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The Right Choices to Cut Poverty and Restore Shared Prosperity

Half in Ten Annual Report *November 2012*

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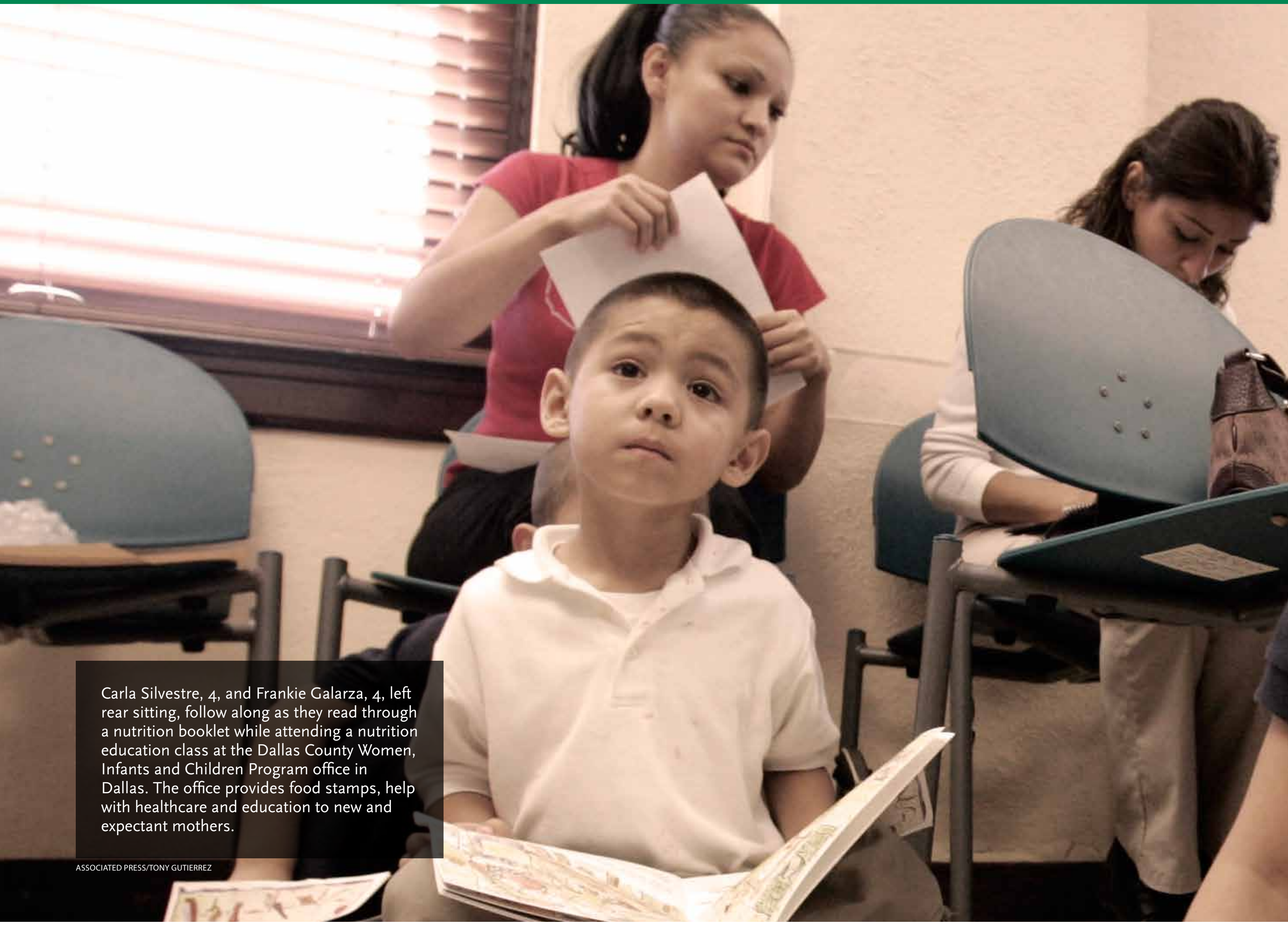
Introduction and summary

By Erik R. Stegman and Melissa Boteach



Carla Silvestre, 4, and Frankie Galarza, 4, left rear sitting, follow along as they read through a nutrition booklet while attending a nutrition education class at the Dallas County Women, Infants and Children Program office in Dallas. The office provides food stamps, help with healthcare and education to new and expectant mothers.

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In 2011 the official poverty rate in the United States was 15 percent, statistically unchanged from 2010. This means that 46.2 million people—or nearly one in six Americans—lived below the official poverty line of $23,018 a year for a family of four.

Make no mistake—this lack of progress is not an accident. Widening income inequality over the past 40 years, the proliferation of low-wage work with poverty-level wages, and conservative obstructionism on creating jobs are stalling progress on advancing our goal of cutting poverty in half in 10 years.

None of these trends is inevitable. We have the tools to make significant gains in reducing U.S. poverty—a goal that, if achieved, would bring millions of Americans into the middle class, grow our economy, and enhance our economic competitiveness. We have the resources to accomplish this goal even as we tackle our long-term deficits.[1] *Whether or not we achieve our target is a matter of political and public will and the choices we make.*

The policy decisions ahead of us over the next year represent fundamentally different visions of what makes a strong and prosperous America. As our leaders determine how to move forward, austerity policies that continue to weigh on low-income families will severely harm our economy in the long run, shortchanging our future workforce and reducing our economic competitiveness. Cutting the federal deficit doesn't have to happen at the expense of our country's most vulnerable citizens. In fact, bringing more families into the middle class is essential to cutting the deficit in the long term and returning America to a sustainable and prosperous future.

Half in Ten believes an alternative vision is possible—a path that prioritizes the creation of good jobs, supports strategies to strengthen families and communities, and provides greater economic security and opportunity by investing in education and workforce training, nutrition assistance, health care, affordable housing, and asset building for vulnerable families. These investments are possible in the context of long-term deficit reduction if we ask everyone to pay their fair share, curb system-wide long-term health care costs, and make strategic cuts in our defense spending that do not jeopardize our national security.[2] By bringing people off of the economic margins and investing in their participation in shared economic prosperity, this plan will stabilize our long-term fiscal outlook, creating more taxpayers and greater economic growth.

Which path we take will determine whether or not we make progress on our goal of cutting poverty in half in 10 years. In 2011 Half in Ten started the clock, establishing a baseline for this goal and tracking progress along several indicators of success.[3] Each indicator tells us something important about the economy, public policy, and families struggling to make it. Each indicator's movement over the long term will depend on the policy choices we make at this critical point in our nation's history. Below is a summary of some of the most important findings from this year's analysis of our indicators of poverty.

As our economy grew, so did income inequality

One of the most troubling findings from this year's data was the growth of income inequality. Even though the Great Recession ended three years ago, the gains of this recovery remain unshared. While incomes in the top 5 percent grew in 2011, the poverty rate did not budge that year and middle-class incomes declined.[4]

Income inequality is a new indicator for this year's report and shows that the top 20 percent of Americans take more than half of all income in the country (51.1 percent), with the top 5 percent alone earning 22.3 percent of income. In contrast, the bottom 20 percent brought in only 2.3 percent of all income, while the middle 60 percent captured only 45.7 percent of all income.[5]

Stagnant service incomes and the need for an improved minimum wage

The rise of income inequality hit workers in service occupations especially hard. Median weekly earnings for a full-time worker in service occupations in 2011 were $486, or about $24,300 annually. Adjusted for inflation, there was little or no change in service occupation pay between 2010 and 2011, or for that matter, since 2000.[6] This proliferation of low-wage employment with over a decade of stagnant wages that do not keep up with the cost of living works against our future economic prosperity because it leaves few options as a pathway into the middle class and puts further strains on family economic security.

Stagnant wages point again to the importance of strong federal policies. One important way that Congress can improve the economic security of low-wage service workers is by adopting provisions in the Rebuild America Act that would increase the federal minimum wage to $10 an hour and adjust it automatically each year for changes in the cost of living. The federal minimum wage used to be half the average wage, but now it has fallen to one-third of the average wage.

John Clark, right, plays with his son Logan Burban, 5, at their home, in Las Vegas. After two years of living with long-term unemployment,Clark, an ironworker, has gone back to school in hopes improving his family's life.

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Unemployment insurance is a critical foundation to recovery

When family breadwinners lose their jobs through no fault of their own, unemployment insurance helps keep their families out of poverty. In fact, in 2011 unemployment insurance kept more than 2.3 million people out of poverty—fewer than in 2010, when 3.2 million people were lifted above the poverty line.

Unfortunately, a premature pullback in unemployment insurance between 2010 and 2011 probably dampened the powerful antipoverty effects of this program. According to the nonpartisan Center on Budget and Policy Priorities, there was a $36 billion inflation-adjusted decline (approximately 25 percent) in unemployment insurance payments from 2010 to 2011. This was due in part to the positive trend of people finding jobs, but unfortunately many people "timed off" benefits, meaning they exhausted their benefits before finding a new job, leaving them with no income support or employment.[7]

In addition, more than a quarter of the decline, resulted from the expiration at the end of 2010 of the Federal Additional Compensation Program, an initiative that was part of the American Recovery and Reinvestment Act of 2009 (The Recovery Act) that provided an additional $25 per week in unemployment benefits. This pullback is one key reason the poverty rate did not budge in 2011 despite a strengthening economy.

The importance of tax credits and nutrition assistance for working families

Although the traditional poverty indicator held steady this year after several years of getting worse, it didn't take into account some of the most important policy steps enacted by the Obama administration to alleviate hardship and provide a pathway back to the middle class for America's families. The American Recovery and Reinvestment Act included an expansion of the earned income tax credit and the child tax credit for working families. These expansions included making sure more earnings of low-wage workers were included in calculating their child tax credit, providing a larger earned income credit to families with 3 or more children and reducing the marriage penalty so as to not penalize formation of married-couple families.[8]

Unfortunately, the expansion of these two tax credits is set to expire at the end of the year. If Congress fails to act, millions of hard-working low-income families could be pushed into poverty or experience far deeper poverty than they already do. Overall, the entire earned income tax credit kept 5.7 million people above the poverty line in 2011.[9]

Nutrition assistance was the other untold success story in this year's data. It played a major role in keeping people out of poverty, preventing a significant increase in the share of families struggling against hunger. Between 2007 and 2008, as our economy worsened in the run-up to the Great Recession, there was a big jump in household food insecurity. Yet as the official poverty rate rose dramatically between 2008 and 2009, food insecurity—a key indicator of family hardship and deprivation—did not.

This stability can be attributed in part to the expansion of the Supplemental Nutrition Assistance Program in the Recovery Act, which helped families afford food even as their incomes dropped. In fact, counting this nutrition aid as income would have lifted 3.9 million people above the poverty line in 2011.[10]

Health coverage on the rise due to early effects of the Affordable Care Act

One area where we saw some very promising progress was the health insurance coverage rate. The percentage of people without health insurance coverage went down this year, falling to 15.7 percent in 2011 from 16.3 percent in 2010. Signed into law by President Barack Obama, the Patient Protection and Affordable Care Act of 2010 (The Affordable

Care Act) significantly expanded health care coverage for low-income Americans. This number only shows the early effects of the Affordable Care Act. In just over a year, other parts of the law will kick in and provide affordable health care access to millions of other Americans due to the law's premium tax credits and cost-sharing subsidies. Millions of lower-income Americans will also gain access to Medicaid.[11]

Further expansion of coverage for those living in poverty, however, is under threat. A number of governors across the country are refusing new Medicaid funding provided under the Affordable Care Act, which is given to states to pay for almost all the new costs. The law's expansion of Medicaid, if fully implemented, would provide an additional 17 million poor and uninsured Americans with access to the program.

What's more, the House Republican budget proposes Medicaid cut of $810 billion over 10 years by turning the program into a block grant to the states. Combined with an additional proposal to repeal the Affordable Care Act, over 30 million low-income Americans could lose Medicaid coverage.

While our economy is still in a fragile state of recovery, expanding access to health care for millions of Americans will put us on track to rebuild a prosperous economy and help us reduce the deficit in the future by curbing long-term health costs. Repealing the Affordable Care Act and rejecting its most important poverty-fighting attributes is the wrong way to go.

The choices ahead: Poverty reduction is central to long-term deficit reduction

These are only some of the key findings from our review of this year's poverty indicators. In the pages ahead, we take a much more in-depth look at each of our 21 indicators and explain whether they are moving in the right or wrong direction. Our first chapter tracks broad poverty indicators to gauge our overall progress in cutting poverty. The second chapter takes a closer look at the indicators that track how well we're doing at both creating good-quality jobs and training our citizens to thrive in them. The third chapter looks at what it takes to ensure strong and cohesive families. Finally, our last chapter examines the economic security of America's families and highlights the policies that help them enter and stay in the middle class.

Now, more than ever, we are faced with serious choices about how to restore prosperity in the American economy and who gets to take part in it. Although deficit spending must be reduced in the long run to bring our economy forward, this report demonstrates that low- and middle-income families have shouldered

First graders Phantasia O'Neal, left, and Debbie Smith spend time reading in their class at Uniontown Elementary School in Uniontown, Ala.

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and continue to bear the greatest burden in the aftermath of the Great Recession.

Our broad base of federal programs such as nutrition assistance and unemployment insurance have been successful. But these programs cannot continue to help families get out of poverty and into the middle class when they are being cut at the time they are most needed.

One path ahead, as articulated by conservatives, is to offer additional tax cuts for millionaires while slashing investments that bring people into the middle class. The federal budget passed by Republicans in the House of Representatives (but blocked by a majority in the Senate) went so far as to get nearly two-thirds of the cuts from programs helping low-income Americans.[12]

Slamming the poor, however, also slams the brakes on our economy. Leaving people on the economic margins reduces the number of consumers for American goods and services, and limits the potential of children who could be our next great entrepreneurs. In fact, child poverty lost our economy more than half a trillion dollars a year in increased health care costs, worse educational outcomes, lower worker productivity, and increased criminal justice expenditures.[13]

In short, by slowing our economic growth, increasing poverty hurts our long-term fiscal outlook.

Overall, we still have a long way to go toward meeting our goal of cutting poverty in half in 10 years. But, as we note above, these indicators point us to the policy solutions that work—those that are necessary for strengthening our economy, reducing poverty, and cutting the deficit at the same time. We just have to make the right choices.

Endnotes

1 Michael Ettlinger, Michael Linden, and Seth Hanlon, "Budgeting for Growth and Prosperity: A Long-Term Plan to Balance the Budget, Grow the Economy, and Strengthen the Middle Class" (Washington: Center for American Progress, 2011), available at http://www.americanprogress.org/issues/2011/05/budgeting_for_growth.html.

2 Ibid.

3 Half in Ten, "The right choices to cut poverty and restore shared prosperity" (2011), available at http://www.halfinten.org/indicators/publications/2010report.

4 Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, "Income, Poverty, and Health Insurance Coverage in the United States: 2011" (Washington: U.S. Census Bureau, 2012).

5 Ibid.

6 Bureau of Labor Statistics, *Current Population Survey* (U.S. Department of Labor), available at http://www.bls.gov/cps/cpsaat39.htm.

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9 U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage: 2011* (Department of Commerce, 2012).

10 U.S. Census Bureau, *Table 5. Percent of People by Ratio of Income to Poverty Level* (Department of Commerce), available at http://www.census.gov/hhes/www/poverty/data/historical/people.html; Economic Research Service, *Household Food Security in the United States* (U.S. Department of Agriculture, 2007, 2008, 2009, 2010, and 2011).

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13 Harry Holzer, "Penny Wise, Pound Foolish: Why Tackling Child Poverty During the Great Recession Makes Economic Sense" (Washington: Half in Ten and Center for American Progress, 2010), available at http://www.americanprogress.org/issues/2010/09/hit_child_poverty.html.

The Half in Ten campaign is a project of the Center for American Progress Action Fund, the Coalition on Human Needs, and The Leadership Conference on Civil and Human Rights. It is dedicated to building the political and public will to cut the U.S. poverty rate in half in 10 years. The campaign builds on the work of the Center for American Progress's 2007 Task Force on Poverty, combining evidence-based policy recommendations with strategic building of networks, spokespeople, and opinion leaders in communities to amplify the call to reduce poverty in America. Our approach is grounded in four fundamental principles: creating good jobs, promoting economic security, strengthening families, and cutting poverty in half in 10 years.

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