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KEY FINDINGS

HOW TO MAKE SURE A GROWING U.S. ECONOMY HELPS THE POOR

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As the nation's economy grows, the incomes of its least well-off ought to rise with it. Many Americans think this makes sense. And it's what happened after World War II, from the mid-1940s through the mid-1970s. Economic growth benefited people at all income levels. America's gross domestic product per person grew rapidly, and so did the incomes of households in the bottom ten percent.

Since the 1970s the story has been quite different. The U.S. economy has continued to grow, even if a bit less rapidly than in the 1950s and 1960s. But the incomes of our country's least well-off households have improved only slightly. For the poor, a growing national economy no longer means that they get ahead along with everyone else.

Why the Economy Alone Cannot Lift All of the Poor

Are the poor in America left behind because of economic shifts such as technological advance, globalization, and the switch from manufacturing to service jobs? The best way to find out is to compare U.S. developments with those in other affluent democratic nations experiencing the same broad economic forces. In many advanced democracies in recent decades, the fortunes of the poor have paralleled overall growth – but not because of economic factors alone.

We often think of economic growth as creating "trickle down" benefits for the poor through an increase in their work hours and wages. But in advanced economies, many households at the bottom of the income ladder have few if any employed members. Some very poor households consist of retired people, and others include adults with psychological, cognitive, or physical conditions that limit their ability to work long hours or earn good wages. Still others have adults tied down by difficult family circumstances, such as the need to care for disabled loved ones. Finally, at any given time, some poor people are out of work because of high joblessness in their community or because their skills fail to match employer demands. The United States, like any advanced economy, can do better at helping able adults into (or back into) paid jobs. But we shouldn't imagine that employment alone will help everyone get ahead economically.

Recognizing that wage-earnings alone will not sufficiently help impoverished households, many other advanced nations boost the incomes of people at the bottom through government income supplements that rise in concert with a growing economy.

How Social Benefits Do and Do Not Keep Up with Economic Growth

There are two ways to keep benefits for the poor – or any group in society – in close alignment with overall economic growth. A country's legislators can periodically vote to update social benefits, taking account of the state of the economy when they decide. Or income supports can be set up to increase automatically as the economy grows, without any political debate needed.

Only one of America's major income-transfer programs, Social Security, is structured in such a way that benefit levels automatically increase when the economy grows. Social Security retirement benefits are indexed to average wages, so they have tended to rise more or less in sync with national economic growth. Tellingly, elderly Americans experience lower poverty rates than the nonelderly.

In contrast, U.S. programs for the nonelderly do not link incomes at the bottom to economic growth:

- Unemployment benefit levels are set as a percentage of the unemployed person's former wage or salary. Since real wages in the bottom half of the U.S. income distribution have not increased in the past several decades, unemployment benefits for Americans in low-wage jobs have failed to keep up with growth of the economy.

- Some U.S. programs are indexed to prices, including the Earned Income Tax Credit, Food Stamps, Disability Insurance, and Supplemental Security Income (for very poor elderly people). These benefits keep up with inflation, but not with overall economic growth.

- "Welfare" payments (previously through Aid to Families with Dependent Children, now through Temporary Assistance for Needy Families) are determined by state governments and do not automatically increase, not even to keep up with rising prices. Legislators are reluctant to increase welfare, so benefit levels have steadily lost value (in inflation-adjusted terms). For decades, welfare recipients have fallen further behind the overall U.S. economy.

Can America Do Better?

In the United States, helping low income people is politically controversial, so if we believe everyone should benefit from economic growth, we may need to take legislative battles out of the equation. We can do this by restructuring key programs so that benefit levels rise automatically in concert with the economy.

Would this weaken the economy and thereby hurt the poor? Critics often assert that helping the poor can stifle job creation and reduce work effort. For particular individuals, work effort might tail off if good benefits are available. But research shows that such undesirable side-effects are weak or nonexistent for society as a whole. While some people work less, others use social programs to become more productive. Across rich countries, there is no association between the generosity (or rate of growth) of social programs and economic growth. And the same has been true over the course of modern U.S. history. In periods when U.S. social programs became more generous toward the poor, there was no slowdown in economic growth or employment.

The American dream is, at base, about economic improvement. Historically, economic growth has been beneficial for all, even those at the bottom. But this has become less true over the past several decades, leaving the poor further behind. The experience of other affluent nations suggests that the United States can and should do a better job of making sure that, once again, economic growth helps all Americans move ahead together.

Read more in Lane Kenworthy, *Progress for the Poor* (Oxford University Press, 2011).