THE POVERTY AND INEQUALITY REPORT

The Stanford Center on Poverty and Inequality

The Stanford Center on Poverty and Inequality (CPI), one of the country's three federally-funded poverty centers, is a nonpartisan organization dedicated to monitoring trends in poverty and inequality, examining what is driving those trends, and developing science-based policy on poverty and inequality. We present here our first annual report documenting trends across seven key domains and evaluating how the country is faring in its efforts to reduce poverty and inequality and equalize opportunity.

The purpose of establishing this annual series of reports is to ensure that the key facts on poverty and inequality enjoy the same visibility as other indicators of the country's health. As it stands, there are all manner of analyses that focus on particular aspects of poverty and inequality, including excellent studies that take on separately such issues as employment, income inequality, wealth inequality, health inequality, or educational access. This report instead provides a unified analysis that brings together evidence across seven key domains, thereby allowing a global assessment of where problems exist, where achievements are evident, and how a coordinated effort to reduce poverty and equalize opportunity might be undertaken. In future years, we plan to expand the domains that we cover, and we also hope that many states and cities will join in this annual assessment of how we are faring on core poverty and inequality indicators.

Methodology

For each domain, top experts in the country have been asked to report on current conditions, the objective being to crisply characterize the best and most current evidence available. As a summary of their results, Table 1 presents *some* of the indicators relevant to the analyses, with a more detailed description of sources and definitions provided in the individual chapters. The rankings in Table 1 allow us to assess how each indicator stacks up across the 13 years since 2000 (with a ranking of 13th meaning that the current year is the very worst over this period).[1]

The Big Picture

What, then, are the main conclusions of this report? It is difficult not to be struck by the sheer number of indicators in Table 1 for which the current year is one of very worst over the period we have covered. If an overall assessment is to be had, it is that *the country's economy and labor market remain in deep disrepair, whereas our various post-market institutions (e.g., the safety net, educational institutions, health institutions) have a mixed record of coping with the rising poverty and inequality that has been handed to them by a still-struggling economy and labor market.* The latter conclusion holds across a variety of indicators. For example, we will show that the economy continues to fall well short of providing enough jobs, whereas the safety net has "stepped up" by supplementing at least some of the foregone earnings and raising many above the poverty threshold. Although the safety net thus deserves credit for responding well to the jobs disaster, it still falls short of meeting all the rising need. It therefore deserves a mixed grade insofar as it is held to the very stringent standard of fully addressing the need that is generated even during times of profound economic distress.

The same characterization holds for the other post-market institutions that are covered in this report. As with the safety net, we again ask our health and educational institutions to perform rather the miracle, confronting as they do a population with high levels of poverty and inequality and all the health and educational problems that are thereby generated. This challenge has been met with only partial success. If one holds our health and educational institutions to the same high standard of fully rectifying the damage that the economy has wrought, then our report shows that they have fallen somewhat short and that much work remains to be done.

Key Findings

This simple theme, that of a failing economy and struggling post-market institutions, plays out across many of the domains examined here. Although we will review some of the relevant results, we of course encourage readers to explore the far richer display of evidence within each chapter.

A FAILING LABOR MARKET

- In November 2013, six years after the start of the Great Recession, the proportion of all 25-54 year olds who hold jobs (i.e., "prime age employment") was almost five percent lower than it was in December 2007, both for men and women alike. The ratio for men, currently at 82.7, is the 10th worst ratio over the last 13 years, while the ratio for women, currently at 69.2, is the 12th worst ratio over the last 13 years.

- The long-term unemployment rate for men and women alike is near the all-time high for the period since 2000.

Implication: Although the Great Recession ended over four years ago, the economy is still not delivering enough jobs. In the past, recoveries have not produced substantial employment gains beyond the sixtieth month after the recession began, a result that suggests that full recovery from the latest recession will likely not occur absent major labor market reform and intervention.

RISING POVERTY

- The official poverty rate increased from 12.5 percent in 2007 to 15.0 percent in 2012, and the child poverty rate increased from 18.0 percent in 2007 to 21.8 percent in 2012. The current poverty rates for the full population and for children rank among the very worst over the 13 years since 2000 (i.e., both are ranked 11th).

- The latter increases in poverty, although substantial, would have been yet larger had the effects of the labor market downturn not been countered with aggressive safety net programs. Absent any safety net benefits in 2012, the supplemental poverty measure would have been 14.5 percentage points higher.

Implication: 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. Although the latest recession was more extreme than these prior ones, the rise in poverty has nonetheless been partly held in check by a responsive safety net.

A RAMPED-UP SAFETY NET

- In 2012, safety net programs in the U.S. provided 32 percent of the support that low-income households needed to reach 150 percent of the official poverty line, a level of "poverty relief" that is the third highest in the 13 years since 2000 (and also the third-highest over the last quarter-century). This support level is only slightly lower than the all-time high of 36 percent reached in 2010 as the Great Recession ended.

- The safety net is increasingly fashioned to incentivize market work. As the Earned Income Tax Credit expanded in the early 1990s, households that increased their market earnings were better protected from sharp declines in their safety net support, a reform that ramps up the incentive to pursue market earnings. This rate of "relief falloff" has continued to grow gradually smaller up to the present day. As a result, our safety net is now better fashioned to incentivize market work, which is precisely the type of safety net that many people want.

Implication: The safety net responded reasonably well to the challenges of the Great Recession. It delivered substantial poverty relief during the Great Recession because (a) a recessionary labor market generates precisely the type of need (e.g., unemployment) that our safety net is relatively well equipped to handle, and (b) the safety net was also modified in ways that responded well to the particular demands of this recession (e.g., extended unemployment benefits).

RISING INCOME INEQUALITY

- The Great Recession increased the amount of income inequality, but not the amount of consumption inequality or the share of total income going to the top one percent.

- After the Great Recession ended in mid-2009, income and consumption inequality increased, thus resuming what has been a nearly relentless growth in inequality over the last 30 years. The lowest income quintile secured only 3.4 percent of total income in 2012. In the 1990s, it appeared as if the long-standing decline in the lowest quintile's share had been staunched, but that downward march has now resumed.

Implication: The equalizing effects of tax and transfer policy had a mild compressive effect on some forms of inequality in the Great Recession, but the longer-term trend towards growing inequality has resumed as more ambitious tax and transfer policies are relaxed. Likewise, the financial crisis had an initial compressive effect (by reducing returns on assets that were disproportionately held by the advantaged), but that effect dissipated as capital markets recovered after the crisis.

RISING WEALTH INEQUALITY

- Wealth inequality rose for the first time since the early 1980s. The Gini coefficient for 2010, the latest available year, is higher than any level recorded in nearly three decades.

- The Great Recession reduced the net worth of blacks and Hispanics much more than it reduced the net worth of whites.

Implication: The decline in house values during the Great Recession increased wealth inequality because houses are the main asset of less advantaged groups. Although there are *some* new "safety net" programs oriented toward rectifying such losses in wealth (e.g., the Home Affordable Modification Program), these programs evidently did less compressive work than those programs offsetting declines in market income (e.g., extended unemployment insurance). It follows that wealth inequality, unlike income inequality, was not well held in check by our post-market response.

A MIXED RECORD ON HEALTH INEQUALITY

- Although there is improvement in some key health indicators, there is moderate deterioration in others. For example, 9.8 percent of Americans reported that they were in poor or fair health in 2012, an increase of 0.6 percentage points since 1997.

- Economic, racial, and ethnic disparities in health outcomes are often substantial and are sometimes increasing. The proportion of Blacks and Hispanics, for example, who could not afford necessary care rose at a faster rate during the Great Recession than did the corresponding proportion for Whites.

- Since 2000, the proportion of Americans who have any health insurance coverage has declined (to 84.6 percent in 2012), although there has been a slight reversal in this decline since 2010. The proportion of children, however, who are insured has increased during this same period and is now at the highest level since 2000.

Implication: The decline in some health outcomes likely reflects recent increases in the poverty rate and the characteristically poorer health outcomes of those in poverty. It remains an open question whether future increases in health insurance coverage (under the Affordable Care Act) will reverse some of these trends. Because health outcomes are affected by many forces other than coverage alone, the sizable health disparities currently observed may be resistant to any dramatic change.

A MIXED RECORD ON EDUCATIONAL INEQUALITY

- The record on black-white educational inequality is mixed, with black-white disparities in academic achievement declining by approximately forty percent over the last four decades, while disparities in college completion have increased over the same period.

- The record on economic inequality is less favorable. The income gap, measured as the difference in average test scores between children whose families are at the 90th and 10th percentiles of the family income distribution, grew by forty percent across cohorts born in the early 1970s and late 1990s (although there are also hints of a more recent narrowing of this gap). This income gap is already very large when children enter kindergarten and grows only modestly thereafter.

Implication: Because income gaps are already well in place when children enter kindergarten, it is clear that out-of-school factors are implicated in their growth. The key open question is whether substantial headway in closing such gaps can nonetheless be made via school reform alone.

A Second War on Poverty?

The foregoing suggests a broadly deteriorating poverty and inequality landscape. As Table 1 summarizes, such deterioration is revealed across a host of key indicators, including prime-age employment, long-term unemployment, poverty, income inequality, wealth inequality, and even some forms of health inequality. The facts of the matter, when laid out so starkly, are quite overwhelming.

It is important to conclude by briefly discussing the choices that our country faces in addressing such rising poverty and inequality. Although one of our objectives is simply to document changes in poverty and inequality across a variety of domains, another is to ask whether the pattern of results tells us anything about how a second War on Poverty, were we to choose to wage one, might have the greatest chance of bringing about meaningful and permanent change.

The distinctively American approach is to blame our post-market institutions for the current state of affairs. The safety net is blamed for failing to make a dent in poverty; our schools are blamed for failing to eliminate income or racial disparities; and our healthcare institutions are blamed for poor health among the poor. We accordingly propose all manner of narrow-gauge safety net reforms, narrow-gauge school reforms, and narrow-gauge health care reforms; and we imagine that, if only we could find the right such reforms, all would be well.

We should of course commit to getting our post-market institutions right, but that very same critical scrutiny might also be applied to our economic and labor market institutions. The results presented here reveal an economy that is failing to deliver the jobs, a failure that then generates much poverty, that exposes the safety net to demands well beyond its capacity to meet them, that produces too many children poorly prepared for school, and that places equally harsh demands on our healthcare, penal, and retirement systems. These are profound downstream costs that are challenging and costly to address in a piecemeal institution-specific fashion. Although we should continue to tinker with each of these institutions to better meet the challenges that an ailing economy generates, it is worth considering whether a no-holds-barred commitment to job-delivering reform might be a more efficient and sustainable way forward.

These are of course big and complicated questions. The current tendency, unfortunately, is to shirk them altogether and move directly to piecemeal discussions about piecemeal reform. If our second war on poverty is to be a real war founded on a real commitment to win it, it is important that we step back and ask just such big questions, no matter how daunting they may be. ■

NOTE

1. For the labor market indicators, we have data extending into 2013. We have averaged values for 2012 and 2013 for this domain alone to make the number of observations (13) the same across domains and hence the rankings more nearly comparable. Also, the wealth inequality indicators only go up to 2010, thus for this domain a rank of 11th is the worst possible. In cases where there are ties across two or more years, our ranking algorithm assigns the best rank to the earliest year. We thank all of our contributors for sharing their data and especially thank Liana Fox, Irwin Garfinkel, Neeraj Kaushal, Jane Waldfogel, and Christopher Wimer for sharing their historical Supplementary Poverty series (see “Waging War on Poverty: Historical Trends in Poverty Using the Supplemental Poverty Measure,” 2013, CPRC Working Paper 13-02, http://cupop.columbia.edu/publications/2013). For methodological details on the measures, please consult the relevant domain reports.

TABLE 1. **Selected List of Poverty and Inequality Indicators by Domain**

Domain	Type of Measure	Subpopulation	Most Recent Value	Rank
Poverty	Official Poverty Rate	Full population	15.0	11
		Children	21.8	11
		Black non-Hispanic	27.0	11
		Hispanic	25.6	12
	Supplemental Poverty Rate (Hist.)	Full population	16.0	12
		Children	18.7	12
Labor Market	Official Unemployment Rate	Full population	7.8	10
		Men	8.0	10
		Women	7.5	10
		Black	13.5	10
		Hispanic	9.8	10
	Discouraged Workers (U-4 Rate)	Full population	8.3	10
	Marginally Attached (U-5 Rate)	Full population	9.2	10
	All Underutilization (U-6 Rate)	Full population	14.3	10
	Employment to Population Ratio	Men 25-54	82.7	10
		Women 25-54	69.2	12
		Black men 25-54	70.7	10
		Hispanic men 25-54	83.6	10
	Long Term Unemployment	Men	42.5	11
	(as percent of unemployed)	Women	41.5	11
		Black	45.1	11
		Hispanic	36.6	11
Safety Net	Poverty Relief Ratio	Full Population	0.32	3
	Baseline Relief	Full Population	3.77	3
	Relief Falloff	Full Population	-0.09	2
Income Inequality	Household Income Share	Lowest Quintile	3.4	13
		Second Quintile	9.0	13
	Gini Coefficient	Household Income	0.44	12
		Disposable Income	0.38	11
		Consumption	0.29	10
	Top 1 Percent Share	IRS	22.5	11
Wealth Inequality	Gini Coefficient (to 2010 only)	Net Worth	0.87	11
	Mean Net Worth (to 2010 only)	Black/White	0.14	11
		Hispanic/White	0.15	11
Health Inequality	Poor or Fair Health	Poor/Rich	5.39	12
		Near Poor/Rich	4.07	12
		Middle Class/Rich	2.36	13
	Asthma (from 2001 only)	Black/White	2.03	10
		Hispanic/White	1.11	10
	Insurance Coverage	Full Population	0.85	10
		Children	0.91	1
	Delayed Care	Full Population	0.11	9
	Foregone Care	Full Population	0.08	9
		Black	0.12	9
		Hispanic	0.11	9

ROSTER OF EXPERTS

Sarah Burgard, Associate Professor of Sociology and Epidemiology, University of Michigan

Erin Cumberworth, National Poverty Fellow, Center on Poverty and Inequality, Stanford University

Sheldon Danziger, President, Russell Sage Foundation, and University Professor of Public Policy, University of Michigan

Michael Hout, Professor of Sociology, New York University

Karen Jusko, Assistant Professor of Political Science, Stanford University

Molly King, National Poverty Fellow, Center on Poverty and Inequality, Stanford University

Sean Reardon, Professor of Education, Stanford University

Timothy Smeeding, Director, Institute for Research on Poverty, and Arts and Sciences Distinguished Professor of Public Affairs, University of Wisconsin

Jeffrey Thompson, Economist, Federal Reserve Board

Katherine Weisshaar, National Poverty Fellow, Center on Poverty and Inequality, Stanford University

Christopher Wimer, Research Scientist, Columbia Population Research Center, Columbia University

Edward N. Wolff, Professor of Economics, New York University, and Research Associate, National Bureau of Economic Research

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The Stanford Center on Poverty and Inequality monitors and publicizes trends in poverty and inequality, publishes the country's leading magazine on poverty and inequality, supports research on the causes of poverty and inequality, and examines the effects of public policy on poverty and inequality.

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Center on Poverty and Inequality
Stanford University
Building 370, 450 Serra Mall
Stanford, CA 94305
650.724.6912
inequality@stanford.edu