

The Paradox of Poverty: How We Spent \$3.5 Trillion Without Changing the Poverty Rate

By Robert Rector

The U.S. Census Bureau has released its 1992 report on income and poverty. The report shows that the current prolonged recession—caused largely by Congress's insistence on raising taxes at the beginning of an economic downturn—has thrown millions out of work. This unemployment and the suffering it causes are real. Expansion of welfare programs, however, will not truly help the unemployed. What they need are jobs and economic growth. Bigger government and higher taxes do not produce jobs and growth.

Let me begin with seven basic facts:

- 1) The level of welfare spending in the United States is enormous and growing rapidly. In 1990, the latest year for which complete data are available, welfare spending reached a record high of \$226 billion, or 4.1 percent of GNP. Contrary to political claims, welfare spending increased during the 1980s, the Reagan era, after adjusting for inflation. Nor was the recent increase restricted to medical aid; in constant dollars, cash, food, and housing aid also increased more rapidly than the growth in the population.**
- 2) Total welfare spending is more than sufficient to raise the incomes of all persons defined as "poor" by the Census Bureau above the poverty income levels. Part of the \$226 billion dollars in welfare spending goes to persons in nursing homes and other institutions who are not included in the annual Census Bureau population and poverty count. But \$184 billion was spent on the general non-institutional population in 1990. This sum was roughly two and a half times the amount needed to eliminate poverty. Welfare cash, food, and housing aid alone were more than enough to eliminate poverty.**
- 3) The Census Bureau ignores most welfare assistance when calculating the standard of living of the "poor." Of a total of \$184 billion in welfare spending on non-institutionalized persons, only \$32.5 billion was counted as income by the Census Bureau. The missing funds, which were spent on low-income persons but not counted by the Census Bureau, equalled 2.8 percent of GNP. The non-counted cash, food, and housing aid alone was more than what was needed to raise all "poor" persons' incomes above the poverty level.**
- 4) Few of the people defined as "poor" by the Census Bureau are "poor" in the sense understood by the general public. Nearly all of the 30 million-plus people identified as "poor" by the Census Bureau are reasonably well housed. Most are well fed; there are few nutritional differences between "poor" and middle-class Americans.**
- 5) The War on Poverty did not succeed. While there may be little material poverty left, this does not mean that the War on Poverty was a success. The recent expansion of the**

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welfare state has not really raised incomes of less affluent Americans. Instead it has largely replaced work and earnings with dependence. And by undermining family structure, welfare has greatly contributed to the increase in single mothers who have difficulties supporting their families.

- 6) **The real problem in low-income communities is behavioral poverty.** "Behavioral poverty" refers to a breakdown in the values and conduct that lead to the formation of healthy families, stable personalities, and self-sufficiency. Behavioral poverty is a cluster of social pathologies including: dependency and eroded work ethic, lack of educational aspiration and achievement, inability or unwillingness to control one's children, increased single parenthood and illegitimacy, criminal activity, and drug and alcohol abuse.

So while there may be little material poverty in the United States, behavioral poverty is abundant and growing. For example, the black illegitimacy rate was around 25 percent when the War on Poverty began; today two out of three black children are born out of wedlock. A similar increase is occurring among low-income whites. Likewise, crime and dependency rates exploded as welfare spending increased.

- 7) **The central dilemma of the welfare state is that nearly all of the cash, food, housing, and medical programs designed to alleviate material poverty have the harmful side effect of profoundly increasing behavioral poverty.** The current welfare system fosters dependency and family disintegration. The erosion of the work ethic and family structure in turn demolishes the real-life prospects of low-income Americans, greatly contributing to crime, school failure, and other problems.

If the Census Bureau's methods were corrected to measure accurately the assets, cash income, and welfare benefits of low-income households, the result would show far fewer persons in material poverty than claimed by current official statistics. But even the corrected figure still would conceal the real tragedy of America's welfare system: millions of children growing up without fathers, millions of parents lacking the work ethic and dignity, and entire generations being robbed of real dreams and hopes for the future.

By creating a false picture of chronic, pervasive material poverty, the Census Bureau report harms both the taxpayers and the poor. The false picture of pervasive material poverty has led to the increased spending on welfare programs which fuel behavioral poverty. It distracts attention from, and makes more difficult, serious discussions of welfare reforms which are needed truly to help the disadvantaged.

Living Standards of the Poor

For many years the U.S. Census Bureau has reported that over 30 million Americans are "poor." For most Americans the word "poverty" suggests destitution, an inability to provide a family with sufficient food, clothing, and reasonable shelter. Only a small fraction of the persons identified as "poor" by the Census Bureau fits that description, however. The actual living standard of most persons defined as poor by the Census Bureau is far higher than the public imagines.

In fact, numerous government reports indicate that most "poor" Americans today are better housed, better fed, and own more personal property than average U.S. citizens throughout most of this century. In 1990, after adjusting for inflation, the per capita expenditures of the lowest income one-fifth of the U.S. population exceeded the per capita income of the median American household in 1960.

The following are facts about persons defined as "poor" by the Census Bureau. Data are taken from various government reports:

- ◆ In 1989 nearly 40 percent of all "poor" households actually owned their own homes. The average home owned by persons classified as "poor" by the Census Bureau is a three-bedroom house with a garage and porch or patio. Contrary to popular impressions, the majority of "poor" persons who own their own homes are not elderly.
- ◆ One million "poor" persons own homes worth over \$80,000; 75,000 "poor" persons own homes worth over \$300,000.
- ◆ Only 8 percent of "poor" households are overcrowded. Nearly two-thirds have more than two rooms per person.
- ◆ The average "poor" American has twice as much living space as the average Japanese and four times as much living space as the average Russian. (Note: These comparisons are to the *average* citizens in these countries, not to those classified as poor.)
- ◆ 62 percent of "poor" households own a car; 14 percent own two or more cars; a third own microwave ovens.
- ◆ "Poor" Americans live in larger houses or apartments, eat more meat, and are more likely to own cars and dishwashers than is the general population in Western Europe.
- ◆ About 53 percent of "poor" households, renters as well as owners, have air conditioning. By contrast, just twenty years ago only 36 percent of the entire population enjoyed air conditioning.
- ◆ The average consumption of protein, vitamins, and minerals is virtually the same for poor and middle-class children, and in most cases is well above recommended norms. Poor children today are in fact supernourished, growing up to be on average one inch taller and ten pounds heavier than the GIs who stormed the beaches of Normandy in World War II.
- ◆ Family structure and personal behavior are the most important factors in determining a family's economic well-being. In 1990 the Census Bureau found that only 3 percent of married couples with children and a full-time worker were "poor." By contrast, 67 percent of single mothers who did not work were "poor."

What's Going On?

Over 25 years have passed since President Lyndon Johnson declared his "Unconditional War on Poverty." Johnson declared that this war was to be a great "investment" which would return its cost to society manyfold. Since then, welfare spending in constant dollars has increased fivefold. Total welfare spending since the onset of the War on Poverty has amounted to \$3.5 trillion in constant 1990 dollars—more than the full cost of World War II after adjusting for inflation. In other words, the average American household has paid around \$50,000 fighting the War on Poverty. I think that taxpayers are justified in asking what return they have gotten on their "investment."

The official picture is bleak. As the following chart shows, before the War on Poverty began, when welfare spending was low, the poverty rate was declining dramatically. It plummeted from 32 percent in 1950 to 14.7 percent in 1966 when the War on Poverty was just beginning. After 1966, welfare spending began to explode; annual cash, food, and housing expenditures alone increased by \$70 billion by 1990. But as the chart also shows, coincident with this spending explosion, the pov-

erty rate leveled off and, with a few modest dips and peaks, remained largely unchanged for the next 23 years. Moreover, during the same period that welfare spending soared, "behavioral poverty" began a dramatic increase. For America's taxpayers, federal policy makers, and members of Congress in particular, this raises some basic questions:

How is it possible for total welfare spending in constant dollars to have quintupled over the last 25 years while the poverty rate remained almost unchanged?

How is it possible for constant dollar welfare spending on cash, food, and housing to have nearly quadrupled over twenty years while the poverty rate remained almost unchanged?

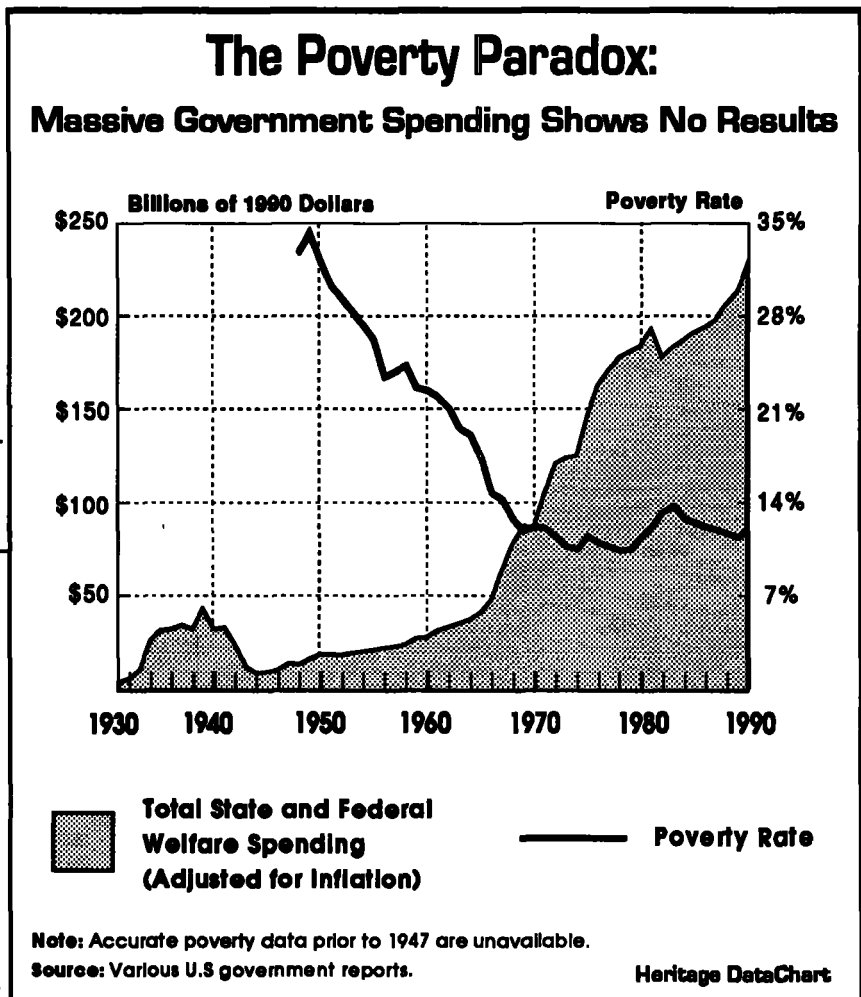
How is it possible to spend \$226 billion per year on welfare, *more than twice the amount needed to eliminate all poverty in the United States*, and still have over 30 million poor people?

The answer, of course, is that it is not possible. Not even the federal government can spend \$226 billion per year on low-income people without having a significant effect on living standards. The simple fact is that the Census Bureau counts little of this welfare assistance in calculating the number of poor Americans.

The Politics of Poverty: Business As Usual

There is a political bunko game going on in Washington. The elements of this game are as follows: First, the Census Bureau defines as "poor" any household which has an income below the poverty threshold, which was \$13,942 for a family of four in 1991. Assets are ignored. Second, the taxpayers are told that there are over 30 million poor Americans. Greater welfare spending is urged. Third, welfare spending is increased. Fourth, quietly, behind the scenes in Washington, efforts are undertaken to assure that cash earnings of low-income people are undercounted and that virtually no welfare spending is counted as income when determining if a family is poor. Fifth, the next year the public is again told that there are over 30 million poor people and greater spending is again needed. The cycle continues. As long as nobody checks the numbers, welfare advocates can play the game year after year.

As the following table shows, total welfare spending equalled \$226 billion in 1990, the last year for which data are available. Out of this total \$184 billion was spent on the non-institutionalized population covered in the annual Census Bureau income and poverty reports. But the Census Bureau counted only \$32 billion of this spending as income. The funds which were spent on



Missing Welfare Spending: 1990

(in \$ billions)	Total Welfare Spending: Congressional Research Service and Other Government Sources	Total Welfare Spending: Excluding Spending on Persons in Institutions	Total Welfare Spending: Census Bureau Estimates	Total Shortfall
Means-tested Cash Assistance	\$55.1	\$50.3	\$32.5	\$17.8
Means-tested Non-Cash Food Assistance	25.26	25.26	0.0	25.26
Means-tested Non-Cash Housing and Energy Assistance	22.65	22.65	0.0	22.65
Medicaid and other Medical Benefits	97.6	60.7	0.0	60.7
Urban Development	3.1	3.1	0.0	3.1
Social Services and Training	23.24	23.24	0.0	23.24
TOTAL	\$226.9	\$185.2	\$32.5	\$152.7

Source: Vee Burke, Cash and Non-Cash Benefits for Persons with Limited Income: Eligibility Rules, Participant and Expenditure Data, FY 1988-1990 (Washington, D.C.: Congressional Research Service, The Library of Congress), September 1991. Background Material on Programs Within the Jurisdiction of the Committee on Ways and Means. Unpublished data provided the the Department of Health and Human Services and other government agencies.

low-income Americans but not counted by the Census Bureau amount to 2.8 percent of GNP. Missing cash, food, and housing spending alone was around \$70 billion, more than enough to raise the incomes of all poor people above the poverty level.

The Liberal Defense

Welfare advocates in Washington have criticized my analysis of welfare and poverty. These criticisms are offered as a defense of the Census Bureau estimates and as an attempt to keep alive the myth of widespread destitution among America's poor. In effect they are a defense of Washington's annual poverty game.

Among these criticisms:

Liberal Defense #1: In addition to its widely publicized official poverty measure that counts only cash income, the Census Bureau also has alternative poverty measures which count non-cash welfare benefits. These alternative measures still show high rates of poverty.

Response: The Census Bureau does have largely unknown alternative poverty measures in some of its publications which include a few noncash benefits. But even the best of these alternative measures still omits most welfare spending. For example, it omits nearly half of cash, food, and housing aid.

Liberal Defense #2: The huge figure of \$226 billion in welfare spending includes many programs for the middle class, such as Social Security and Student Loans.

Response: This is not true. My calculations are based on reports produced by the non-partisan Congressional Research Service (CRS) of the Library of Congress. These CRS reports count total spending on "means-tested" assistance — that is, assistance which is distributed to persons below certain specific income levels. True, a few programs which CRS includes, such as student loans, are formally means tested, but the income limits are so high that most beneficiaries are middle class. I have omitted such programs; my calculations are confined to programs which benefit only low-income persons. I have added to the CRS figures Medicare spending on poor persons and some government aid targeted to economically disadvantaged communities such as Urban Development Action Grants. A list of all the welfare programs included in my count of welfare spending is included in the appendix.

Liberal Defense #3: Welfare spending does not go just to poor persons. Some goes to low-income persons with cash incomes above the poverty level.

Response: This is true. But if even a quarter of all means-tested cash, food, and housing aid went to "non-poor" persons, the remaining amount would still be enough to raise all poor persons' incomes above the poverty thresholds.

Liberal Defense #4: Nearly all of the increase in welfare spending in recent years has been for medical care.

Response: This is untrue. Cash, food, and housing aid measured in constant dollars increased faster than the growth of population during the 1980s. In constant dollars, means tested cash, food, and housing expenditures increased by 20 percent from 1980 to 1990.

Liberal Defense #5: It may be true that most of the persons defined as "poor" by the Census Bureau have actual incomes above the official poverty income thresholds, but the poverty income thresholds should be raised.

Response: The poverty income thresholds were set in 1963 at the level of funds needed to provide for basic needs. Each year they have been adjusted upward for inflation. There is no evidence that poor families are unable to provide for basic needs with incomes at the poverty level, at least in most parts of the country. Indeed, in many parts of the country a family can meet basic needs with incomes well below the poverty level.

Critics such as Dr. Patricia Ruggles of the Urban Institute advocate raising the poverty threshold and adopting a relative poverty measure. As the general level of prosperity rises, the definition of what is "poor" would rise proportionately. Dr. Ruggles actually has proposed raising the current poverty income thresholds above the income level of the median American family in the early 1950s, adjusted for inflation. According to Dr. Ruggles, Ozzie and Harriet were poor. If Dr. Ruggles's notions were accepted, the poverty income levels would go up and up each year, far faster than inflation. Within a decade or two, most people with a standard of living today considered middle class would be redefined as poor. This gives new meaning to the Biblical statement: "The poor are always with you."

