

## An Update to “Simulating the Effect of the ‘Great Recession’ on Poverty”

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*According to new data recently released by the Census Bureau, 14.3 percent of Americans were living in poverty in 2009. In September of 2009 we performed an analysis in which we simulated what would happen to the poverty rate over the next several years based on projections of the unemployment rate and the estimated relationship between the poverty rate and the unemployment rate.<sup>2</sup> We provide a brief update to that analysis here. The bottom line of this analysis is that the recession is likely to have a dramatic impact on poverty over the next several years. Our simulations suggest that the overall poverty rate will increase from 12.5 percent in 2007 to nearly 16 percent by 2014 and that the child poverty rate will increase from 18 percent in 2007 to nearly 26 percent in 2014, adding about 10 million people total and 6 million children to the ranks of the poor by the middle of the current decade. Despite the fact that our simulation accurately predicted the poverty rate for 2009, we emphasize that there is strong possibility that the estimates we present here are conservative, given that we do not know how dramatic of an effect the current recession will have on structural unemployment in the future. In light of these increases we believe that programs such as Food Stamps and TANF that can help to buffer the effects of the recession on lower-income families should be maintained or increased in these difficult economic times.*

With the economic recovery stagnating, projections of the unemployment rate over the next 5 to 10 years tell a story of lingering high unemployment (see Table A). The Congressional Budget Office, the Office of Management and Budget (OMB), and the Economist Intelligence Unit (EIU) all project an average annual rate of 9 percent or above for 2010 and 2011 and above 8 percent for 2012. Both CBO and OMB project that the rate will drop relatively quickly afterward, settling near 5 percent by the middle of the decade. However, more recent data suggest these longer-term projections may be overly optimistic and may not adequately incorporate the effects of a prolonged period of high unemployment on the level of structural unemployment. Indeed, the latest EIU projections, released on September 8, 2010, see the unemployment rate remaining well above 8 percent through 2014 (the latest year for which EIU provides projections). Taking these projections at face value, how will these elevated levels of unemployment affect poverty?

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<sup>2</sup> Monea and Sawhill (2009)

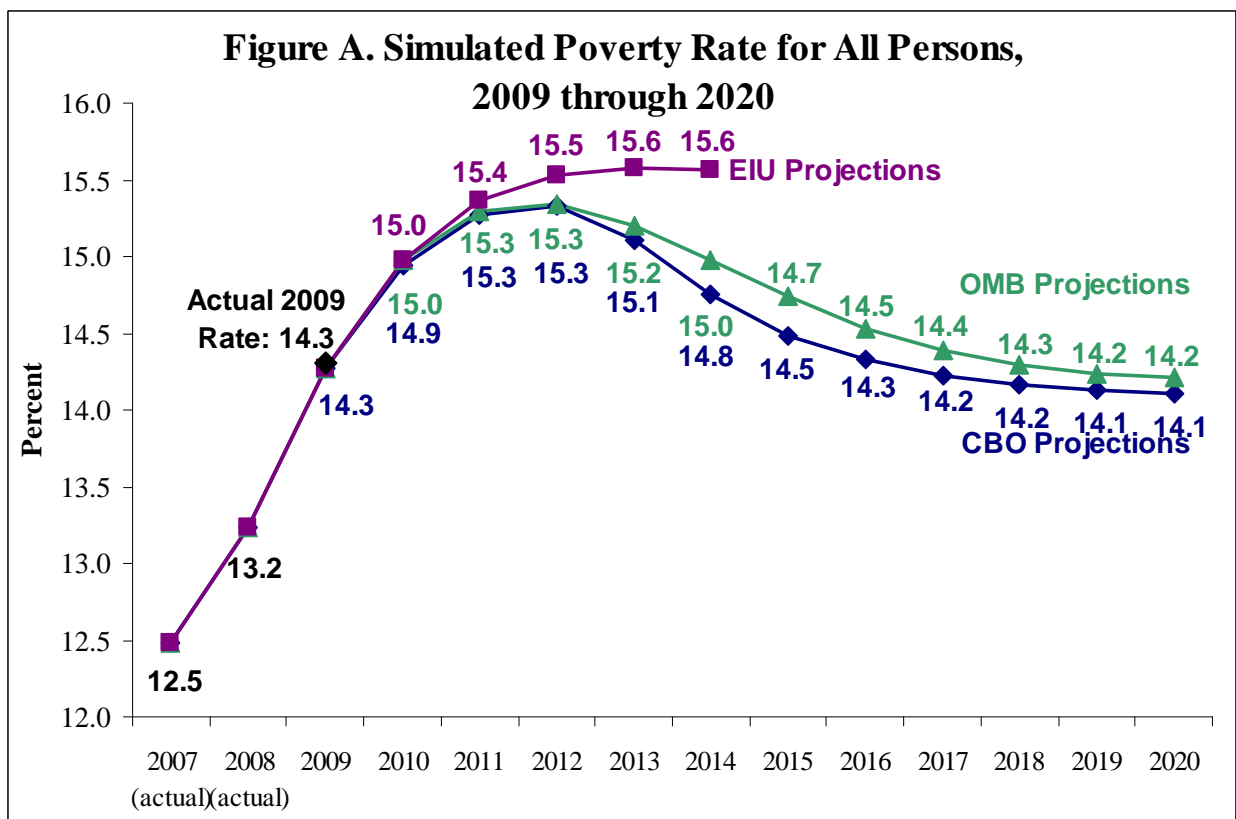
<b>Table A: Projections of Average Annual Unemployment Rates by the CBO, OMB and EIU, 2010 - 2020</b>			
<b>Year</b>	<b>Scenario 1: CBO, August 2010 (%)</b>	<b>Scenario 2: OMB, July 2010 (%)</b>	<b>Scenario 3: EIU, August 2010 (%)</b>
2009 (actual)	9.3	9.3	9.3
2010	9.5	9.7	9.7
2011	9.0	9.0	9.4
2012	8.1	8.1	9.0
2013	6.6	7.1	8.7
2014	5.3	6.3	8.4
2015	5.0	5.7	-
2016	5.0	5.3	-
2017	5.0	5.2	-
2018	5.0	5.2	-
2019	5.0	5.2	-
2020	5.0	5.2	-

*Source: CBO (2010), data for Table C-1; OMB (2010), data for Table 2; EIU CountryData projections for the United States (updated September 8, 2010).*

Our updated analysis tells a depressing story. Using the new EIU projections, our simulation suggests that poverty will rise quickly over the next several years, peaking at 15.6 percent in 2013 and 2014. Even according to the projections from CBO and OMB, the poverty rate will peak at over 15 percent and remain above 14 percent for the remainder of the decade (see Figure A).<sup>3</sup> Comparing an overall poverty rate of 12.5 percent in 2007 to a likely rate of 15.6 percent in 2014 suggests that the recession will add nearly 10 million people to the ranks of the poor by mid-decade.<sup>4</sup>

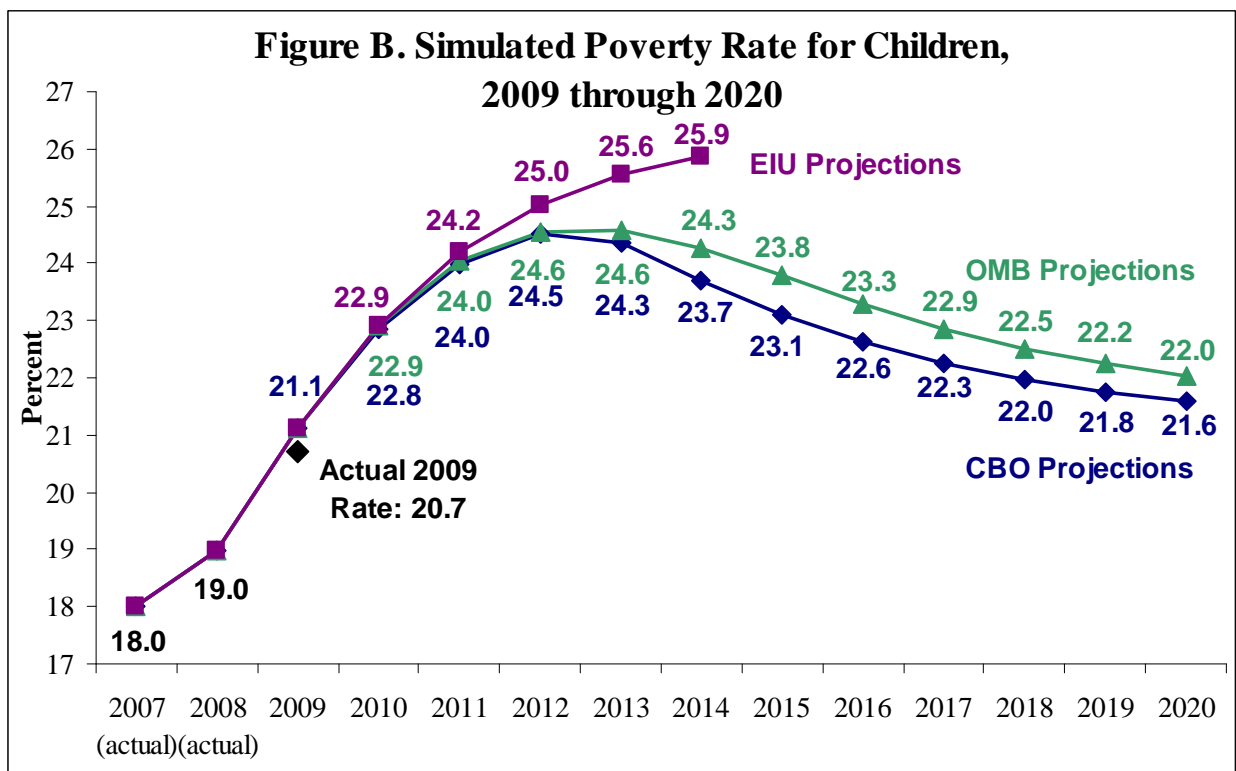
<sup>3</sup> Note that these changes reflect both the new, more pessimistic projections of the unemployment rate and the fact that we have incorporated into our analysis the actual poverty data for 2008. As both the unemployment rate and the lagged poverty rate are included in the model developed by Blank (2009) that we use to simulate future poverty rates, both changes contributed to the increased poverty rates we present here. Note that we also found that our updated analysis simulates lower poverty rates for certain groups (namely blacks and single-mother families) than we found last year. We believe that this change is due at least in part to the effect of the lagged poverty rate in Blank's model, as these two groups experienced relatively small increases in poverty in 2008 (see Monea and Sawhill (2009) for a more thorough discussion of the lagged poverty rate and its effect on our simulated poverty rates).

<sup>4</sup> According to the U.S. Census Bureau (2009a), the U.S. population in 2014 will be about 318.5 million (note that we use the constant net international migration population projection series). Thus, we estimate that there will be nearly 50 million people in poverty in that year. In contrast, if the poverty rate had remained at its 2007 level of 12.5 percent, there would have been just under 40 million people in poverty in that year. Note that this analysis does not take into account population growth between 2007 and 2014. Taking this consideration into account suggests an increase in the number of people in poverty of about 13 million over this time period, as there were about 37 million people in poverty in 2007 (U.S. Census Bureau, 2010).



The outlook for children is even worse. Again using the new EIU projections, we find that the poverty rate for children will rise rapidly over the next few years, reaching its peak in 2014 at just under 26 percent (see Figure B). Simulations utilizing the CBO and OMB projections show the rate hovering around 24 percent for several years. Comparing a child poverty rate of 18 percent in 2007 to a likely rate of 26 percent in 2014 means that the Great Recession will have added about 6 million more children to the ranks of the poor by mid-decade.<sup>5</sup>

<sup>5</sup> According to the U.S. Census Bureau (2009b), there will be about 76 million children living in the U.S. in 2014 (note that we use the constant net international migration population projection series). Thus, we estimate that there will be nearly 20 million children in poverty in that year. In contrast, if the poverty rate had remained at its 2007 level of 18 percent, there would have been about 14 million poor children in that year. Note that this analysis does not take into account population growth between 2007 and 2014 and that taking this consideration into account suggests an increase in the number of children in poverty of about 7 million over this time period, as there were about 13 million poor children in 2007 (U.S. Census Bureau, 2010).



Given the likelihood that the current slowdown will persist well into the coming decade and concerns that the structural unemployment rate may be increasing as the result of the length and depth of the recession, we believe the CBO and OMB projections are overly optimistic. Thus, our poverty rate projections should be viewed as conservative estimates of how much higher the poverty rate will go and, equally important, how long these higher poverty rates will endure.

Last year we wrote that the recession is likely to have a severe and long-lasting impact on poverty in the United States. Given the stagnant state of the recovery and the new, more pessimistic projections of unemployment over the next several years, we believe this is truer today than it was a year ago.

## *Resources*

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