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UPDATE

GAINING GROUND: THE MEANING OF THE NEW INCOME STATISTICS

(Updating *Backgrounder* No. 667, "U.S. Income Data: Good Numbers Hiding Excellent News," August 19, 1988.)

The Census Bureau today released its statistics on poverty and family income for 1987. For the fifth straight year, the figures show improvement. Real median family income increased to \$30,850 last year, a 1.0 percent rise over 1986. And perhaps most significant, the economic condition of female-headed families showed a marked rebound. Thanks to strong economic growth since 1983, American families have recovered fully the ground they lost during the economic stagnation and double-digit inflation of the late 1970s.

Yet even these excellent figures contain shortcomings in methodology that hide both better news and warnings to policymakers. The Census Bureau's flawed methodology of counting only reported cash income continues to overstate grossly the number of Americans living below the poverty line. The Bureau, for example, excludes the value of non-cash assistance, such as food stamps, medical care and subsidized housing, from its measurement of family income in order to compute the official poverty rate, as though the \$64 billion worth of federal means-tested, non-cash assistance has no effect on poverty. This is about double the amount of federal cash assistance through such programs as Aid to Families with Dependent Children (AFDC). Yet if non-cash or in-kind benefits were included as income, the Census Bureau admits that there would be 3 million to 12 million fewer poor Americans in 1987 than its "official" count suggests. The degree of the reduction depends on the method used to place a value on in-kind benefits. Counting such benefits would have the most dramatic effect on the economic well-being of the elderly, whose poverty rate would plummet from 12.2 percent to about 2 percent, were the full market value of such assistance included. Policymakers who highlight the so-called "poverty gap," the amount of income needed to bring all those with incomes below the poverty line up to the poverty line, ignore the fact that including non-cash benefits as income would move millions of Americans out of poverty and eliminate much of the gap.

Overestimating Poverty. Policymakers also should note that the Census Bureau's statistics overestimate the extent of poverty for other reasons. There is a serious underreporting of legal income, which the Bureau itself recognizes and only partially accounts for. Meanwhile, the report does not even attempt to measure income from the well-documented underground economy. The report also ignores regional differences, as if families in rural settings need the same income to escape poverty as urban families.

Despite these deficiencies of methodology, which affect the absolute numbers, the trends are unmistakable. This latest report indicates that during the past five years, U.S. family income has enjoyed its sharpest and most sustained real improvement in 20 years. All regions of the country, and all racial groups, have gained substantially over that period, in stark contrast to the stagnation and decline of the 1970s. Most remarkable, median black family income grew a startling 12 percent between 1982 and 1987, faster than for white families.

Family Breakup. Likewise, the percentage of black families below the poverty threshold is well below the rates earlier in the decade. The Census Bureau reports the figure at 29.9 percent for 1987, compared with 33.0 percent in 1982. Yet this masks the fact that for white as well as black families poverty is largely a symptom of family breakup, which is tragically high in the black community, where half the families are headed by women and half of these are below the official poverty line. Thus figures for the "average" black family are misleading, since these combine two very different types of families. In fact, the poverty rate among intact black families is one-fourth the rate among female-headed black families.

Fortunately, female-headed American families last year showed their first solid improvement for many years. The poverty rate showed a modest decline and their real median income jumped 3.4 percent over 1986. In part, this was due to a remarkable 10.4 percent leap since 1982 in the earnings of women working full time, more than double the rise for their male counterparts.

The high poverty rate in single-parent families explains the high degree of poverty among children. It should also indicate to policymakers that family breakup or nonformation is a major cause of poverty. Thus policies to combat poverty should, at the very least, do nothing to make family breakup any easier, and indeed should include actions to encourage both parents to take family responsibilities seriously. This suggests that Congress should enact such bipartisan measures as tough action on child support payments.

Solid 1980s. The latest Census Bureau report confirms that when government policy focuses on economic expansion, rather than government expansion, it brings significant and sustained prosperity to American families. The improvements in family income and the poverty rate coincide with the robust economic expansion since the end of 1982. Between 1973 and 1978 family income stagnated and the poverty rate changed little. Starting in 1979, however, American families began an economic nosedive. Yet the solid economic expansion of the 1980s has allowed Americans to regain that lost ground. The 1987 Census Bureau figures indicate that with a continued policy focus on economic growth, the condition of American families will continue to improve.

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