Casualties of the War on Poverty

BY CHRISTOPHER LINGLE

Newspapers around the world recently carried a news item that seems to be a damning indictment of the U.S. government and the American people. The 2005 U.S. Census indicates that the percentage of poor Americans living in "severe" poverty was at a 32-year high. This put the proportion of poor people in deep poverty at 43 percent of the total of 37 million.

As such, the number of severely poor Americans grew by 26 percent from 2000 to 2005, so that 16 million Americans were living in deep, or severe, poverty. This is defined as a family of four with two children and an annual income of less than $9,903, or one-half the federal poverty line.

On their face, these figures sound ominous and suggest that the U.S. government and the American people have turned their backs on the weakest citizens. But truth and reality are much more complex than the raw data suggest.

As it is, the U.S. government has spent close to $10 trillion (current dollars) on domestic welfare programs since President Lyndon Johnson launched the "War on Poverty" in 1965. These include Aid to Families with Dependent Children (now Temporary Assistance to Needy Families—TANF); food stamps; Medicaid; the Special Supplemental Food Program for Women, Infants, and Children (WIC); utilities assistance under the Low-Income Home Energy Assistance Program (LIHEAP); housing assistance under a variety of programs, including public housing and Section 8 rental assistance; and the free commodities program. And then state and local governments engage in welfare spending that includes free medical care for the impoverished through charity hospitals.

Spending on all social programs is up by 22 percent (inflation-adjusted) since 2000. In 2004 total government spending on low-income families was $129 billion, or $9,058 per poor family.

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Besides all this public-sector spending, private charities and religious organizations offer considerable aid to the indigent, ranging from soup kitchens to housing and so forth.

Now let's look at the official poverty rate for the United States as estimated by the Census Bureau from data on poverty and income collected in an annual survey and defined according to household size and makeup. For example, the average poverty threshold for a family of four was $18,392 in annual income in 2002.

The official rate combines the money income of individuals and families before taxes with cash assistance received from government programs. That is compared with established poverty thresholds. These thresholds vary according to the size of the family and are adjusted annually to account for the effects of inflation.

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But this official estimate does not include noncash government benefits like public housing, Medicaid, free or subsidized medical care, or food stamps.

In all events, the financial resources of the "poor" in the United States tend to be undercounted. For example, the poor tend to underreport income to the Census, perhaps because they fear it will be reported to the IRS. Consequently, Census figures on income relative to spending indicate that the poor spend $1.94 for every dollar of reported income.

Moreover, poverty measures ignore the value of household assets like housing. Data from 1995 indicate that 41 percent of all "poor" households owned their own homes, with an average size of three bedrooms and one-and-a-half bathrooms—and most had a garage and a porch or patio. Among the poor, three-quarters of a million owned homes worth over $150,000.

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The average "poor" American lives with one-third more living space than the average Japanese, 25 percent more than the average Frenchman, 40 percent more than the average Greek, and four times more than the average Russian. In America 70 percent of "poor" households owned a car and 27 percent had two or more cars.

If absolute poverty is considered to be the lack of access to sufficient resources to satisfy basic needs, there is not much of this in the United States. As in most countries, relative poverty is a bigger issue.

But relative poverty can never be fully resolved without implementing an incentive-destroying policy of equal income regardless of effort or talent. History provides little evidence that forced income redistribution through taxation can alleviate mass poverty.

And so it is that despite massive amounts of spending by governments, poverty remains at a high rate in the United States. Or perhaps it is better said that public-sector welfare and other aid programs are causing poverty since the poor become dependent on handouts instead of looking for work or starting a business. (See Charles Johnson's article on page 12 to understand why the poor have trouble starting businesses.)

Government officials who spend so much of other people's money have weak incentives to see that it is spent well. Indeed, the so-called war on poverty has been no more effective than the war on drugs and probably less so than the war in Iraq.

Perhaps a better response to poverty would be to reduce the reliance on governments. The slack could be made up by elements of civil society, such as private charities, that are more effective than welfare programs in serving the poor.

As it is, 85 million American households give a total of $250 billion to charities each year. Interestingly, private Americans gave more to the victims of the Asian tsunami than the federal government did.

Giving is not limited to the very rich. The working poor give as large a percentage of their incomes as do the rich and a lot more than does the American middle class.

Were it not for so many public policies that undermine private giving, this amount would almost certainly be larger. For example, private foundations face punitive regulation, and government subsidies to nonprofits crowd out charity. On the one hand, subsidies reduce the incentive for those groups to seek voluntary contributions, and on the other they reduce the incentive for individuals to donate since they already "gave at the office" when taxes were withheld from their paychecks. Moreover, many policies reduce disposable incomes of major donors.

It is important to know what lies behind the data on the extent of poverty and giving in America. It is wrong to think that Americans are shirking their obligations to needy neighbors or that the U.S. government should do more.