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POVERTY IN AMERICA

Consequences for Individuals and the Economy

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-07-343T, a testimony before the Chairman, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

In 2005, 37 million people, approximately 13 percent of the total population, lived below the poverty line, as defined by the Census Bureau. Poverty imposes costs on the nation in terms of both programmatic outlays and productivity losses that can affect the economy as a whole. To better understand the potential range of effects of poverty, GAO was asked to examine (1) what the economic research tells us about the relationship between poverty and adverse social conditions, such as poor health outcomes, crime, and labor force attachment, and (2) what links economic research has found between poverty and economic growth. To answer these questions, GAO reviewed the economic literature by academic experts, think tanks, and government agencies, and reviewed additional literature by searching various databases for peer-reviewed economic journals, specialty journals, and books. We also provided our draft report for review by experts on this topic.

www.gao.gov/cgi-bin/getrpt?GAO-07-343T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sigurd R. Nilsen at (202) 512-7215 or at nilsens@gao.gov.

What GAO Found

Economic research suggests that individuals living in poverty face an increased risk of adverse outcomes, such as poor health and criminal activity, both of which may lead to reduced participation in the labor market. While the mechanisms by which poverty affects health are complex, some research suggests that adverse health outcomes can be due, in part, to limited access to health care as well as greater exposure to environmental hazards and engaging in risky behaviors. For example, some research has shown that increased availability of health insurance such as Medicaid for low-income mothers led to a decrease in infant mortality. Additionally, exposure to higher levels of air pollution from living in urban areas close to highways can lead to acute health conditions. Data suggest that engaging in risky behaviors, such as tobacco and alcohol use, a sedentary life-style, and a low consumption of nutritional foods, can account for some health disparities between lower and upper income groups. The economic research we reviewed also points to links between poverty and crime. For example, one study indicated that higher levels of unemployment are associated with higher levels of property crime. The relationship between poverty and adverse outcomes for individuals is complex, in part because most variables, like health status, can be both a cause and a result of poverty. These adverse outcomes affect individuals in many ways, including limiting their development of the skills, abilities, knowledge, and habits necessary to fully participate in the labor force.

Research shows that poverty can negatively affect economic growth by affecting the accumulation of human capital and rates of crime and social unrest. Economic theory has long suggested that human capital—that is, the education, work experience, training, and health of the workforce—is considered one of the fundamental drivers of economic growth. The conditions associated with poverty can work against this human capital development by limiting individuals' ability to remain healthy and develop skills, in turn decreasing the potential to contribute talents, ideas, and even labor to the economy. An educated labor force, for example, is better at learning, creating and implementing new technologies. Economic theory suggests that when poverty affects a significant portion of the population, these effects can extend to the society at large and produce slower rates of growth. Although historically research has focused mainly on the extent to which economic growth alleviates poverty, some recent empirical studies have begun to demonstrate that higher rates of poverty are associated with lower rates of growth in the economy as a whole. For example, areas with higher poverty rates experience, on average, slower per capita income growth rates than low-poverty areas.