

THE POVERTY PARADOX: HOW AMERICA SPENT \$5 TRILLION ON THE WAR ON POVERTY WITHOUT REDUCING THE POVERTY RATE

Next week the United States Census Bureau will release its annual report on income and poverty. The Census Bureau will report, as it has for many years, that there are over 30 million "poor" persons in America. This picture of chronic, pervasive American poverty is a myth; it is caused by obvious deficiencies in the way the Bureau measures income and defines the poor.

According to the Census Bureau there are almost as many poor people today as when the War on Poverty began in the mid-1960s. This picture of unremitting poverty is perplexing because welfare spending grew enormously throughout the 1970s and 1980s, even after adjusting for inflation. Welfare spending, excluding programs for the middle class such as Social Security and Medicare, reached an all-time high of \$306 billion in 1992.

Welfare now equals 5 percent of the gross national product, up from 1.5 percent in 1964 when the War on Poverty began. America has spent \$5.1 trillion in fighting the War on Poverty since its inception under President Lyndon Johnson. In constant dollars, this amount is greater than the cost of battling Germany and Japan in World War II.

Erroneous Picture. After adjusting for inflation, annual welfare spending is now almost seven times the amount spent in the mid-1960s when the War on Poverty began. How can welfare spending expand sevenfold while the number of poor Americans remains nearly unchanged? The answer is simple: the Census Bureau poverty count is grossly inaccurate. The Census Bureau undercounts incomes, excludes assets, and creates an erroneous picture of the living standards of low-income Americans. Key facts missing from the Census report are:

- ✓ Nearly 40 percent of the persons identified as "poor" by the Census Bureau own their own homes. The median value of homes owned by poor persons in 1991 was \$46,652, or 58 percent of the median value of all homes owned by Americans in that year;
- ✓ Over three-quarters of a million "poor" persons own homes worth over \$100,000; 71,000 "poor" persons own homes worth over \$300,000;
- ✓ 64 percent of "poor" households own a car; 15 percent own two or more cars. Nearly 60 percent of all "poor" households have air conditioning; 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.
- ✓ The average intake of protein, minerals, and vitamins is nearly the same for poor and middle-class children. Poor children today are in fact supernourished, growing up to be one inch taller and ten pounds heavier than the GIs who stormed the beaches of Normandy in World War II.

These facts are taken from detailed but unpublicized surveys gathered by the Census Bureau itself and other government agencies. Yet they are ignored by the Census Bureau's official poverty report. There is a huge gap between the "poor" as defined by the Census Bureau and what most ordinary Americans consider to be poverty. For most Americans "poverty" means destitution, an inability to provide a family with nutritious food, clothing, and reasonable shelter. Only a small number of the over 30 million "poor" persons fit such a description.

In fact, numerous government reports indicate that most "poor" Americans today are better housed, better fed, and own more personal property than average Americans throughout most of this century. In 1991, 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 average American household in 1960.

The Bureau counts as "poor" any household with a cash income less than the official poverty threshold, which was \$14,343 for a family of four in 1992. The main problem is not only that the Census Bureau ignores all assets, but it also omits nearly all government welfare benefits poor families receive in counting income. In fact, the government's own data show that low-income households spend \$1.85 for every \$1.00 of income counted by Census.

In 1992 federal, state, and local governments spent \$306 billion on welfare programs, or roughly three times the amount needed to raise the incomes of all Americans identified by the Census Bureau as poor above the official poverty income thresholds. But the Census Bureau, in calculating the number of poor persons, counts only a small fraction of this aid as income for low-income households. Excluded from the normal Census Bureau reports are entire programs of public assistance for the needy, such as food stamps, public housing, and Medicaid. For the purpose of its calculations, such huge public assistance programs might as well not exist. Officially, at least, they have no impact on poverty. For example, in 1991, missing welfare spending excluded from the official data on poverty totaled \$184 billion, or 3.2 percent of the total U.S. economy. The missing funds, which are spent on low-income Americans but not counted by the Census Bureau, amounted to \$11,888 for every "poor" household.

Creating Dependence, Destroying Families. Clearly there is far less material poverty than the Census Bureau reports. But the low levels of material poverty, as measured in income, assets, or public assistance, should not be viewed as victory for the War on Poverty. Studies reveal that the biggest effect of current welfare spending is not to raise income but merely to replace self-sufficiency with dependence. In the 1950s, before the War on Poverty programs were launched, nearly one-third of poor families were headed by adults who worked full time throughout the year. In 1990, only 15 percent of poor families had full-time working heads of household. Half of poor, non-elderly adults do not work at all.

A second consequence of welfare has been the destruction of families. In 1991, even using the Census Bureau's erroneous methodology which exaggerates the number of the poor, the poverty rate for married couple families was just 6 percent. For married couples with a full-time worker it was just 2.5 percent. By contrast, the poverty rate of female-headed families was a staggering 36 percent. The number of female-headed families below the poverty level has increased dramatically since the onset of the War on Poverty. In 1959, 28 percent of poor families with children were headed by women. By 1991, 61 percent of poor families with children were headed by single mothers. Similarly, in the 1960s the black illegitimate birth rate was 25 percent, while today nearly two out of three black children are born out of wedlock.

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 who grow up without fathers, millions of parents lacking the work ethic and dignity, and entire generations robbed of real dreams and hopes for the future.

Robert Rector
Senior Policy Analyst

For further information:

Robert Rector, Kate Walsh O'Beirne, and Michael McLaughlin, "How Poor Are America's Poor?" Heritage Foundation *Backgrounder* No. 791, September 21, 1990.