

The poor in America In need of help

America's poor were little mentioned in Barack Obama's re-election campaign. They deserve better

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WHEN Barack Obama first ran for president, Emma Hamilton was part of that politically crucial cohort, the white working class. A tall woman with tawny hair, broad shoulders, a firm handshake and a forthright, direct manner, Ms Hamilton worked as a loader at a factory in Sumter, a modest city of 40,000 in east-central South Carolina. In July 2008, however, after seven years on the factory floor, she mangled her hand between two heavy rollers. The accident was to leave her unable to work.



You do what you can

She lost her house three years later, in April 2011. She, her 20-year-old son and her dog moved into her teal Chevy van, where they have been living ever since, collecting metal cans during the day and sleeping in a grocery-store car park at night.

When a pain in Ms Hamilton's leg grew too severe to ignore, an employee at the shelter where she and her son occasionally stay directed her to the Excelsior Medical Clinic in downtown Sumter. The assistant who checked her in was named Patricia Dunham. Ms Dunham has cinnamon-coloured skin, arresting blue eyes and an easy, infectious laugh. She works at the Excelsior for 37.5 hours each week. At night she works behind the counter at a fast-food restaurant. The first job pays \$12.50 an hour, the second \$7.25, the federal minimum wage. If she could rely on 24 hours a week at the restaurant—which is what she would like—she would earn \$32,137.50 for working 61.5 hours a week, 50 weeks a year, before tax withholdings.

Ms Dunham has three school-age children and a husband who is unable to work. Mr Dunham has a prison record, and since 2010 he has had periodic seizures that leave him bedridden for days afterwards. Ms Dunham has no health insurance at her jobs. She pays for her husband's anti-seizure medicine and her seven-year-old's attention-deficit medicine out of her own pocket.

She and her husband are still paying off a \$2,100 loan they had to take out in 2010 to bury Mr Dunham's mother, but car payments are no longer a concern: Ms Dunham fell behind, and shortly after your correspondent met her her car was repossessed. Her medical office is in walking distance of her home, but the fast-food restaurant is not. Her shift ends late and the streets are not the safest.

These are two snapshots of life on the American margins. Some 15% of Americans (around 46.2m people) live below the poverty line, as Ms Hamilton does (see chart 1). You have to go back to the early

Up again

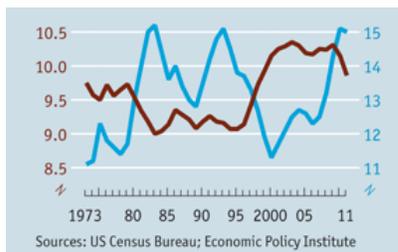
US hourly real wage for bottom quintile of workers, 2011 \$
11.0

US population in poverty, %
16

1

16

1960s—before Lyndon Johnson’s Great Society programmes—to find a significantly higher rate. Many more, like Ms Dunham, have incomes above the poverty line but nevertheless cannot meet their families’ basic monthly needs, and there are signs that their number is growing.



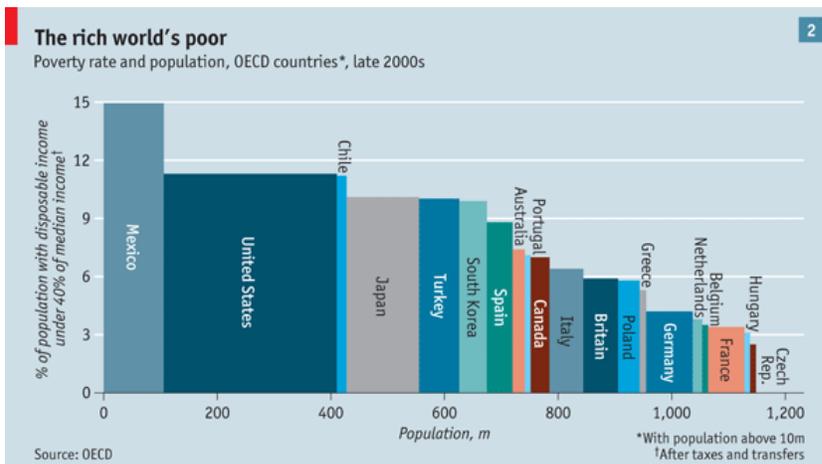
Getting stickier

Once upon a time the fates of these people weighed heavily on American politicians. Ronald Reagan boasted about helping the poor by freeing them from having to pay federal income tax. Jack Kemp, Bob Dole’s running-mate in 1996, sought to spearhead a “new war on poverty.” George W. Bush called “deep, persistent poverty...unworthy of our nation’s promise”.

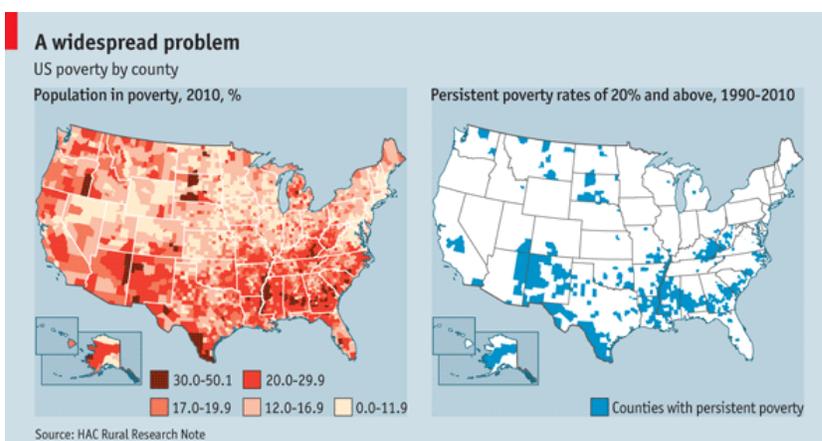
No longer. Budgets are tight and the safety net is expensive. Mitt Romney famously said he was not “concerned about the very poor” because they have a safety net to take care of them. Mr Obama’s second-term plan mentioned poverty once, and on the trail he spoke gingerly of “those aspiring to the middle class”. “Poor” is a four-letter word.

Mr Obama’s re-election and Democratic control of the Senate give federal anti-poverty programmes a level of security they would have lacked under a Romney administration. But America’s poor face systemic challenges beyond the aid of any single administration or programme. Once diligent high-school dropouts could get a job on a factory line and work their way into the middle class: no longer. The low-skill, high-wage jobs that many used to climb out of poverty in the 20th century are largely gone. Deteriorating family structure among the poor threatens to trap poor children at the bottom of the income ladder for life. And looming cuts to discretionary spending threaten America’s already thin safety net.

The 15% poverty rate is calculated using the official federal poverty threshold of \$11,702 in annual income for an individual or \$23,201 for a family of four, which is about 44% of median income for an individual and 30% for a family of four. The OECD, a rich-country club, provides comparative figures for a poverty line of 40% of median household income after tax and transfer. On that basis America’s rate is 11%, well above the OECD average of 6% (see chart 2).



Popular images of American poverty summon up Appalachia or Oakland—rural whites and urban blacks—and there is much truth in that. Most counties exhibiting persistent poverty—meaning counties with poverty rates of 20% or higher, consistently, from 1990 to 2010—are indeed in rural America (see map). And the overall rate of poverty is highest in



large cities. While a plurality of the poor—19.2m—are non-Hispanic white, the rates of poverty are higher among minorities; over a quarter of both blacks and Latinos live in poverty, while only a tenth of whites do.

The child-poverty rate is higher, according to a UNICEF report, than that in Japan, Canada or any European country other than Romania, and it blights lives. A child from a family in America's bottom quintile of earners is markedly less likely than a child born into the top quintile to be ready for school at five. He is less likely to graduate from high school with decent grades; he is more likely while still of school age to become a parent or be convicted of a crime. Degrees and high earnings are even less probable.

For most, poverty will be a temporary condition; chronic poverty remains relatively rare. But it does seem to be growing more common. Only 2.8% of Americans were poor throughout the 36 months starting in January 2004. In 2009-10, after the crisis, that share rose to 4.8%. Another problem which got worse during the crisis, but was growing beforehand, is suburban poverty. The number of poor people living in the suburbs grew 53% between 2000 and 2010 as decades of suburban flight reversed and America's cities once again became desirable places to work, attracting back better-off suburbanites and damaging marginal suburban economies. The financial crisis made things worse, particularly in the once-booming sunbelt. As of 2008 more than a third of America's poor live in suburbs.

Imprisoned in poverty, and vice versa

In 2010 10.5m Americans counted as working poor, meaning they spent 27 weeks in the labour force but still lived below the poverty line. This was the highest number since the Bureau of Labour Statistics started keeping track in 1987. The number would be much higher if it included people such as Ms Dunham, unable to meet all her family's needs despite being above the poverty line

A common lament is that, 40 or 50 years ago, motivated workers with little formal education, like Ms Dunham, would have been able to find factory jobs that paid a decent wage with benefits. But low-skilled and humdrum jobs, particularly in manufacturing, have gone overseas, or fallen victim to automation. Only low-level service jobs have been left in their wake (almost a third of the working poor are in the service sector). This is an oversimplification—manufacturing jobs are not invariably higher paying than service jobs—but there is some truth to it.

Wages for low earners have been largely stagnant for the past 40 years. Between 1947 and 1967, hourly wages of private, non-supervisory workers, who comprise more than 80% of American wage-earners, grew by an average of 2.3% a year. In the past three decades, however, hourly wages rose by a paltry 0.2% annually. From 2007 to 2011 average hourly wages fell for the bottom 70% of American workers, with the steepest drops for the lowest-paid.

As well as declines in wages, the crisis brought a sharp reduction in the proportion of the population of working age in the workforce. In the early 2000s the proportion was between 62% and 63%. By 2010 it was below 59%. The longer someone is out of work the harder it becomes to get back in, which could turn the temporary macroeconomic problem of high unemployment in the slump into a structural shift towards poverty.

America's phenomenally high incarceration rate also plays a part. Mr Dunham's prison record is not unusual; 37% of young black high-school dropouts have one. Time in prison makes a person more likely to earn less, more likely to have trouble holding on to a job and less likely to be married. Roughly three-quarters of high-school dropouts with prison records never make it above the bottom income quintile. The eightfold growth in the prison population from 1970 to 2010 has turned ever more poor decisions into poor lives.

Then there is deteriorating family structure among the poor. In 1965 Daniel Patrick Moynihan, then

working on Lyndon Johnson's "war on poverty", warned of the breakdown in family structure among black families. A quarter were headed by women, he wrote in "The Negro Family: The Case for National Action", and nearly a quarter of black children were, in the language of the time, "illegitimate". Today the unmarried birth rate for Americans averaged across all ethnicities is higher than that, at almost 41%. For white women who did not finish high school, that proportion rises to over 60%.

Most poor children live in single-parent homes, and most families that are poor lack married parents. More than a third of families like Ms Hamilton's—headed by a single mother, with no husband present—are poor, compared with fewer than one in fourteen families with married parents. Back in 1999 Isabel Sawhill, a poverty scholar at the Brookings Institution, a think-tank, warned of "a bifurcation in children's life prospects that threatens to divide the US into a society of haves and have-nots"—a bifurcation driven largely by the immense difference in life prospects between children born to rich or poor and to married or unmarried parents.

It is not hard to see why marriage aids stability. Consider Ms Hamilton, whose husband is out of the picture. She has no family to fall back on. She has one sister living with multiple sclerosis and a bad heart in an apartment complex that does not allow overnight visitors. Her other sister, also in her 60s, has a husband who does not work and has had cancer for years; they just lost their house. Her son, fortunately, was past childhood when they fell into extreme poverty; had he been younger his future would have been bleaker.



You do what you can

To see how marriage can help, consider Ms Dunham. Her situation is precarious, but without Mr Dunham at home to take care of the children it would be worse. She would have to spend more on child care. Her children would receive less supervision—Mr Dunham is fond of warning Ms Dunham's 15-year-old son of the perils of "hardheadedness" and gang life, which he blames for his own failings. And though his work may be sporadic and informal, it can swell the family coffers. When Ms Sawhill refers to marriage as providing a "reserve army" for the family—an extra helper, an extra earner—this is what she means.

America is not blind nor indifferent to the problems of poverty, even if its rich and poor increasingly live separate lives in separate neighbourhoods, and with different social mores. The poor are helped by a number of programmes, some of them now creaking under the strain. The amount the federal government spends on food stamps hit a record \$75.7 billion in the 2011 fiscal year—more than double the level of 2008. Enrolment in Medicaid, through which federal and state governments provide health care to low-income Americans, has grown every year since 2008, though its 2012 growth was the slowest since the recession began, and its spending grew at a lower level than enrolment because of federal and state cost-control measures. In 2011 states disbursed \$113.3 billion in unemployment benefits to 9.9m recipients, as well as roughly \$16.6 billion received in block grants as part of a federal programme called Temporary Assistance for Needy Families.

Hardly a hammock

That said, America is unusually reluctant, compared with other rich countries, about giving cash transfers to the poor. The country has a long-standing political aversion to anything that seems to "reward" being poor; instead, it fights poverty using a progressive, if somewhat paternalistic, tax code. The child tax credit allows families with incomes below a certain level (\$110,000 for married parents filing jointly, or \$75,000 for single-parent families) to claim a \$1,000 credit against their federal

income taxes for every dependent child. Though its reach extends into the solidly middle-class, its greatest impact is on the poor. Credits can often eliminate most of their tax liability (as it probably does in Ms Dunham's case).

America's most important tax-based cash-transfer programme is the earned income tax credit (EITC). It was originally enacted in 1975 as a means of encouraging the poor into the labour force, and has been extended and expanded enthusiastically since by both parties, most recently by Mr Obama in 2009. Unlike most tax credits, the EITC is refundable. Its amount varies with income and the number of dependants, but it is a credit amounting to a percentage of a taxpayer's earned income. When that credit exceeds a payer's tax liability, the government refunds the difference. Its benefits skew overwhelmingly toward families: the most a single person can claim is around \$500, while a married couple with three or more dependent children can receive \$5,000 or more. In 2010 \$55 billion was paid out through the EITC, and \$23 billion for the child tax credit.

A paper by Fabrizio Perri and Joe Steinberg at the Minneapolis Fed showed that during the recent crisis, while incomes in America's bottom quintile fell by 30% relative to median-income levels and that quintile's total wealth declined by 40%, their relative consumption levels remained constant. So anti-poverty programmes both cushioned the recession's impact on the bottom 20% of American earners and helped prop up consumer spending. Redistribution may be a dirty word in American politics, but without it the recession would have been far more painful, not just for the poor, but for America's economy generally.

Yet these programmes remain deeply unpopular with many in Congress. House Republicans have sought cuts to food stamps, and overwhelmingly supported a budget proposed by Paul Ryan that would have left anti-poverty programmes to bear the brunt of deep cuts to federal spending. None supported the president's health-care reform, which was designed to make life easier for people like Ms Dunham and her family by offering Medicaid to people with earnings that exceed the poverty line by as much as a third (though the Supreme Court ruled that states can opt out of the Medicaid expansion, and indeed South Carolina's governor has already vowed to do so). But the dangers are not purely partisan. Proposals to limit federal spending in order to reduce the deficit will squeeze all sorts of discretionary spending, quite possibly including successful anti-poverty programmes. And the poor, unlike other interest groups threatened by discretionary-spending cuts, have few lobbyists.

As for Sumter's poor, the signs are not entirely hopeless. A tyre company has begun building a \$500m factory that is forecast to employ 1,600 people in Sumter County. Shaw Air Force Base, on Sumter's western edge, welcomed the 15,000-strong Third Army last year. And Mr Dunham is preparing for the Christmas season by repeatedly assembling and taking apart a purple bicycle on his front porch. He hopes to start a business assembling boxed gifts and furniture. He wants to call it "If I Had a Hammer". The work will be seasonal, sporadic and informal, but it will be work, and it will be welcome.

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