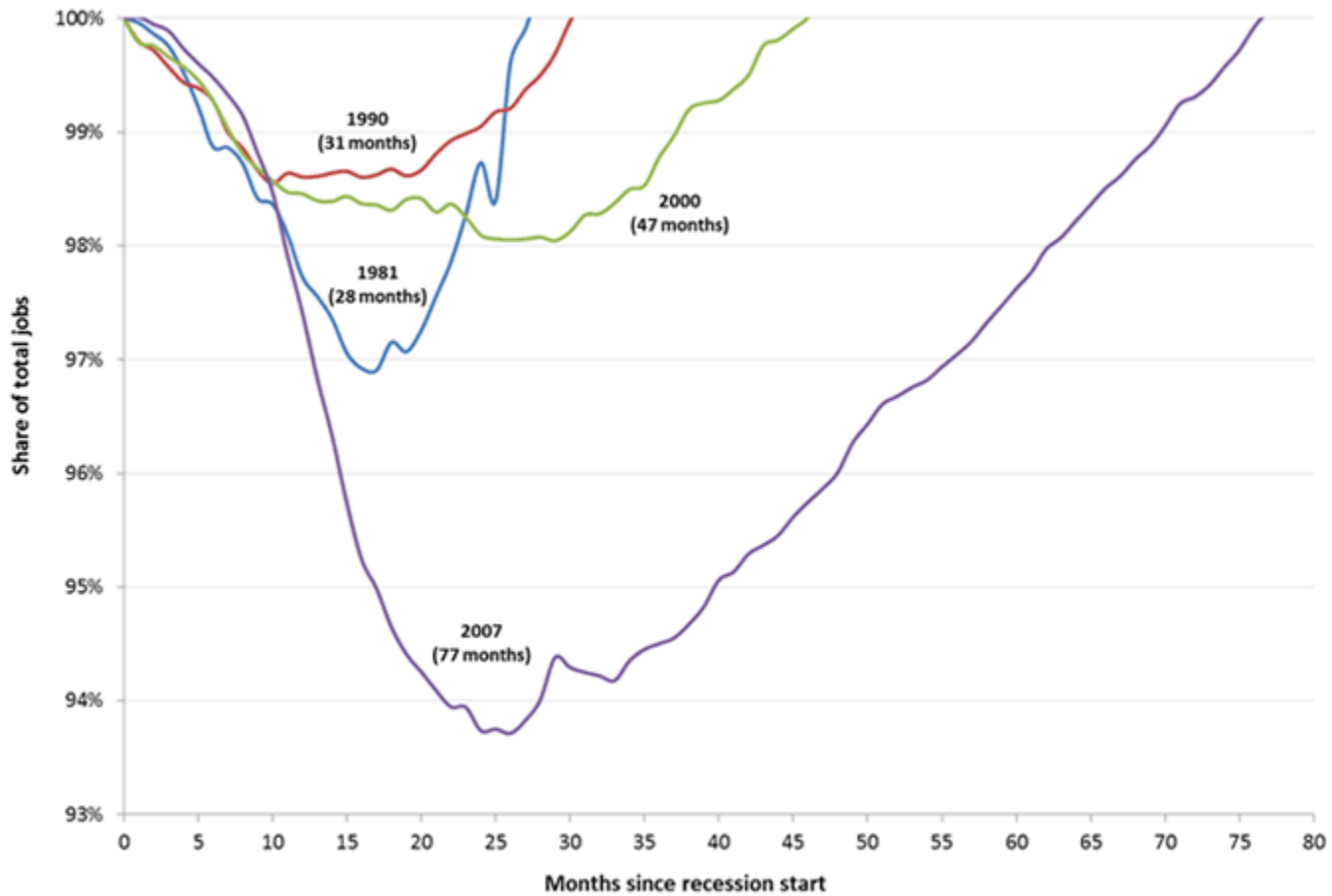
Real wages of median worker are no longer correlated with productivity increases due to:

- Skill-biased technological changes
- Globalization of markets
- Decline in unionization
- Erosion of the minimum wage
- Declining progressivity of federal income tax
- Explosion of Executive Pay and the size of the financial sector

The Great Recession: A Primer

- Great Recession was longer than most recent recessions--from December 2007-June 2009; it was also deeper than most--~6% of all jobs were lost rather than~ 3%
- Simultaneous housing market collapse, financial crisis & labor market crisis
- Stimulus worked: The American Recovery & Reinvestment Act & actions by the Federal Reserve & other policies prevented another “Great Depression” and reduced poverty and unemployment
- Current austerity policies contribute to high poverty and unemployment rates

Indexed Job Loss for Four Prior Recessions



Source: Economic Policy Institute's analysis of Bureau of Labor Statistics data, Current Employment Statistics public data series.

Federal Government Actions

- Prevented failure of major financial institutions
- Stimulated consumer spending
- Provided funds to state & local governments to keep them from laying off even more workers
- Protected incomes & health insurance of laid-off workers

ARRA Expansions Kept 7 million Out of Poverty

- Expansion of Unemployment Insurance benefits (from 26-99 wks depending on state unemployment rate); Emergency UI & Extended UI benefits
- Increased Food Stamp benefits
- Make Work Pay Tax Credit
- Expanded Earned Income Tax Credit for larger families
- Expanded Per Child Tax Credit for lower-income families

TANF Emergency Fund (2009-10)

- 37 states subsidized ~ 250,000 jobs; ~ 1/2 for summer youth; 1/2 for adults year-round
- Jobs in private, nonprofit & public sector
- Some states covered 100% of wages; others provided partial subsidy
- Oklahoma example: 100% of wages in 1st month for wages up to \$12 per hour; 50% of wages in months 2-4. If worker stays for 10 months, remaining %50% is paid for months 2-4

Economists on the both the right and the left agree that the stimulus worked

The combination of increased federal purchases and benefits raised output and income...Stimulus worked in the sense that the recession would have been substantially worse without the stimulus... *Robert Hall. Stanford, Fall 2010, Daedalus*

...fiscal policy sits idle, paralyzed by extreme partisanship, tarred by a successful public relations campaign against the 2009 stimulus bill and consumed by fears of large budget deficits. Our real deficit problem...lies in the future, not the present. *Alan Blinder, Princeton, Oct. 25, 2010, Wall St. Journal*

Robert Hall on Fiscal Stimulus

- Federal spending was offset by state and local spending reductions—“a greater effort...would have served the purpose”
- Balanced budgets of state & local governments made situation worse
- Federal benefits offset a substantial part of decline in personal income; raising UI benefits generates more consumption than a general tax cut

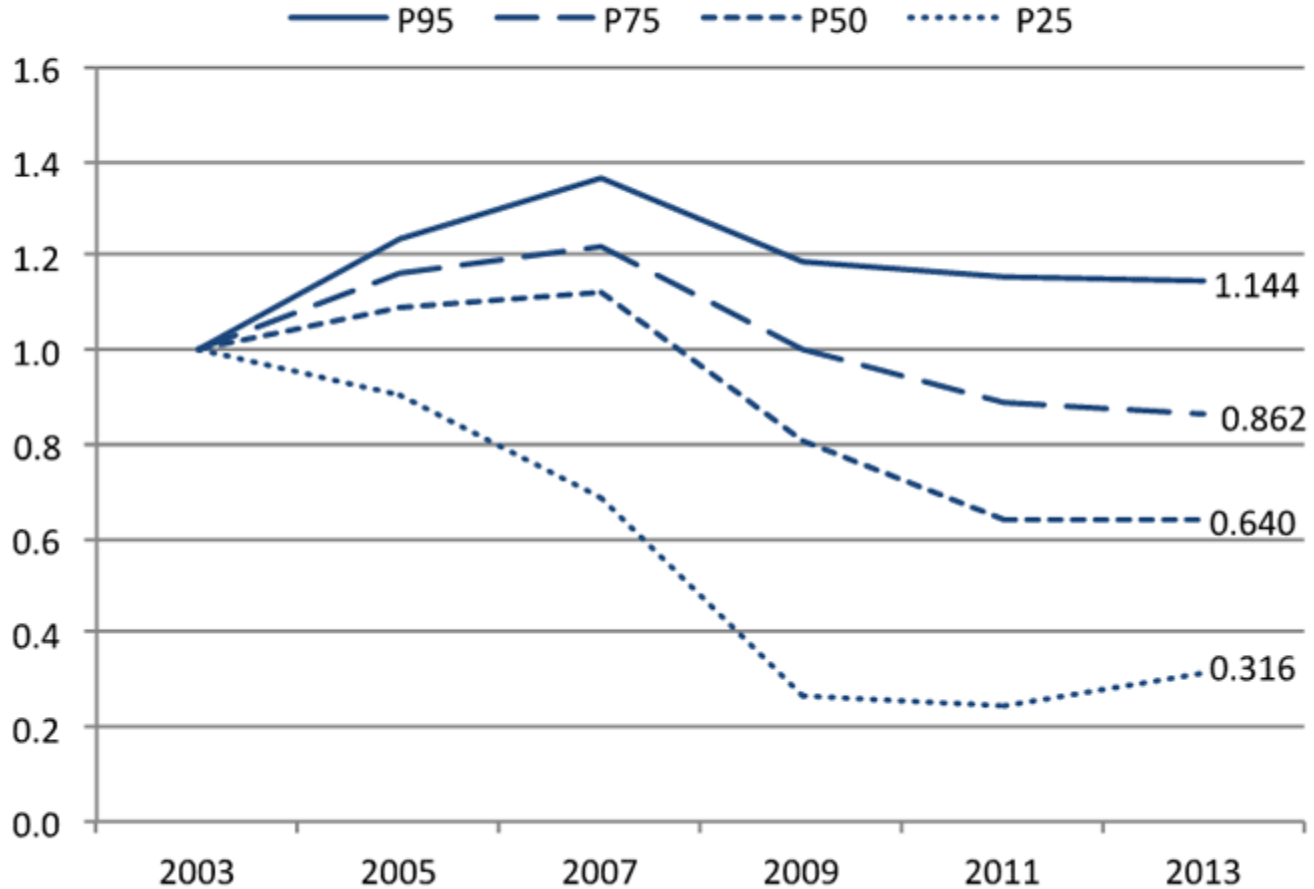
Alan Blinder on Policy Paradox

- Too little public intervention contributed to collapse
- Too little stimulus slowed recovery
- TARP & other Federal reserve policies were a success
- These successes triggered a backlash against activist monetary and fiscal policies

Current Economic Climate

- Unemployment still high 5 years into recovery, despite many months of job growth—could take several more years to reach 2007 labor force participation rate
- Real wage growth unlikely for less-educated
- Income & wealth inequalities at high levels
- States still cutting social programs and public sector jobs
- Deficit Mania threatens safety net as we know it; inability to increase public spending, even on infrastructure

Total Net Worth Relative to 2003, PSID



Broad Goals for Antipoverty Policy

1. Reduce Barriers for the poor and near-poor to Quality Education, Health Care and Housing
2. Raise Employment and Earnings
3. Supplement Low Wages via Earned Income Tax Credit and other refundable tax credits (per child credit; day care credit)
4. Safety Net changes for long-term disconnected and unemployed who no longer receive cash welfare
5. Raise revenue progressively to pay for expanded policies
6. Implement policy changes effectively

Modest Policy Recommendations

- Establish a subsidized jobs of last resort program for long-term unemployed, welfare recipients, those disconnected from both work & welfare
- Expand EITC for childless low-wage workers
- Raise minimum wage
- Maintain Food Stamps (SNAP) as federal program
- Raise taxes on the rich

Responses to Safety Net's Critics

- Labor market changes, not failure to take available jobs, are primary reason poverty and unemployment remain high
- Safety net programs reduce poverty without large distortions in work and family choices
- Modest tax increases reduce poverty and inequality without disrupting the market economy