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AMERICAN INCOMES AND POVERTY AT LABOR DAY 1992

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ONE HUNDRED SECOND CONGRESS

SECOND SESSION

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AMERICAN INCOMES AND POVERTY AT LABOR DAY 1992

THURSDAY, SEPTEMBER 3, 1992

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to notice, at 1:15 p.m., in room SD–628, Dirksen Senate Office Building, Honorable Paul S. Sarbanes (chairman of the Committee) presiding.

Present: Senator Sarbanes

Also present: Lee Price and James Klumpner, professional staff members.

OPENING STATEMENT OF SENATOR SARBANES, CHAIRMAN

SENATOR SARBANES. The Committee will come to order.

Today, the Joint Economic Committee meets to examine the recent trends in income and poverty. This morning, the Bureau of the Census released a detailed report of income data for calendar year 1991. This hearing will examine this data and seek to place it in perspective.

The figures report a rise in the poverty rate, which is very disturbing. It increased from 13.5 percent to 14.2 percent overall, and the rate for children jumped from 20.6 percent to 21.8 percent.

The economic distress of the past few years has taken a toll on most American families from which they're having great difficulty in recovering. They are caught in an economic vice that became a lot tighter in 1991.

It is important to note on the income figures that, separate and apart from the poverty figures, median household income shrank for the second year in a row. It's now down 5.1 percent since 1989. Median household income—this is household income adjusted for inflation. In other words, it is taking inflation into account, dropping 3.5 percent in 1991, following a 1.6 percent drop in 1990.

Throughout the past year, the President and his advisors have sought to portray this as a short and shallow recession that would quickly end. In fact, a source of contention between the President and the Congress was the effort by the Congress to provide assistance to unemployed workers of the sort we provided in every recession since the 1950s.

In fact, we were told by the Administration that the economy was getting better. The American workers knew that was not the case. And I rather imagine that today's numbers will come as no surprise to them.

While 1991 was a recession year, many people were facing economic difficulties even before this recession began. The economic expansion of the 1980s left the poverty rate higher than it had been at the end of the expansion of the 1970s.

Typical earnings of young people and a large majority of people without a college education were lower at the end of the 1980s than at the end of the 1970s.

Today's report provides statistical evidence of the difficulties and hardships facing American families. It sounds an alarm for change in economic policy that will put people back to work, at jobs that pay enough to support a decent standard of living.

We are pleased to have with us today several witnesses who are widely recognized for their analysis of income and poverty. Our initial witness will be Daniel Weinberg, chief of the housing and household economic statistics division of the U.S. Bureau of the Census.

He will then be followed at the conclusion of his testimony by a panel of witnesses, whom I will introduce when the panel is brought forward.

With that by way of an opening statement, Mr. Weinberg, we would be happy to receive your testimony. We appreciate your appearing here today.

STATEMENT OF DANIEL H. WEINBERG, CHIEF OF THE HOUSING AND HOUSEHOLD ECONOMICS STATISTICS DIVISION, U.S. BUREAU OF THE CENSUS

MR. WEINBERG. Thank you, Senator. I'm glad to be here.

First, let me introduce my assistant who will be handling the charts. He is Charles Nelson, assistant to the division chief.

Let me remind you that the numbers we present today are estimates only. They're based on the results of a sample survey, the Current Population Survey, taken in March 1992, of about 60,000 households. It does not reflect current conditions. It does not cover the institutionalized, such as people on military bases, and these data are not from the decennial census. Those numbers were released recently.

Different samples can give different estimates, and we test those statistically. The differences I talk about today have been tested. We have corrected for changes in consumer prices.

Let's start with the first chart.

This one presents the key estimates of median income. As you just mentioned earlier, due to the recession that continued into 1991, 1990 median household income continued to fall. Between 1990 and 1991, median household income fell 3.5 percent, to $30,126, and has fallen 5.1 percent since 1989.

SENATOR SARBANES. Let me stop you right there. Why don't you set out for the record what you mean by median household income?

MR. WEINBERG. Okay. A household is a group of people living together. We look at all the households in the country and line them up by their total income.

Median household income is the income of the middle household, the one right at the 50th percentile. Half of households have more income, half have less.

SENATOR SARBANES. So this would be the household right in the middle.

MR. WEINBERG. Right.

SENATOR SARBANES. Half would be above it and half below it.

MR. WEINBERG. Correct. Half have more income, half have less.

SENATOR SARBANES. All right. Now what was the median household income in 1989?

MR. WEINBERG. Okay. In current dollars, median household income in 1989 was $31,750.

SENATOR SARBANES. All right. And then in 1990?

MR. WEINBERG. In 1990 current dollars, median household income was $31,203.

SENATOR SARBANES. That's that next column. Is that right?

MR. WEINBERG. Correct, in green here. And then, in 1991, median household income was $30,126.

SENATOR SARBANES. Now, this is adjusted for inflation. Is that right?

MR. WEINBERG. Correct. Yes.

SENATOR SARBANES. So, in other words, the median household income over this two-year period has dropped by about——

MR. WEINBERG. About $1,600.

SENATOR SARBANES. And that's a drop of somewhat over 5 percent. Is that right?

MR. WEINBERG. Correct.

SENATOR SARBANES. So the middle household has actually declined in terms of its income over the last two years by just over 5 percent. Is that correct?

MR. WEINBERG. That's correct, yes.

SENATOR SARBANES. All right. Thank you.

MR. WEINBERG. Also, as you can see on the chart, the median family income and the median per-capita income are also down between 1989 and 1991, though by not as much as median household income.

SENATOR SARBANES. But they reflect the same declining.

MR. WEINBERG. The same pattern, yes. Median family income is down 4.4 percent. Median per-capita income is down by 5.3 percent over the two-year period. There was a slightly smaller drop between 1990 and 1991.

SENATOR SARBANES. All right. Now, this is not the poverty figure.

MR. WEINBERG. This is income.

SENATOR SARBANES. This is the general populace. Is that correct?

MR. WEINBERG. That's correct. Poverty is in the second half of my presentation.

SENATOR SARBANES. Okay. So what we see is that the incomes of, in effect, middle-income people have actually declined, in real terms, over this two-year period.

MR. WEINBERG. This is all households, working and nonworking. Since most people work, the median household probably include some earners. I don't know.

SENATOR SARBANES. Okay. Thank you.

MR. WEINBERG. This decline in household income between 1990 and 1991 occurred in all regions, except the Northeast. But if you look over the 1989 to 1991 period, the decline in the Northeast was also statistically significant.

SENATOR SARBANES. So there's no region of the country that's been exempted from this decline in median household income.

MR. WEINBERG. That's correct. The decline was concentrated in metropolitan areas. There was no change between 1990 and 1991 in nonmetropolitan areas.

Let's take a look now at race and ethnic groups.

The change between 1990 and 1991 was not consistent across race and ethnic groups, though all have experienced a decline in median household income between 1989 and 1991.

If we look at the change for whites, the decline was 5.5 percent between 1989 and 1991. For blacks, the change was a 5.3 percent decline. For Asians and Pacific Islanders, they experienced an 8.1 percent decline. And for those of Hispanic origin, they had a 5.8 percent decline between 1989 and 1991.

Let's take a look now at the trend over a longer time in median household income by race and ethnicity. Again, these trends are corrected for changes in consumer prices. The gray bars that you see on the chart indicate the recessionary periods over this time period.

The long-term trend between 1967 and 1991 is up for all groups, except for Hispanics, which is probably because the measurement of their household income only began in 1972, which was near a cyclical peak.

Overall median income in 1991—that's this green line on the chart—is up 12.4 percent above the 1967 figure. White median household income—that's this red line—is up 13 percent since 1967. For Blacks—the orange line—their income is up 16 percent since 1967. Hispanic median household income—the blue line—is down 4 percent since 1972.

SENATOR SARBANES. Now, has this increase in median incomes, since 1967, which you're now referring to, been constant, more or less, through that period, or has it tended to come at a particular timeframe within that roughly 25-year period?

MR. WEINBERG. Well, there is a lot of cyclical pattern in this. As you can see, in recessions, median household income does tend to decline, and over the recovery periods between recessions, we have a pretty standard upward trend in the series. Overall, it's up 12.4 percent since 1967.

Changes in family composition, such as the growth in female householder, no-spouse-present families do affect this trend. And I'll talk a little bit more about that a little later.

Now, with the next chart——

SENATOR SARBANES. Now, I notice the trend started down before this recessionary period. Is that correct?

MR. WEINBERG. Well, it really depends on where you draw the line. The recession started in July 1990, which is the middle point of the year. And we've drawn the gray bar on here. It's really difficult to say within a year when the downward trend started. We don't have the statistics to show that.

SENATOR SARBANES. But you're peaking ahead of the gray period.

MR. WEINBERG. The most recent peak was in 1989.

SENATOR SARBANES. So, since 1989, it has been moving downwards. Is that right?

MR. WEINBERG. That's correct—5.1 percent decline to all households since 1989.

SENATOR SARBANES. So, in effect, it was moving down before we were into that gray bar, which is the recession period.

MR. WEINBERG. It's not clear that that was true. We're comparing income for the total calendar year of 1990, with total 1989. So it's difficult to say when it started down.

SENATOR SARBANES. All right.

MR. WEINBERG. This chart shows the shares of aggregate household income by quintile for 1971, 1981 and 1991. There was no change in income inequality between 1990 and 1991, or between 1989 and 1991.

But, as you can see, the long-term trend is towards increasing income inequality. The proportion of aggregate income received by the top 20 percent in 1991—that's households earning $56,761 or more—their share was 46.5 percent. And that's significantly higher than the share in 1981 or 1971.

If you look at——

SENATOR SARBANES. The share of household income held by the top 20 percent has risen from 43.5 percent in 1971 to 44.4 percent in 1981. And it has now jumped to 46.5 percent in 1991. Is that right?

MR. WEINBERG. That's correct, yes. That's these three bars here on the right, yes.

SENATOR SARBANES. All right.

MR. WEINBERG. The middle 60 percent has had a decline in their share. In 1971, it was 52.4 percent. In 1981, it was 51.5 percent. In 1991, 49.7 percent.

SENATOR SARBANES. Now, that's for the middle 60 percent.

MR. WEINBERG. That's correct.

SENATOR SARBANES. So these bars over here on the right represent the top 20 percent.

MR. WEINBERG. This is 20 percent of the population. These middle bars are 60 percent of the population.

SENATOR SARBANES. The 60 percent of the population. The bottom 20 percent had a decline in their share, from 4.1 percent in both 1971 and 1981 to 3.8 percent in 1991.

SENATOR SARBANES. So the bottom 20 percent in household income got 3.8 percent of the income and the top 20 percent got 46.5 percent. Is that right?

MR. WEINBERG. That's correct, yes.

SENATOR SARBANES. And the top 20 percent got almost as much, just a few points shy of what the middle 60 percent were receiving.

MR. WEINBERG. That's true, yes.

SENATOR SARBANES. Now, do you have that broken down beyond quintiles into the top 10 percent or the top——

MR. WEINBERG. We have a figure for the top 5 percent.

SENATOR SARBANES. Top 5 percent. What is that figure?

MR. WEINBERG. In 1991, the top 5 percent of households had 18.1 percent of all income. In 1981, that was 16.5 percent. In 1971, it was 16.7 percent.

SENATOR SARBANES. And it's 18 percent in 1991?

MR. WEINBERG. 18.1 percent, yes.

SENATOR SARBANES. Now, the top 20 percent increased their income by 3 percentage points, from 1971 to 1991. Is that correct?

MR. WEINBERG. Yes, that's correct.

SENATOR SARBANES. So they increased their income almost by as much as the total income of the lowest 20 percent. That is 3.8 percent.

MR. WEINBERG. Yes, about three quarters of the total for the bottom 20 percent. Yes.

SENATOR SARBANES. All right.

MR. WEINBERG. Another perspective on income inequality can be gained by standardizing incomes for different family sizes. This was done using the poverty thresholds.

In 1991, families in the lowest quintile had an average income-to-poverty ratio of 0.94. That is, on average, these families were poor, with a ratio of less than one.

This has not changed much since 1967, when the ratio was 0.97.

At the opposite end of the income distribution, the average ratio in the highest quintile of family income in 1991 was 8.40. That is, the average family in the top quintile had over eight times the poverty-level income. This has changed substantially since 1967, when the ratio was but 6.06. This provides additional evidence of increasing income inequality over time.

There is a lot of short-term movement along the income distribution. We used the Survey of Income and Program Participation to examine the extent to which——

SENATOR SARBANES. Could I just go back to that chart before it is moved away?

MR. WEINBERG. Certainly.

SENATOR SARBANES. I want to be clear on this. The top 20 percent of households and household income have 46.5 percent of all income. Is that right?

MR. WEINBERG. Yes, that's correct.

SENATOR SARBANES. Almost half. Not quite half.

MR. WEINBERG. Right.

SENATOR SARBANES. For the top 20 percent.

MR. WEINBERG. Top 20 percent.

SENATOR SARBANES. All right. The middle 60 percent of households —if you have the top 20 percent, then you did not do it by——

MR. WEINBERG. Well, we do have the statistics for each 20 percent, if you're interested. Let me start from the bottom up. As you see from the chart, the bottom 20 percent at 3.8 percent. The second fifth, if you will, the second quintile had 9.6 percent. The third quintile, between the 40th and 60th percentile, had 15.9 percent. The fourth quintile, between the 60th and 80th percentile, had 24.2 percent. And then the highest fifth, as you see from the chart, has 46.5 percent.

SENATOR SARBANES. So the top 40 percent have 71 percent of all the income.

MR. WEINBERG. Just about, yes. It is 70.7 percent.

SENATOR SARBANES. 70.7 percent. Okay. And the bottom 60 percent, then, have 29.3 percent.

MR. WEINBERG. Yes, that's correct.

SENATOR SARBANES. Let me ask this question, because this issue has been raised. I was told that in figuring out the amount of income by households, at the top income, you do not take into account incomes above $300,000. You assume that the top income makers are at or above $300,000. That becomes a cap for your statistical purposes, and you don't go above that. Is that correct?

MR. WEINBERG. That's right. We don't make that assumption. We instruct our field representatives not to enter any figures over that amount in order to increase the confidentiality protection for our respondents.

So the maximum amount of earnings that can be coded on the record is $300,000. That's correct.

SENATOR SARBANES. So, in other words, the question they put is, do you have an income of $300,000 or more.

MR. WEINBERG. Well, they ask what the earnings are and if it's more than $300,000, they will enter $300,000.

SENATOR SARBANES. They enter $300,000.

MR. WEINBERG. Yes.

SENATOR SARBANES. Even though the earnings may be $5 million, for example.

MR. WEINBERG. That's correct, yes. So there is some income for the upper end that's not included in these figures.

Likewise, people have argued that we don't include all income for those at the bottom because of noncash benefits, and I'll talk a little bit about that later.

SENATOR SARBANES. Okay. But for the high-income people, then, this would understate the amount of concentration of income because you enter the incomes at $300,000, even though they may be much higher. Is that correct?

MR. WEINBERG. Yes. This is likely to be an under-estimate of their income.

SENATOR SARBANES. And is capital gains reflected as well?

MR. WEINBERG. Not in these figures. This is cash income. We do have, again, in the later part of the presentation, an estimate of realized capital gains and how that affects the income distribution.

SENATOR SARBANES. I assume it makes it worse. Is that correct?

MR. WEINBERG. Yes, worse in the sense of higher inequality.

SENATOR SARBANES. Well, I'm making a value judgment, obviously. More skewed to the very top of the income scale.

MR. WEINBERG. Yes, that's correct.

SENATOR SARBANES. Okay. Thank you.

MR. WEINBERG. Let's go on to the next chart.

As I said, we used the second survey, the Survey of Income and Program Participation, to examine the extent to which individuals and families change their economic status from one year to the next.

The SIPP is a longitudinal survey that follows households and individuals for 32 months. One third of all persons were in a different income quintile in 1988 than they were in 1987.

This chart shows data for those two years—the latest years for which we have longitudinal data. Between 1987 and 1988, 32 percent—that's the yellow bar, 20 percent, plus the orange, 12 percent—experienced declines of 5 percent or more in their income-to-poverty ratios.

On the other hand, 44 percent experienced increases of 5 percent or more. That's these two bars here, the green and the blue bars.

A substantial fraction experienced changes of 20 percent or more. Twenty percent experienced declines in their income-to-poverty ratios of 20 percent or more. Twenty-two percent experienced increases.

Movement up for those at the bottom is greater than for those at the top. We've divided this chart into those at the bottom, those with an income-to-poverty ratio of less than one in 1987—that's this middle set—and the bottom set with an income-to-poverty ratio of greater than five.

Movement up for those at the bottom is a combination of these two bars, 54 percent. Movement up for those at the top combines these two bars, with 33 percent.

Likewise, movement down for those at the top is greater than for those at the bottom. Movement down for those at the top combines these two, 41 percent. Movement down for those at the bottom combines these two, at 25 percent.

Next chart, please.

SENATOR SARBANES. Well, what about the people in between? Which way did they go?

MR. WEINBERG. Well, they're in between. You can see the total here, which is in between these two totals. They still have substantial mobility, somewhere in between these two extremes in the distribution.

SENATOR SARBANES. The ratio's between 1.0 and 5.0.

MR. WEINBERG. Right. I'm not sure if I have those easily accessible. It's somewhere in between these two extremes. People at the extremes of the distribution tend to move toward the middle.

SENATOR SARBANES. Well, of course, that follows. If you're at the bottom, you essentially have one way to go, if you go anywhere, and that's up. And if you're at the top, you have one way to go if you go anywhere, and that's down, I take it.

MR. WEINBERG. That's why we use the ratio. Those at the bottom group can still move down. They can have less income, which would mean that the ratio would fall. And indeed——

SENATOR SARBANES. But as I understand your earlier statement, the ratio of income to the poverty level of the people at the top has improved significantly over the period that you were surveying. Is that correct?

MR. WEINBERG. Between 1967, when the average income-to-poverty ratio of people at the top was 6.06 percent. In 1991, it's 8.40 percent. So it has improved tremendously.

SENATOR SARBANES. So, between 1967 and now, the percentage in poverty has increased. Is that correct?

MR. WEINBERG. I haven't presented poverty yet, but the poverty rate in 1967 and 1991 is the same.

SENATOR SARBANES. All right. It's the same. But the ratio of income to the poverty level of the people at the top has improved—their income is 6.6 percent the poverty level——

MR. WEINBERG. 6.06 percent.

SENATOR SARBANES. Sorry. 6.06 percent.

MR. WEINBERG. About six times the poverty level in 1967 to almost 8½ times the poverty level in 1991.

SENATOR SARBANES. Okay. So what's happened is that people at the top have improved their position, from having an income six times the poverty level in 1967 to where they now have it 8½ times.

When we say the people at the top, who are we talking about? The top 20 percent?

MR. WEINBERG. The top 20 percent of families, yes.

SENATOR SARBANES. And the people in poverty have stayed the same between those two periods, the percentage of people in poverty.

MR. WEINBERG. Correct.

SENATOR SARBANES. How about for the balance of the people?

MR. WEINBERG. I don't have the figures easily at hand, but the closer you get to the top, the more the income has risen.

I think that's a pretty correct statement.

SENATOR SARBANES. If the 60 percent share of household income has been declining over this period, which is what your earlier chart showed me, I assume that the ratio to poverty has declined somewhat.

MR. WEINBERG. Yes—declined, no. I think the ratio of income to poverty has increased because we saw median household income has increased 12.4 percent since 1967.

SENATOR SARBANES. Okay.

MR. WEINBERG. So we know, at least in the middle group, their ratio is probably up.

SENATOR SARBANES. But not by the same factor, I take it, as the top 20 percent.

MR. WEINBERG. Correct. It would be much less. All right, we'll do the next chart.

Real median earnings of male, year-round, full-time earners—that's this red line—have actually increased 2.0 percent between 1990 and 1991, while earnings for female, year-round, full-time workers remained unchanged. That's this blue line.

This means that the ratio of female-to-male earnings declined to .70 from its all-time high of .72 in 1990. That's this green line here.

The reason for this increase in median male earnings was linked to the decline of 1.3 million in the number of such earners. Apparently, many more male, year-round, full-time earners with earnings below the median lost their jobs or started working part-year or part-time than above the median. 1.1 million male workers, year-round, full-time workers below the median lost their job—0.2 million above the median.

SENATOR SARBANES. Are these figures that you're giving me after taxes or before taxes?

MR. WEINBERG. This is before taxes—total cash income.

SENATOR SARBANES. So, to the extent the tax system——

MR. WEINBERG. This is earnings. I'm sorry. Total earnings.

SENATOR SARBANES. All right. So, to the extent that the tax system over this period of time has been changed to ease the tax burden on the people at the top of the income scale, which is what has happened, the after-tax difference would be even more extreme than the income figures that you're giving us here today. Would that be correct?

MR. WEINBERG. The after-tax difference between males and females? Is that what you're talking about?

SENATOR SARBANES. No, between the top 20 percent and the bottom 20 percent, or the top 20 percent and the middle 60 percent.

MR. WEINBERG. That's quite possible. I'm not that familiar with the trends in after-tax income. But we do have some statistics on that.

SENATOR SARBANES. Well, I'd like to have them, and I'm prepared to make the statement on the record that the changes in the tax system have, in effect, favored the people at the very top so that the income discrepancies that you're describing here in their income situation will have been enhanced by their after-tax position.

Why don't you proceed?

MR. WEINBERG. Okay. We do also present median household income for each state. In order to increase the reliability of the estimates due to small sample sizes, we compared moving averages of 1990 to 1991 income with 1989 to 1990 income.

Fifteen states had a statistically significant decline in median household income in this period. No state had an increase in median household income.

SENATOR SARBANES. Which period, now?

MR. WEINBERG. We compared the average of 1990 and 1991 income with the average of 1989 and 1990 income. So, over this period, we saw 15 states with a decline in median household income.

SENATOR SARBANES. And no state with an increase.

MR. WEINBERG. That's correct. I have the states, if you're interested.

SENATOR SARBANES. Why don't you just read those into the record?

MR. WEINBERG. The 15 states with a decline were——

SENATOR SARBANES. This is with a decline, now.

MR. WEINBERG. With a decline, right. California, Florida, Georgia, Illinois, Massachusetts, Minnesota, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Utah, Vermont, and Wyoming.

SENATOR SARBANES. Except for the latter three, that sounds to me like you have some of the most populace states in the country in that.

You had California, Florida, New York, New Jersey, Ohio, Illinois, Michigan—was Michigan in there?

MR. WEINBERG. No, Michigan is not on the list. I think you've hit upon one of the issues of sample size and reliability. The larger the state, the more reliable our estimate because we have a larger sample size. So for a given change in income, we're more likely to find that information in a larger sized state as a statistically significant change than in a smaller state, even if it turns out in the end to be the same change.

Let's turn now to poverty, if we could.

As you mentioned before, the poverty rate for all persons in 1991 was 14.2 percent—a significant increase from the 1990 rate of 13.5 percent—and the same as the 1967 rate.

SENATOR SARBANES. Now, Mr. Weinberg, as we accomplish this transition, I want to be clear. The whole analysis we've just been through is income for all households in the country.

MR. WEINBERG. That's correct, yes. We use that to determine if an individual household is in poverty.

SENATOR SARBANES. Right. So what we have seen is that there has been two things, at least from what I gather you have told me.

One is that there's been a decline in median household income over the last two years of over 5 percent. This is income adjusted for inflation.

MR. WEINBERG. Yes.

SENATOR SARBANES. So that means that the median household, their standard of living, in effect, has had to be cut by 5 percent over this two-year period. Or their income, at least, has declined. Their real income, adjusted for inflation, has declined by just over 5 percent.

MR. WEINBERG. Right.

SENATOR SARBANES. And the other thing those figures showed was a significant increase in the concentration of income in the top 20 percent of the income scale, with a decline for the next 60 percent and then a decline for the bottom 20 percent, as well. Is that correct?

MR. WEINBERG. That's correct, yes.

SENATOR SARBANES. Okay. Now, you're going to turn and look at, as it were, the lower end of the income scale.

MR. WEINBERG. That's correct. The average poverty threshold for a family of four in 1991 was $13,924. And it's adjusted for family size. We're going to talk about the percent of persons and families that are below these thresholds.

And in 1991, there were 35.7 million poor, an increase of 2.1 million from 1990. The poverty rates for children and those 18 to 44 increased between 1990 and 1991. There was no change for those 45 and older.

As you noted earlier, the rate for children, 21.8 percent, exceeds that for any other age group.

SENATOR SARBANES. When did we last have an increase in the number of people in poverty of 2.2 million? There are 2,200,000 more people in poverty in 1991 than were in poverty in 1990. Is that correct?

MR. WEINBERG. 2.1 million, yes.

SENATOR SARBANES. Sorry. All right, 2.1 percent. Between 1989 and 1990, there was an increase of slightly over 2 million. And then between 1981 and 1982, there was an increase of about 2.5 million. What was the figure on either side of that 1982 figure?

MR. WEINBERG. In 1981, there were 31.8 million poor. In 1982, 34.4 million. In 1983, 35.3 million.

SENATOR SARBANES. And then——

MR. WEINBERG. In 1989——

SENATOR SARBANES. No, the next year after the 35.3 percent.

MR. WEINBERG. All right. In 1984, it's 33.7 percent.

SENATOR SARBANES. So it started back down again.

MR. WEINBERG. It started back down, yes. As you can see from the chart, the high point, in terms of the numbers, was 1983, with a percentage of 15.2 percent in poverty.

It started down until 1989, when we were down to 12.8 percent poor, and now we're at 14.2 percent.

SENATOR SARBANES. But the number of people in poverty is larger now. Is that correct?

MR. WEINBERG. It's about the same as it was in 1983, in terms of the number. In 1983, 35.3 million. Now, we're 35.7 million. The last time we were at that level was 1964, at 36.1 million.

SENATOR SARBANES. Okay. Thank you.

MR. WEINBERG. Let's go to the next chart.

The poverty rates for whites increased between 1990 and 1991, while the apparent change for the other racial and ethnic groups was not statistically significant. There has been an increase between 1989 and 1991 for whites of 1.3 percentage points, for blacks of 2.0 percentage points, and for those of Hispanic origin of 2.5 percentage points. There was no change in the poverty rate for Asian and Pacific Islanders. The South, while remaining the poorest of the four regions——

SENATOR SARBANES. Wait a minute. Let me do the race and origin. In other words, the poverty has gone up in all groups. Is that correct?

MR. WEINBERG. Except Asian and Pacific Islanders, yes, that's correct.

SENATOR SARBANES. All right. And in fact, in percentage terms, it has gone up amongst whites more so than in other groups. Is that right?

MR. WEINBERG. That's correct, yes. As you see, the poverty rate for whites is 11.3 percent now. For blacks, 32.7 percent. For Asian and Pacific Islanders, 13.8 percent. For those of Hispanic origin, 28.7 percent.

SENATOR SARBANES. But the poverty rate amongst whites has gone up by more than 10 percent.

MR. WEINBERG. Yes.

SENATOR SARBANES. Thirteen percent, right?

MR. WEINBERG. That's correct, since it started at 10.0, that's a 13 percent increase.

SENATOR SARBANES. And then amongst blacks, it has gone up by about 6 percent.

MR. WEINBERG. Six or seven percent.

SENATOR SARBANES. Six or seven percent.

MR. WEINBERG. Yes. And for Hispanic origin, about 9 percent, I guess.

SENATOR SARBANES. All right. Thank you.

MR. WEINBERG. The South, while remaining the poorest of the four regions with a poverty rate of 16.0 percent, was the only region not to have an increase in its poverty rate between 1990 and 1991.

This next chart shows poverty rates by educational attainment.

The traditional relationship between economic well-being and education holds. Those with not even a high school diploma had a poverty rate of 25.2 percent. Those with a bachelor's degree or more had a poverty rate of only 3.1 percent.

SENATOR SARBANES. Do you have that 3.1 broken out between those with a bachelor's degree and those with more than a bachelor's degree?

MR. WEINBERG. I think we might. I'm sure the same relationship would continue.

SENATOR SARBANES. But 25 percent, is this saying that 25 percent of all people without a high school diploma are in poverty?

MR. WEINBERG. It's for those 25 and older. One quarter are in poverty if they do not have a high school diploma.

SENATOR SARBANES. Well, now, how do you factor the children in?

MR. WEINBERG. Well, there is a determination for all families. And if the family income is below the poverty threshold, then everyone in the family is considered poor. We haven't included them in this chart. This is only those 25 and older.

SENATOR SARBANES. All right. Those with a high school diploma, just under 10 percent are in poverty, 25 and older. Correct?

MR. WEINBERG. That's correct. We don't have those statistics broken out by bachelor's degree or more. We can find that out for you, Senator.

SENATOR SARBANES. All right.

MR. WEINBERG. Both the poverty rate and the number of poor families with a female head of household and no spouse present increased between 1990 and 1991. The change in their numbers accounted for 64 percent of the net increase in poor families between those two years. Their poverty rate in 1991 was 35.6 percent.

Female householders, no spouse present, are 54 percent of all poor families. That's this green bar here. They're only 13 percent of nonpoor families.

If we look at married couple families who are 41 percent of all poor families, they have the lowest poverty rate, only 6.0 percent.

If you recall from the previous chart that the poverty rate for Hispanics was lower overall than that for blacks. However, their poverty rates within type of family exceeded, or were not different from, that for blacks. The reason for the lower overall poverty rate is the composition of the poor. As you can see, female householders, no spouse present, were only 46 percent of Hispanic poor families, but they were 78 percent of black poor families.

Let me talk a little bit about the work experience of the poor.

In 1991, 40 percent of poor persons 15 and over worked for pay. Nine percent of them worked year-round, full-time.

That is basically unchanged since 1978.

Compared to the nonpoor, though, 72 percent of the nonpoor worked for pay. Forty-five percent worked year-round, full-time.

SENATOR SARBANES. Ten percent of the people in poverty worked full-time, year-round.

MR. WEINBERG. Nine percent of those 15 and over in poverty worked year-round, full-time.

SENATOR SARBANES. So 9 percent of the people that are classified as being in poverty had a full-time, year-round job. Is that correct?

MR. WEINBERG. Yes, that's correct.

SENATOR SARBANES. But the job did not return enough to put them above the poverty level.

MR. WEINBERG. That's correct, for the given family they were in. If they were alone, an unrelated individual, let us say, then it would be enough.

SENATOR SARBANES. Do you have any sort of historical comparison on that?

MR. WEINBERG. Yes. That hasn't changed much since 1978.

SENATOR SARBANES. How about earlier?

MR. WEINBERG. Earlier than that, we changed the universe, but I really don't know what the numbers are before 1978. I can find that out for you.

[Material subsequently supplied for the record:]

UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
Washington, DC 20233-0001

92 SEP 16 PM 3:22

September 10, 1992

Honorable Paul S. Sarbanes
Chairman, Joint Economic Committee
United States Senate
Washington, D.C. 20510-2002

Dear Mr. Chairman:

During my testimony on September 3, 1992, you asked for two items of additional information. We do not have poverty rates separately for those with only a bachelor's degree versus those with yet more education. We are enclosing a series describing the work experience of poor persons for the entire 1966-1991 period for which we have data. Note the change in the universe between 1978 and 1979. We hope this material meets your needs.

Sincerely,

Daniel Weinberg

DANIEL H. WEINBERG
Chief, Housing and Household Economic
Statistics Division
Bureau of the Census

Enclosure

Table D. Workers as a Proportion of All Poor Persons: 1966 to 1991

(Numbers in thousands)

Year	Number of poor	Worked		Worked year-round, full-time	
		Number	Percent	Number	Percent
15 yrs and over					
1991	23,194	9,227	39.8	2,076	9.0
1990	21,783	8,770	40.3	2,039	9.4
1989	20,474	8,419	41.1	1,887	9.2
1988	20,857	8,415	40.3	1,929	9.2
1987	21,316	8,440	39.6	1,871	8.8
1986	21,352	8,864	41.5	2,009	9.4
1985	21,954	9,112	41.5	1,972	9.0
1984	22,246	9,104	40.9	2,076	9.3
1983..........	23,465	9,440	40.2	2,066	8.8
1982	22,812	9,119	40.0	2,000	8.8
1981	21,260	8,631	40.6	1,883	8.9
1980	19,517	7,792	39.9	1,646	8.4
1979	16,907	6,545	38.7	1,365	8.1
14 yrs and over					
1978..........	16,914	6,599	39.0	1,309	7.7
1977..........	16,864	6,459	38.3	1,458	8.6
1976..........	16,994	6,555	38.6	1,355	8.0
1975..........	17,300	6,697	38.7	1,316	7.6
1974..........	16,132	6,376	39.5	1,579	9.8
1973..........	15,428	6,186	40.1	1,433	9.3
1972..........	16,393	6,329	38.6	1,534	9.4
1971..........	17,197	6,836	39.8	1,682	9.8
1970..........	16,981	6,716	39.6	1,624	9.6
1969..........	16,288	6,469	39.7	1,671	10.3
1968..........	16,673	7,146	42.9	2,126	12.8
1967..........	18,403	7,929	43.1	2,370	12.9
1966..........	18,494	8,085	43.7	2,489	13.5

Sources:
USBC Current Population Reports, Series P-60, No. 95,
Supplementary Report on the Low-Income Population: 1966 to 1972;
P-60, No. 98, Characteristics of the Population Below the Poverty Level: 1973;
P-60, No. 102, Characteristics of the Population Below the Poverty Level: 1974;
P-60, No. 106, Characteristics of the Population Below the Poverty Level: 1975;
P-60, No. 115, Characteristics of the Population Below the Poverty Level: 1976;
P-60, No. 119, Characteristics of the Population Below the Poverty Level: 1977

MR. WEINBERG. We also present state poverty rates in the report, and again we used the same methodology, the comparison of two-year moving average. Nine states showed significant increases in poverty, when 1990 to 1991 is compared with 1989 to 1990.

They are California, Connecticut, Florida, Massachusetts, New York, North Carolina, Ohio, Utah and Vermont.

No state had a decline in their poverty rate between those pairs of years.

Year-to-year changes in poverty are relatively small when overall statistics are examined. As we saw for income, though, there is a good deal of movement in and out of poverty. Again, using the Survey of Income and Program Participation to compare 1987 and 1988, there was a net decline in the number of poor between those two years of 1.8 million persons.

This was composed of two flows—6.4 million persons exited poverty, 4.6 million entered poverty. About one-quarter of those poor in 1987 were not poor in 1988. Even in a recessionary period like 1990 to 1991, there are likely to be many persons exiting poverty. Though, of course, more entered as the overall number increased.

We hope to have transition statistics on 1990 to 1991 next year.

Let me turn now to health insurance coverage, or is there a question?

SENATOR SARBANES. No.

MR. WEINBERG. Okay. Let's go to the next chart, then.

The number of persons without health insurance in 1991 was 35.4 million, an increase from 34.7 million in 1990. The percentage without health insurance remained unchanged at 14.1 percent.

SENATOR SARBANES. Now, is that figure, in 1991, 35 million people had no health insurance.

MR. WEINBERG. That's correct.

SENATOR SARBANES. And is that no health insurance at any point in 1991, or no health insurance for some part of 1991?

MR. WEINBERG. We asked the question and tried to get the answer for the whole year: "Did you have any health insurance during 1991?" But we believe the answer more properly reflects current conditions. That is, at the time of the interview, this percent said they did not have health insurance.

We think that's the best way to interpret it.

SENATOR SARBANES. Well, do you have a survey that shows whether people had coverage at some point in the year and then lost it and then recovered it, and so forth?

MR. WEINBERG. Yes, we do, Senator. We have, again, the Survey of Income and Program Participation that I mentioned before, which does take a look at spells of no insurance.

Again, for 1987, we have an estimate that 6.8 percent of the population had no coverage at all during the year, but 21.3 percent had less than 12 months of coverage during calendar year 1987.

SENATOR SARBANES. That's your most recent survey year?

MR. WEINBERG. Yes. Well, we also have 1988. The number was comparable.

SENATOR SARBANES. So that is 28 percent of the people——

MR. WEINBERG. No, the 6.8 percent is included in the 21.3 percent. 21.3 percent is less than 12 months, which includes the 6.8 percent with no——

SENATOR SARBANES. Had no coverage at all.

MR. WEINBERG. Right.

SENATOR SARBANES. Okay. So 21.3 percent either had no coverage for the entire year or no coverage for part of the year. That is in 1987.

MR. WEINBERG. Yes.

SENATOR SARBANES. And it is reasonable to presume that that figure is probably somewhat larger for 1991, is not that right, given that assumption?

MR. WEINBERG. Well, we haven't seen very much change in the percent covered by health insurance. As private group health insurance has declined, government health insurance, particularly Medicaid, has increased.

So I would say that the percentages are probably very similar now to what they were in the late 1980s. It's just the mix of health insurance that has changed.

As I say, the 1990 percentage is the same, 14.1 percent, as the 1991 percentage.

But we do see that 28.6 percent of the poor had no coverage of any kind in 1991. That compares with 11.7 percent of the nonpoor.

We've also examined changes by state in health insurance coverage, using the same methodology we use for income and poverty comparisons.

Three states showed greater health insurance coverage—Alaska, Colorado and Pennsylvania. Seven states showed less coverage—Illinois, Massachusetts, Ohio, Utah, Vermont, Virginia and the District of Columbia.

Official income and poverty statistics have been criticized for many years. We have begun a congressionally-mandated study at the National Academy of Sciences, funded by the Bureau of Labor Statistics and the Department of Health and Human Services, to examine these issues.

Meanwhile, we have tried to estimate the effect of valuing noncash benefits like food stamps and subtracting taxes paid on income and poverty.

This year, we are issuing a report covering the entire period for which data are available, 1979 to 1991, using a consistent methodology.

Fourteen experimental definitions of income, in addition to the official definition, are presented. This chart focuses on three key definitions. The red line represents the official definition of income—that is, cash income. The black line is what we call definition four, which removes government cash transfers and adds in our estimate of realized capital gains and the value of employer-provided health insurance. You can think of that as a private market income.

And then definition 14, which is the blue bar, takes out taxes and adds in all government transfers, such as social security and food stamps.

The Report does present one more inclusive definition than number 14, which adds in net imputed return on own-home equity.

The trends in all these series are very similar, with one major exception. One of the effects of using a more comprehensive definition of income, like number 14, is to soften the impact of declining real cash incomes. During the

1979 to 1983 period, cash income fell by 5.1 percent, while definition 14 income—cash plus noncash income minus taxes—fell by only 3.5 percent.

During the current decline, as we noted earlier, between 1989 and 1991, cash income again fell 5.1 percent. The more comprehensive definition of income showed only a 3.8 percent decline. The increases between 1983 to 1989 were comparable.

SENATOR SARBANES. When you say only, it's less than 5.1, but it's still a 3.8 percent decline.

MR. WEINBERG. Yes, it's still a decline, a statistically significant decline. But it is less in this more comprehensive definition than it is in cash income.

Valuing noncash income and subtracting taxes also affects the estimated poverty rate. This chart presents four alternate estimates of poverty. The official rate is again the red line. The rate counting only cash income, but using the experimental Consumer Price Index to adjust poverty thresholds. That would result in poverty thresholds of about 8 percent lower. That's this blue line.

The third rate involves counting noncash income and subtracting taxes, but using the official thresholds. That's this green line. And finally, a rate combining these alternatives, the black line at the bottom.

In 1991, the poverty rate would have been 11.4 percent instead of the official rate of 14.2 percent, when noncash benefits and taxes accounted for and the thresholds not changed.

If the experimental Consumer Price Index were used to index the poverty thresholds, the poverty rate would have been 12.7 percent instead of the official rate of 14.2 percent.

Combining the effects of this experimental price index and counting noncash benefits—subtracting taxes—would have given a poverty rate of 9.9 percent in 1991.

Of course, there are other alternatives that could increase the measured poverty rate. Regardless of the alternative chosen, however, the pattern is the same.

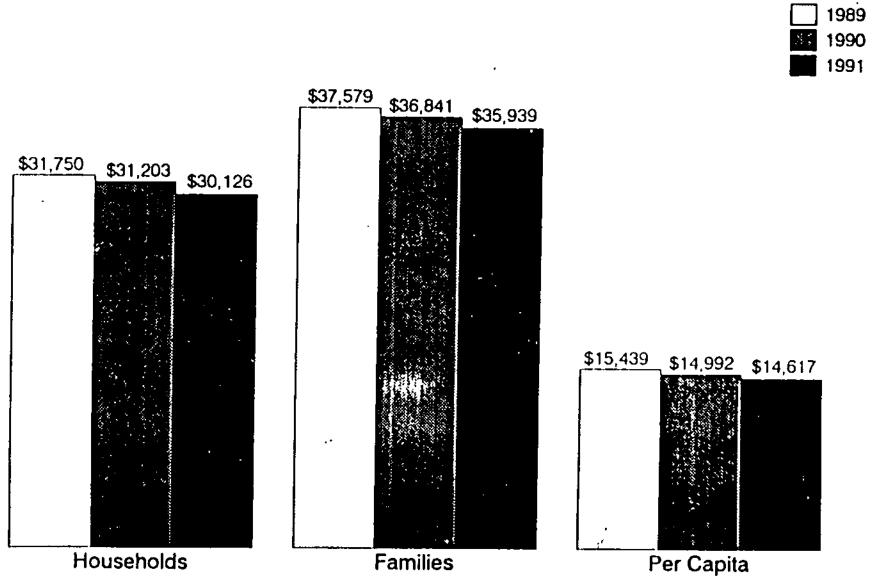
Thank you, Senator. That concludes my testimony.

[The charts used in Mr. Weinberg's statement follow:]

CHART 1

Median Household, Family, and Per Capita Income: 1989–91

(In 1991 dollars)

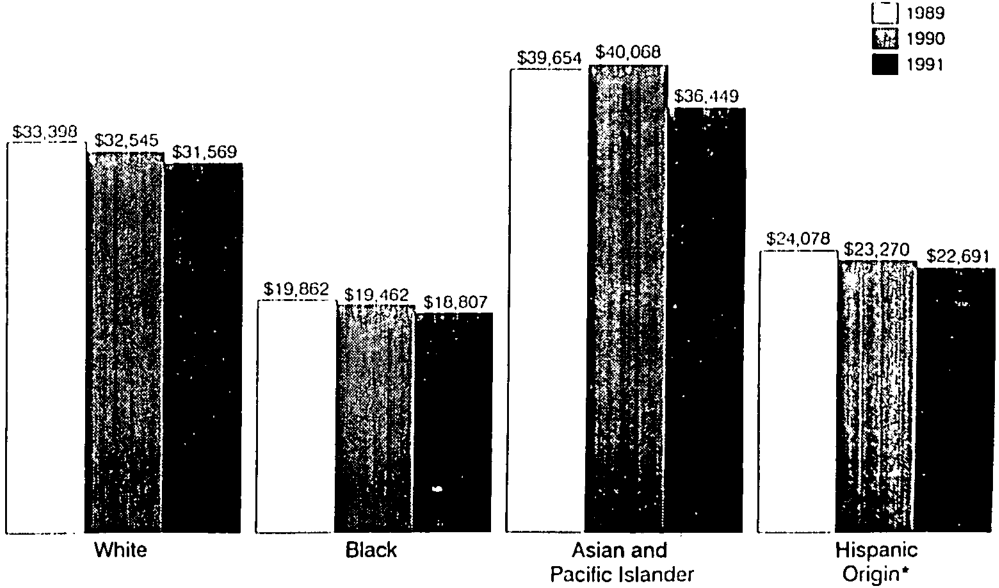


Percent change:	Households	Families	Per Capita
1990–91	−3.5%	−2.4%	−2.5%
1989–91	−5.1%	−4.4%	−5.3%

CHART 2

Median Household Income, by Race and Hispanic Origin: 1989–91

(In 1991 dollars)



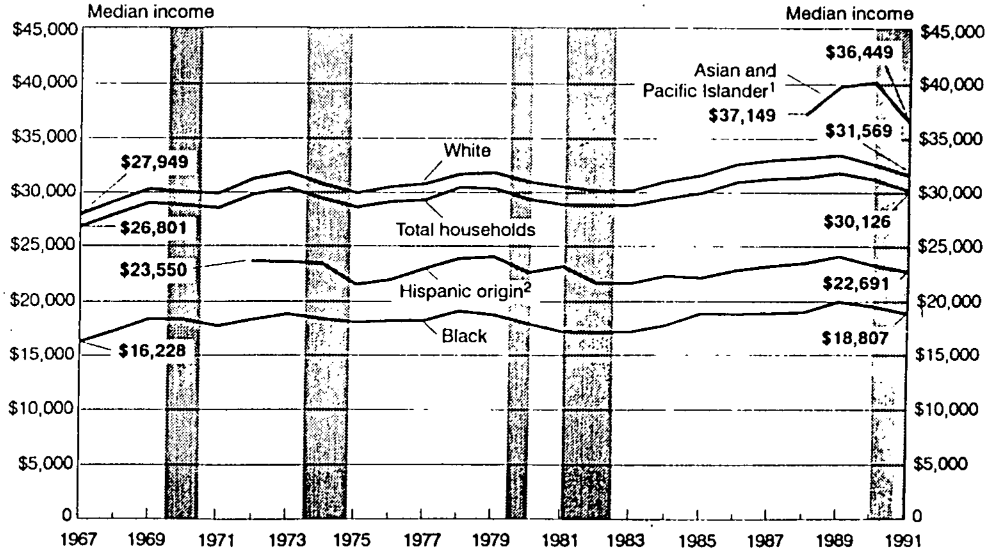
rcent change	White	Black	Asian and Pacific Islander	Hispanic Origin*
90–91	–3.0%	(no change)	–9.0%	(no change)
89–91	–5.5%	–5.3%	–8.1%	–5.8%

*Persons of Hispanic origin may be of any race.

CHART 3

Median Household Income, by Race and Hispanic Origin: 1967–91

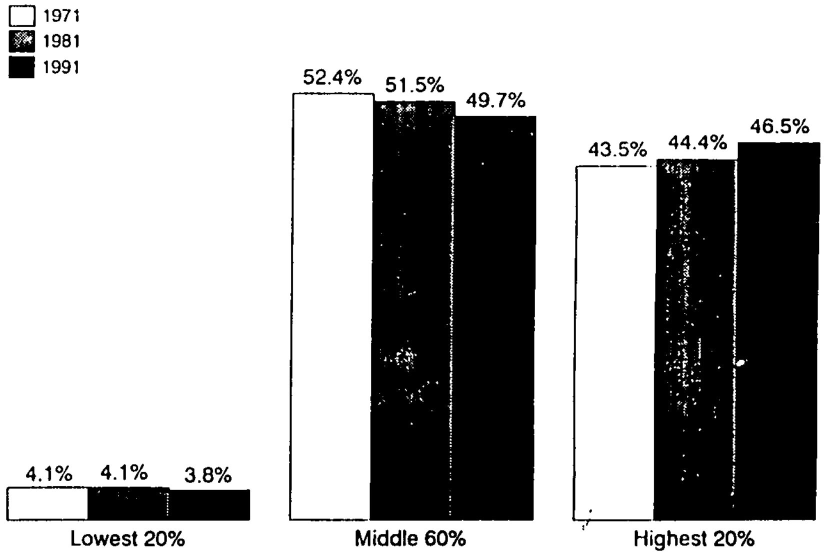
(In 1991 CPI-U-X1 dollars)



Shaded areas = Recessionary periods. The latest recessionary period began in July of 1990.
NOTE: The data points represent the midpoints of the respective years.
[1] Median income of Asian and Pacific Islander households is not readily available prior to 1988.
[2] Persons of Hispanic origin may be of any race. Median income of Hispanic-origin households is not readily available prior to 1972.

CHART 4

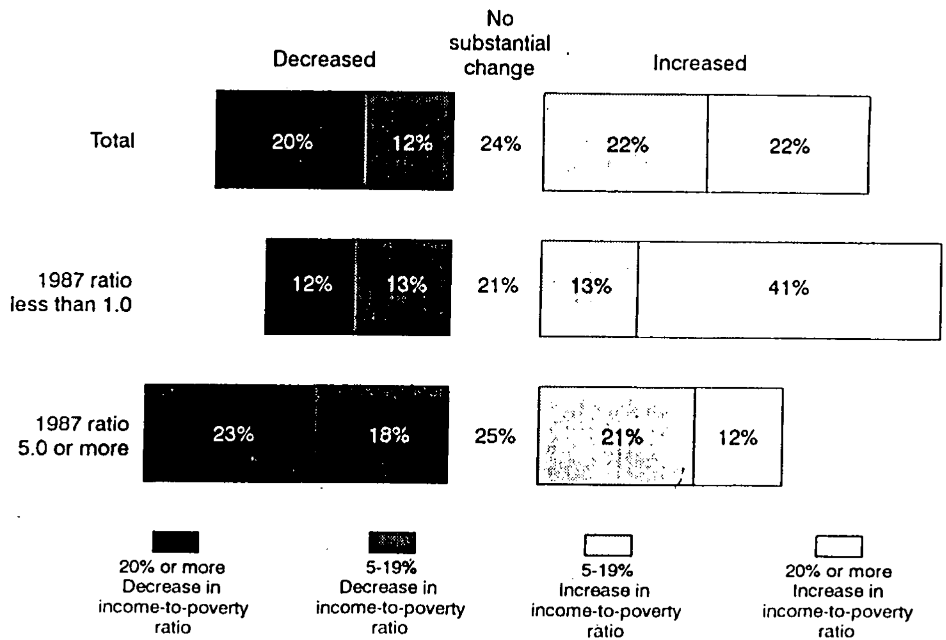
Share of Aggregate Household Income, by Quintile: 1971, 1981, and 1991



991 Income ınges:	Less than $12,589	$12,589 to $56,760	$56,761 or more

CHART 5

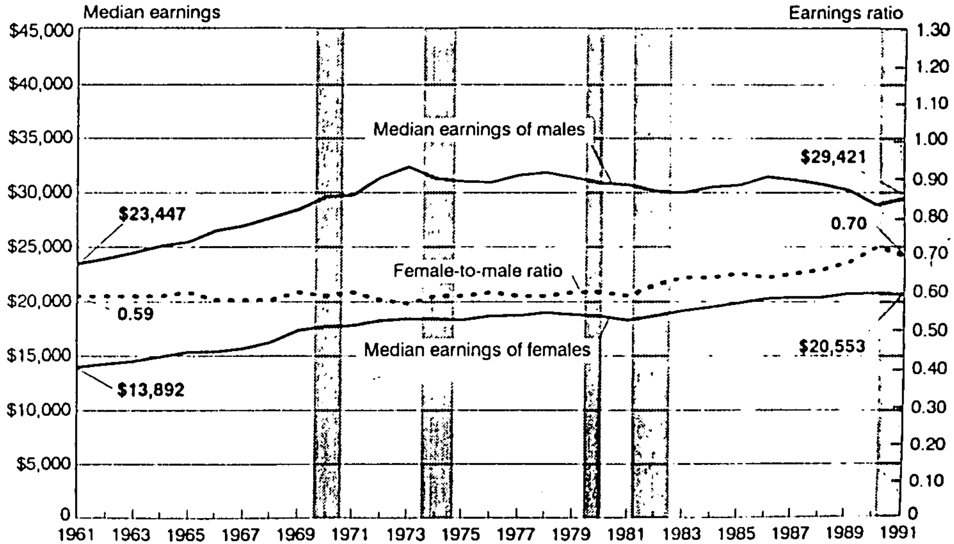
Percent of the Population Experiencing Changes in Income-to-Poverty Ratios: 1987-88



Source: Survey of Income and Program Participation

CHART 6

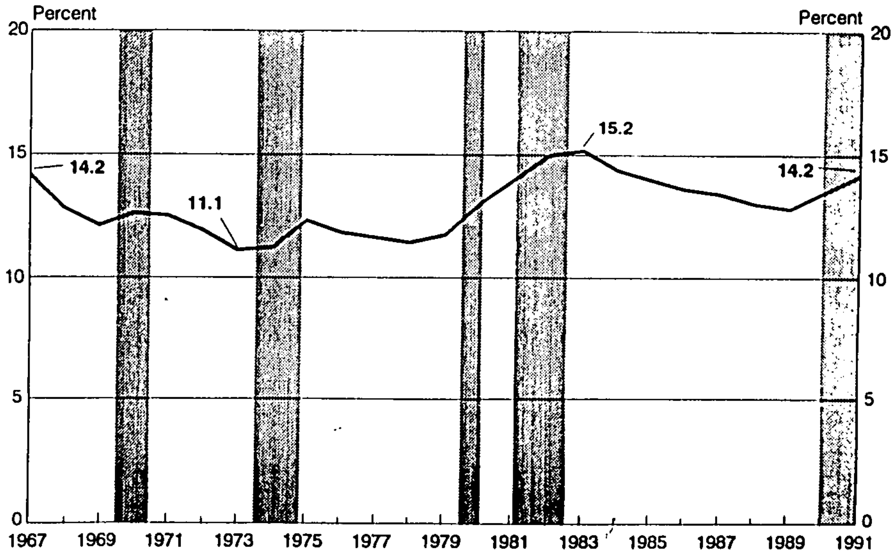
Median Earnings of Year-Round, Full-Time Workers, by Sex and Female-to-Male Earnings Ratio: 1961–91



Shade=Recessionary periods. The latest recessionary period began in July of 1990.
NOTE: The data points represent the midpoints of the respective years.

CHART 7

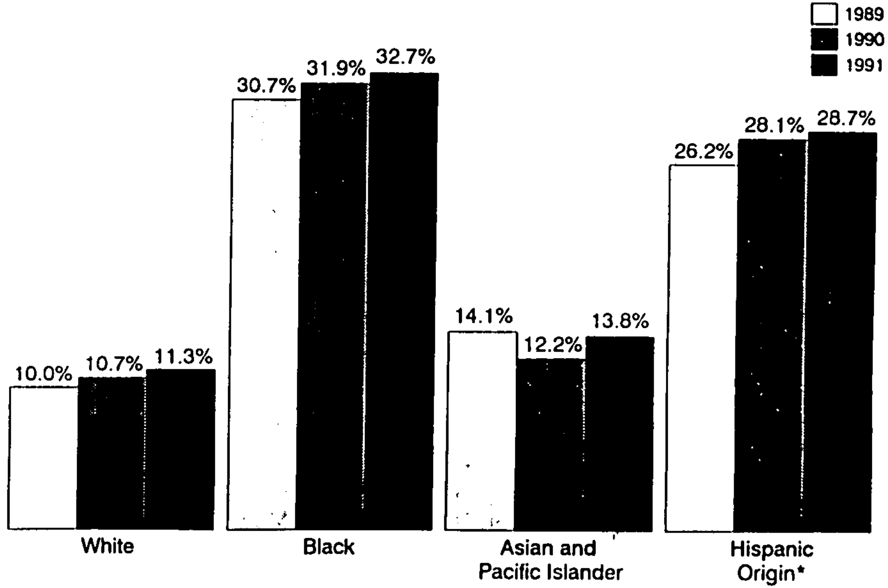
Percent of Persons Below Poverty: 1967–91



Shade=Recessionary periods. The latest recessionary period began in July of 1990.
NOTE: The data points represent the midpoints of the respective years.

CHART 8

Poverty Rates, by Race and Hispanic Origin: 1989–91



Difference:	White	Black	Asian and Pacific Islander	Hispanic Origin*
1990–91	+0.6	(no change)	(no change)	(no change)
1989–91	+1.3	+2.0	(no change)	+2.5

*Persons of Hispanic origin may be of any race.

CHART 9

Poverty Rates, by Educational Attainment: 1991

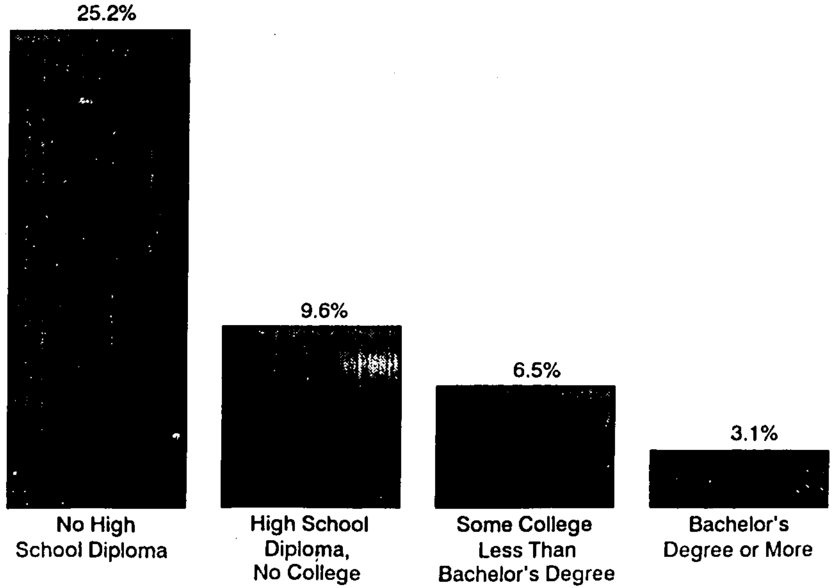


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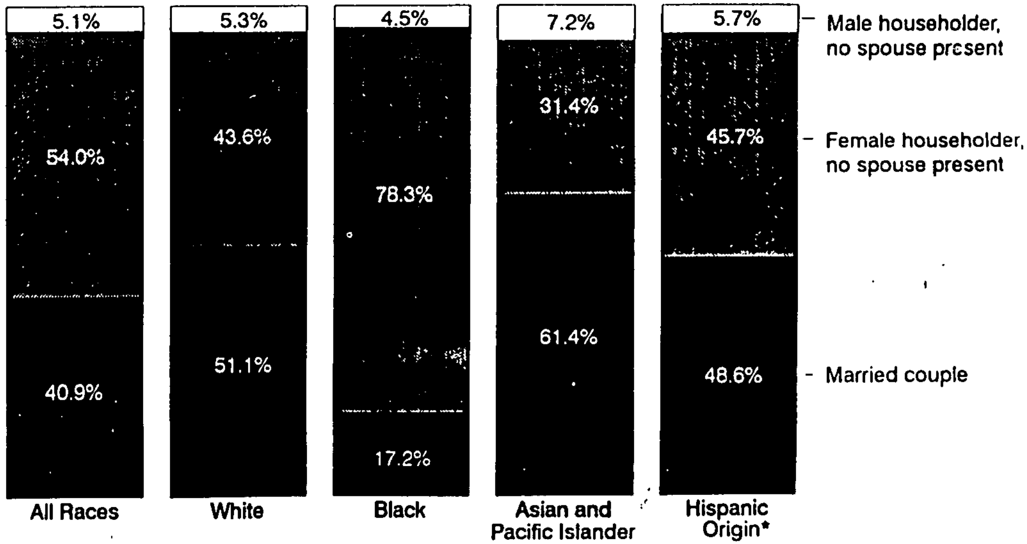
CHART 10

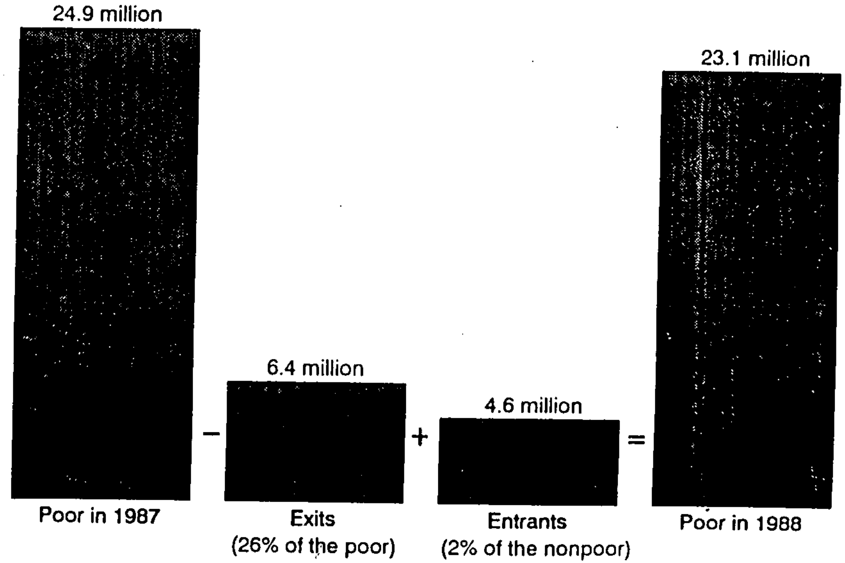
Distribution of Poor Families, by Type, Race and Hispanic Origin: 1991



*Persons of Hispanic origin may be of any race.

CHART 11

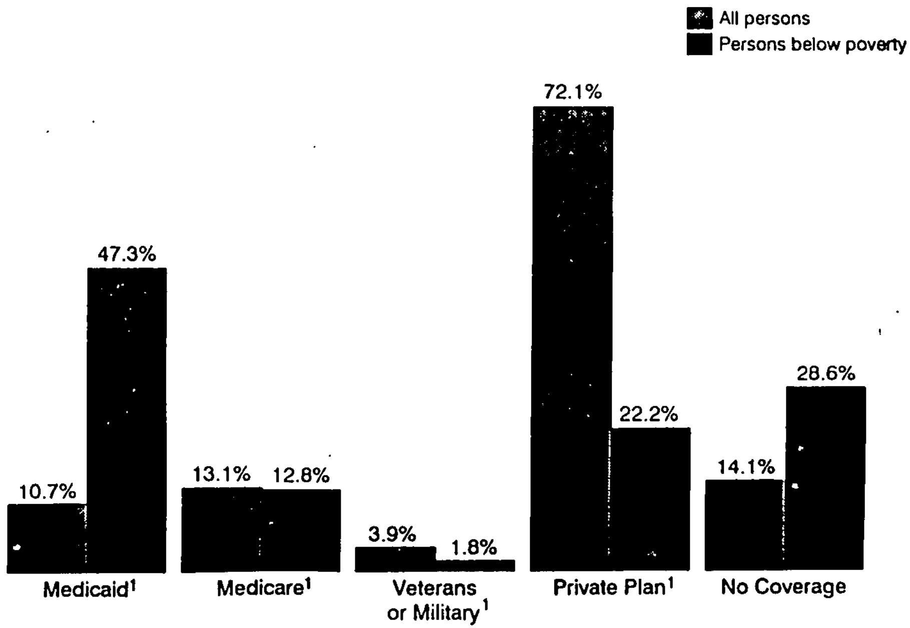
Change in Poverty Population: 1987–88



Source: Survey of Income and Program Participation.

CHART 12

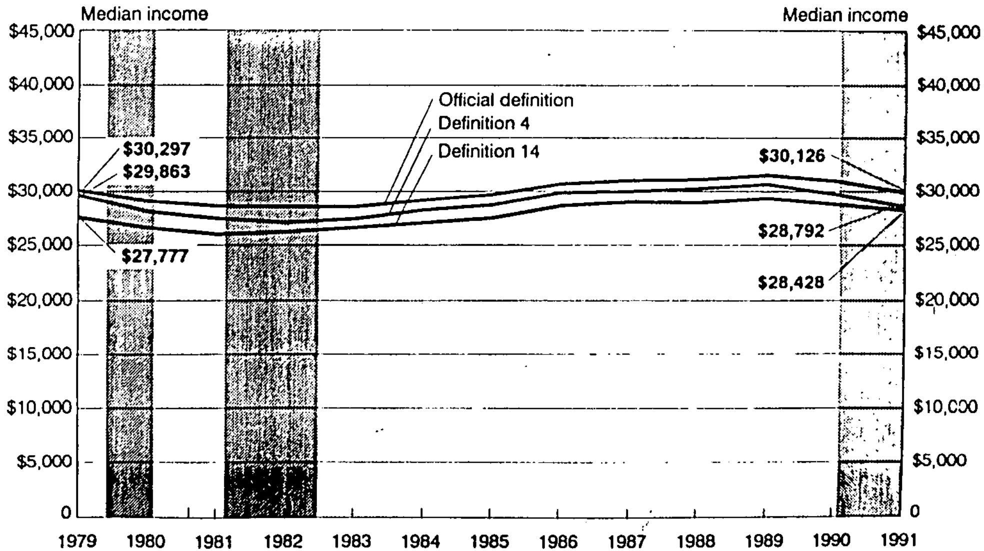
Health Insurance Coverage: 1991



[1]Includes those covered by other insurance

CHART 13

Median Household Income, by Income Definition: 1979–91



Shade=Recessionary periods. The latest recessionary period began in July of 1990.
NOTE: The data points represent the midpoints of the respective years.
Definition 4=Official income definition – government cash transfers + capital gains + group health insurance supplements.
Definition 14=Official income definition with full accounting for taxes and benefits, except return on home equity.

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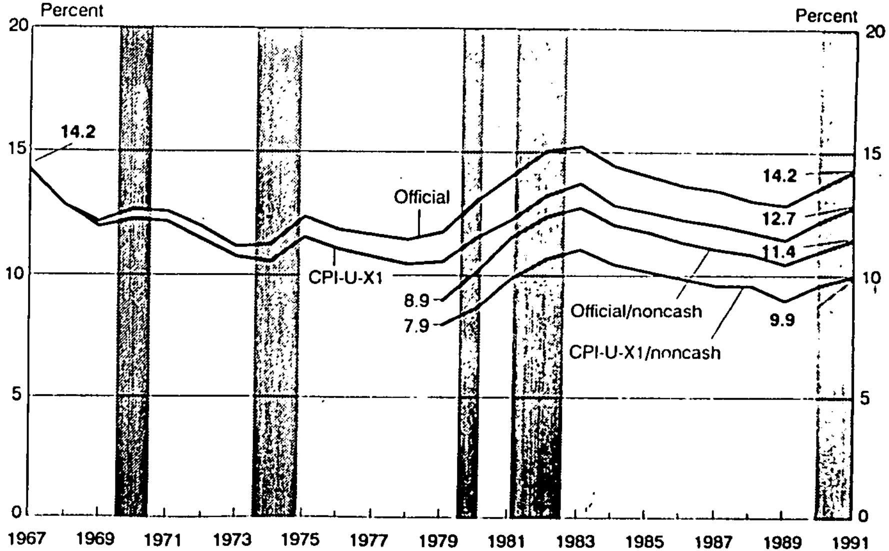
CHART 14

Percent of Persons Below Poverty, by Type of Deflator and Type of Income: 1967–91



Shade=Recessionary periods. The latest recessionary period began in July of 1990.
NOTE: The data points represent the midpoints of the respective years.

SENATOR SARBANES. Mr. Weinberg, thank you very much for your testimony. I think I have put the questions that I had for you as we proceeded through the testimony.

I must say, this is distressing news. Now, you are simply the messenger, and hopefully we have come far enough, in terms of civility, that the messenger is not held ... well, they used to chop off the messenger's head when he brought the bad message.

MR. WEINBERG. I'll duck, Senator.

SENATOR SARBANES. Hopefully, we have passed beyond that. But this report is very disturbing.

Now, as I understand it, and I'm going to set out certain aspects of it, and if I misstate any of them, I hope you'll correct me. The number of Americans added to the poverty roles in 1991 went up by 2.1 million. And that followed an increase in the number in the poverty roles of 2 million in 1990.

So, in the two-year period, 1990 and 1991, the number of additional people who have gone onto the poverty roles is over 4 million.

That now puts 14.2 percent of the population in poverty. Last year, it was 13.5 percent.

What was it the year before we added that 2 million?

MR. WEINBERG. 12.8 percent.

SENATOR SARBANES. 12.8 percent. So in two years, the percentage of people in poverty has gone from 12.8 percent to 14.2 percent. Is that correct?

MR. WEINBERG. Yes, that is.

SENATOR SARBANES. Now, as I understand it, this is something that's affected every racial and ethnic group in the population, with the possible exception of Asian Americans.

MR. WEINBERG. That's correct.

SENATOR SARBANES. Of course, the figures were very high for blacks and Hispanics before. But in terms of the increase over the two-year period, the largest increase has come amongst the white population. Is that correct?

MR. WEINBERG. Yes. The whites are a majority of the poor population.

SENATOR SARBANES. A majority of the people in poverty are white?

MR. WEINBERG. Yes. 23.7 million of the 35.7 million poor are white.

SENATOR SARBANES. Are white?

MR. WEINBERG. Yes.

SENATOR SARBANES. So two thirds.

MR. WEINBERG. About two thirds, yes.

SENATOR SARBANES. About two thirds of the people in poverty are white.

MR. WEINBERG. Yes.

SENATOR SARBANES. And the biggest increase, percentage-wise, over the last two years in the number of people in poverty has been in the white population.

MR. WEINBERG. Yes.

SENATOR SARBANES. Now, as I also understand it, on health-care, the number of people without health coverage has increased again this year.

MR. WEINBERG. The number has increased. The percentages remain the same, though.

SENATOR SARBANES. But the number is now over 35 million.

Is that correct?

MR. WEINBERG. Yes, that's correct.

SENATOR SARBANES. Without any health-care coverage.

MR. WEINBERG. That's correct.

SENATOR SARBANES. And this is 35 million of the total population, or the population above a certain age?

MR. WEINBERG. No, of the total population.

SENATOR SARBANES. Now, what percent of the children are in poverty, and how do you define children when you give me this answer?

MR. WEINBERG. Those under 18.

SENATOR SARBANES. Under 18.

MR. WEINBERG. 21.8 percent of children are in poverty.

SENATOR SARBANES. 21.8 percent.

MR. WEINBERG. Yes.

SENATOR SARBANES. Do you have that figure for younger children, or do you do it only up to age 18? How about children under age 6?

MR. WEINBERG. Mr. Nelson is checking.

SENATOR SARBANES. Any breakdown that you may have under any categories under 18.

MR. WEINBERG. Yes. Mr. Nelson was telling me that 24.0 percent of related children under 6 are in poverty.

SENATOR SARBANES. You mean one quarter.

MR. WEINBERG. Nearly one quarter of children under——

SENATOR SARBANES. Taking a percentage point. One quarter of American children under the age of six live in poverty?

MR. WEINBERG. That's correct.

SENATOR SARBANES. That is an extraordinary figure, when you stop and think about it. And then, do you have figures between the ages 6 and 12?

MR. WEINBERG. I'd have to interpolate. It's probably around 20 percent. I don't know the exact figure.

SENATOR SARBANES. What is the poverty figure for, say, a single parent with two children?

MR. WEINBERG. One-parent family. That is $10,860. Actually, a parent with two children would be $10,973 for that specific family type.

SENATOR SARBANES. $10,000——

MR. WEINBERG. $10,973.

SENATOR SARBANES. So that is just over $900 a month. Is that right?

MR. WEINBERG. That sounds right.

SENATOR SARBANES. Now, the other thing that I draw out of this report is, first of all, I note that, in terms of the regional distribution, the South has the highest poverty rate. Is that correct?

MR. WEINBERG. Yes, sir, and it's 16.0 percent.

SENATOR SARBANES. And what region has the lowest poverty rate?

MR. WEINBERG. The lowest poverty rate is in the Northeast, 12.2 percent; followed by the Midwest, 13.2; the West, 14.3 percent; and the South, 16.0 percent.

SENATOR SARBANES. Now, are these figures——

MR. WEINBERG. For 1991.

SENATOR SARBANES. Do these roughly parallel historical trends, or has there been some change in the regional distribution of poverty?

MR. WEINBERG. Roughly the same, yes.

SENATOR SARBANES. Now, on the median income, which I think is a very important figure, there's a tendency when these reports come in to view them in terms of simply the poverty dimension, which is obviously a very important dimension of your report. But I also think the median household income dimension is very important because that gives you a picture of the impact, in effect, on the total population, or certainly a broader segment of the population.

Let me ask you, in the year before that, was there an increase in the median household income?

MR. WEINBERG. There has been a decline for two consecutive years.

SENATOR SARBANES. For two consecutive years.

MR. WEINBERG. Yes.

SENATOR SARBANES. The decline this past year was 3.5 percent in median household income?

MR. WEINBERG. Yes, that's correct, and over a two-year period, 5.1 percent decline.

SENATOR SARBANES. Now, is this income adjusted for inflation?

MR. WEINBERG. Yes.

SENATOR SARBANES. So your dollar income may have actually gone up a little bit, but nowhere near the increase in inflation. So, in effect, your real income declined, and therefore your standard of living has declined by 5 percent, roughly.

MR. WEINBERG. Well, it's 5 percent over and above inflation. So, since, say, between 1990 and 1991, inflation was 4.2 percent. So a decline of 3.5 percent means that, on average, or for the median household, income went down 7.7 percent in nominal dollars.

SENATOR SARBANES. The dollar income actually went down by 7/10ths of a percent.

MR. WEINBERG. No. It's a 3.5 percent decline in real income; 4.2 percent increase in consumer prices. So, actually, your nominal dollar went up slightly, that's correct. It went up by 0.7 percent.

Sorry. I had my numbers a little backwards. Thank you.

SENATOR SARBANES. The other thing was this very significant shift of income to the upper end of the income scale. Now, this is before tax income, not after-tax income.

MR. WEINBERG. That's correct.

SENATOR SARBANES. So, if the tax system was changed, which I believe it has been, to favor the people at the very top, the discrepancy would be even greater.

But leaving that to one side, the top 20 percent of households in the income scale have increased their share of household income—you do this every ten years——

MR. WEINBERG. No, we actually have the figures each year. Just for presentation purposes, we show it at ten-year intervals.

There's been no change over the past two years in that statistic. It's a long-term trend, not a short-term trend.

SENATOR SARBANES. For instance, in the decade of the 1980s, from 1981 to 1991, the top 20 percent of households in the income distribution increased their share of income from 44.5 percent to 46.5 percent.

MR. WEINBERG. Yes, that's correct, in the past ten years.

SENATOR SARBANES. And the middle 60 percent—we're not taking a 20 percent, we're taking the middle 60 percent—their share declined from 1981 to 1991, from 51.5 percent to 49.7 percent. Is that correct?

MR. WEINBERG. Yes.

SENATOR SARBANES. And the bottom 20 percent had 3.8 percent of the income.

MR. WEINBERG. Yes.

SENATOR SARBANES. Do you have any idea what percentage of the bottom 20 percent are in poverty?

MR. WEINBERG. This is a figure based on households. Poverty is a concept based only on families.

Now, you'll recall, if you look at the bottom 20 percent of families, their average income-to-poverty ratio was 0.94 percent. So, on average, we have about 11 percent of all families being poor.

SENATOR SARBANES. So, at the family level, about half of the people in the lowest 20 percent would be in poverty.

MR. WEINBERG. Right. That's correct.

SENATOR SARBANES. You also said that the ratio of income to the poverty level has jumped significantly for the people at the top. They used to have an income of six times the poverty level, and now they have an income of 8½ times the poverty level.

MR. WEINBERG. That's over a 25-year period, yes.

SENATOR SARBANES. Over a 25-year period.

MR. WEINBERG. Yes. Since 1967.

SENATOR SARBANES. And finally, and it is a very, in a sense, shocking figure, 24 percent of all children in this country under the age of six live in poverty. Is that correct?

MR. WEINBERG. I don't have that exact figure. That's what I've been told. That sounds about right, though.

SENATOR SARBANES. Twenty-four percent.

MR. WEINBERG. Approximately that, yes.

SENATOR SARBANES. Well, Mr. Weinberg——

MR. WEINBERG. I do have that statistic. For children under six, the poverty rate was 24.0 percent.

SENATOR SARBANES. Twenty-four point zero.

MR. WEINBERG. Yes. That's 5.5 million children under six.

SENATOR SARBANES. Well, Mr. Weinberg, I want to thank you very much for your testimony this morning. It's been very helpful to the Committee and we appreciate it.

MR. WEINBERG. Thank you. Glad I could come.

SENATOR SARBANES. Now, if our panel would come forward, we'll proceed with the panel in just a moment.

[Recess.]

SENATOR SARBANES. The Committee will come to order.

The Committee will now turn to a panel. We have three witnesses: Robert Greenstein, the executive director of the Center on Budget and Policy Priorities; Patricia Ruggles, senior research associate at the Urban Institute; and Robert Rector, who is a policy analyst at the Heritage Foundation.

We are pleased to welcome this panel with us. We will now start with Mr. Greenstein, then Ms. Ruggles, and then Mr. Rector.

We would be happy to hear from you, Mr. Greenstein.

STATEMENT OF ROBERT GREENSTEIN, EXECUTIVE DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

MR. GREENSTEIN. Thank you, Mr. Chairman.

As you hold the hearing here today, we have some not very good news. In 1991, the number of poor Americans hit its highest level in more than 20 years, as 2.1 million more Americans became poor.

The 35.7 million people that the Census Bureau tells us lived in poverty last year was a larger number of poor people than in any year of the 1970s or 1980s. One out of every seven Americans now lives in poverty.

The increase was particularly sharp among children. Nine hundred thousand more children became poor last year as the child poverty rate rose to 21.8 percent. That is a higher rate of child poverty than at any time in the 1970s or 1980s, except for 1982 and 1983, when the unemployment rate was close to ten percent.

Over 14 million children were poor last year, and like the overall number of poor people, the number of poor children was greater than at any other year of the past two decades.

Mr. Chairman, as you noted just a few minutes ago, one out of every four children under the age of six now lives in poverty. And while we're talking about poverty among children, not only did it increase, but those children who were poor became poorer, on average. The proportion of poor children living in families with incomes below half the poverty line—the group we might term the poorest of the poor—rose from 41.6 percent of all poor children in 1990 to 44.1 percent last year. Nearly half of all poor children now live below half of the poverty line.

There was pain not only at the bottom; there was pain in the middle.

The income of the typical middle-class household dropped nearly $1,100 last year, falling for the second consecutive year. The two-year drop, from 1989 to 1991, totaled $1,624, or 5.1 percent. That made it the largest two-year income decline since 1973 to 1975, more than twice as large a two-year income decline as during the recessions of the early 1980s.

Unfortunately, there's additional bad news ahead.

Another jump in poverty is virtually certain for 1992, since the unemployment rate is now well above 1991 levels. Poverty rises when unemployment climbs and the unemployment rate is now a full percentage point above its 6.7 percent average for 1991.

The Congressional Budget Office just last month forecast the unemployment rate will average 7.5 percent for 1992.

Our poverty rates exceeded those of our major foreign competitors even before the recession hit, and now the number of poor Americans seems destined to reach levels that we haven't seen in several decades. This paints a disturbing portrait of our current economic situation.

The problem is not just the current recession. It's a long-term rise in both poverty rates and income disparities, between the affluent and other Americans.

The economic picture in 1991 was not unlike that in 1980. The unemployment rates were similar in both years. The GDP growth rates were similar in both years. But poverty was significantly higher in 1991 than in 1980, and income disparities were wider.

Had the poverty rate been the same in 1991, as it was in 1980, three million fewer people would have been poor last year.

I would also note that under all fourteen of the Census Bureau's experimental measures of poverty, the poverty rate rose in 1991. Several factors account for these longer-term trends——

SENATOR SARBANES. Let me say that we'll include the full statements in the record, and if people can, to some extent, summarize as they go, we would appreciate that.

MR. GREENSTEIN. I will skip over several pages of mine.

SENATOR SARBANES. If you have points that you want to make, feel free to make them, but we will include the entire statement in the record.

MR. GREENSTEIN. In the area that I'm skipping over, I would simply note that the poverty rate was substantially higher in 1991 than in 1980, while general economic conditions were similar in both years—an indication that the benefits of the 1980's recovery were unevenly distributed.

Several factors contribute to the long-term trend, most importantly a long-term decline in wages. As you know, a Census report that was issued in May showed that the proportion of full-time, year-round workers, who were paid wages too low to lift a family of four out of poverty, jumped about 50 percent between 1979 and 1990.

In addition, the new figures that came out today show something very interesting about working families: The poverty rate for families with children in which the family head works climbed nearly one fourth between 1980 and 1991. Between 1979 and 1991, that rate went up by nearly half.

A report by Rebecca Blank, published last year by this Committee, shows that the decline in wages during the 1980s was one of the most important factors behind the disappointing poverty trends of that period.

In addition to declining wages, a second factor has been a weakened safety net. There were reductions in unemployment insurance at both federal and state levels in the early 1980s. In five of the six years, from 1984 to 1989, the proportion of the unemployed getting unemployment benefits hit a record low. Between July 1990 and November 1991, when the emergency unemployment bill was first enacted, the proportion of the jobless receiving benefits hit the lowest level ever recorded in a recession.

On the AFDC front, benefits for a family of three with no other income were 23 percent lower in a typical state in 1991 than in 1980. And among the tables the Census Bureau released today are some which show that government cash benefits now reduce poverty less among children than they did a decade ago.

The increase in female-headed families is also important. While this is clearly an important factor, however, its role is sometimes overstated. The Census data show that in 1980, 35 percent of all poor people lived in female-headed families. In 1991, 39 percent did. That's a significant increase. It has contributed to the increase in poverty, but it doesn't explain all or most of the increase since 1980. It explains a fraction of it.

In addition, there is important new research by Peter Gottschalk and Sheldon Danzinger, two of the Nation's leading poverty experts, which shows that while the number of female-headed families has grown rapidly over the last several decades, the average number of children in these families has fallen sharply and the educational attainment of the mothers has risen markedly.

They found that in 1968, 45 percent of all children in female-headed families lived in families with four or more children. By 1986, only 15 percent of the children in female-headed families were in families this large. That significantly——

SENATOR SARBANES. Let me be clear about that. In 1968, in other words, just shy of 25 years ago, in families headed by a female, about 45 percent of the children lived in families with four or more children. Is that correct?

MR. GREENSTEIN. Correct.

SENATOR SARBANES. And by 1986, which was almost two decades later, only 15 percent of children in female-headed families were in families this large.

MR. GREENSTEIN. That's correct. This is a profound change. It is paralleled by changes in the welfare rolls. In 1969, one of every three AFDC families had four or more children. In 1990, one of every ten AFDC families had four or more children.

So when we talk about demographic and behavioral changes involving female-headed families, we need to talk about both trends.

SENATOR SARBANES. What was the first date? You said, in a certain year, one in every three families drawing AFDC had four or more children. Is that right?

MR. GREENSTEIN. In 1969—these are HHS figures. In 1969, 32.5 percent of all AFDC families had four or more children.

SENATOR SARBANES. Four or more.

MR. GREENSTEIN. In 1990, 9.6 percent of AFDC families had four or more children.

SENATOR SARBANES. That's a very striking figure.

MR. GREENSTEIN. Yes, it is. So we have two very striking changes. A very striking increase in the proportion of families that are female-headed and in the proportion of children who live in female-headed families. But also, a very striking decrease in the size of those families. One change increases poverty rates. The other change decreases poverty rates.

Gottschalk and Danzinger found a third fascinating trend. They found that the portion of female single parents who had not finished high school was cut in half between 1968 and 1986.

Among black female single parents, in 1968, 69 percent of them had not finished high school. By 1986, 29 percent of them had not finished high school.

Among white female single parents, 43 percent hadn't finished high school in 1968; about 24 percent hadn't by 1986.

The key point that Gottschalk and Danzinger make in this very important new research, which is about to be published by the Russell Sage Foundation, is that when you talk about behavioral change involving female-headed families, you need to talk about all three changes. They note that the increase in educational attainment and decrease in the number of children in these families offset most of the increase in poverty caused by more female-headed families.

When they looked at all three factors together, they found the factors largely wash each other out. This is not the common story you often hear, but it is part of the story that we all need to be aware of.

Mr. Chairman, let me stop there. The only other point I would make is that we tend to have a certain amount of debate over what the poverty rates would be under various other measures. I presume that Pat Ruggles may talk about that. Some adjustments like noncash benefits would lower the poverty rate. Others would raise it. Without going into great detail, I don't think we have a strong basis for saying that we know whether, if all of the appropriate changes were made, the rate would go higher or lower.

What we do know is that no matter how you measure poverty, it went up in 1991. It's gone up over the past decade, and the upward long-term trend is something we need to be very concerned about.

Thank you.

[The prepared statement of Mr. Greenstein follows:]

PREPARED STATEMENT OF ROBERT GREENSTEIN

CENTER ON BUDGET AND POLICY PRIORITIES

ATTEMPTS TO DISMISS THE CENSUS'S POVERTY DATA
by Robert Greenstein

Each year about this time, one or more "fact sheets" or "analyses" are issued seeking to discredit the Census Bureau's poverty data. These papers are usually released by, or based on the work of, the Heritage Foundation. Since 1990, Heritage has issued a stream of releases contending that the Census data greatly exaggerate the extent of poverty. In the key "backgrounder" on which all subsequent Heritage releases have been based — a paper issued in 1990 — Heritage went so far as to charge the Census Bureau with conducting a Soviet-style "disinformation campaign" to make Americans believe "the living standards of America's 'poor' are far lower than, in reality, they are."

An examination of the figures contained in the various Heritage papers reveals, however, that the misuse of data is being committed by Heritage and not by the Census Bureau. The Heritage papers are marked by misrepresentation of survey data, misleading use of data, and sensationalism.

The Non-Cash Benefits Issue

A major Heritage theme is that most of those classified as poor by the Census Bureau actually live comfortably and are classified as poor primarily because the Census Bureau fails to count as income $193.5 billion in government "welfare spending," which Heritage says amounts to $13,330 in missed income per poor household. "Census ignores almost the entire welfare system when calculating the incomes of the poor," Heritage has stated.

While there are serious issues regarding the treatment of noncash benefits, Heritage's handling of this matter does not withstand scrutiny.

- Heritage includes as part of the "missing welfare spending" that Census should, but does not, count the costs of numerous programs such as Head Start, job training programs, programs to provide in-home services to handicapped people, the legal services program, funds to help defray the costs of homeless shelters, and the like. Yet these programs do not affect a poor person's ability to afford basic necessities. No serious analyst has suggested they should be counted as income when poverty is measured.

One cannot take these program costs, divide them by the number of poor, and count the per-household cost as though it were income these people received but Census failed to count. That, however, is what Heritage has done. Under the Heritage approach, a poor child in a Head Start program, an indigent person getting legal assistance to deal with a landlord who fails to make repairs, or a handicapped person receiving help with chores could be considered as not being poor as a result of this assistance. But such assistance does nothing to enable such a person to pay for basic necessities such as rent.

- The $193.5 billion in "missing welfare spending" also includes billions in Medicaid costs for people in nursing homes and long-term care institutions, even though the Census Bureau *excludes* all people in such homes and care institutions when measuring poverty.

- The $193.5 billion includes numerous programs never intended to be poverty programs. Heritage counts all of the costs of the Guaranteed Student Loan program, which serves more middle-class students than poor ones. It includes all costs for reduced-price school lunches, which are entirely for children *above* the poverty line (those between 130 percent and 185 percent of the poverty line). It includes the *total* cost of many programs that serve large numbers of both poor and non-poor beneficiaries, such as Pell grants, the college work-study program, and the Earned Income Credit, which has an income limit of $22,000. Heritage takes all such costs, divides the total by the number of people the Census Bureau classifies as poor, and claims the result represents the amount of welfare benefits and services *per poor household* the Census Bureau has missed. Heritage also erroneously presents the $193.5 billion as "the missing funds which are spent *on the poor,* but not counted by the Census Bureau" (emphasis added).

- Moreover, the $193.5 billion also includes billions of dollars in administrative costs for these programs. Those funds, too, are lumped into the $193.5 billion figure, which is then presented as "the total value of welfare benefits and services which were provided to low-income Americans but were not included in the Census income count."

- Even more disturbing is Heritage's treatment of medical benefits. Heritage uses a method that has been rejected by the Census Bureau and nearly all poverty analysts because it causes severe distortions. Under this method, Heritage takes the full cost of Medicaid (and of the portion of Medicare used for care for poor people), divides the cost by the number of poor people, and says the resulting figure represents the amount of income per poor household that Census has failed to count. More than half of the $193.5 billion in "missing welfare spending" consists of expenditures for Medicaid, Medicare, and several smaller health programs.

Medicaid and Medicare, however, are *insurance* programs and do not provide a household with disposable income. The payments made under these programs go to doctors and hospitals, not beneficiaries. Moreover, Census figures issued a few years ago show that because medical costs have risen so fast, the Heritage approach results in some people with *no income whatsoever* being categorized as above the poverty line solely because they have medical coverage. These figures show, for example, that in 1989, the Heritage approach would have caused the average elderly couple with Medicare and Medicaid — but no other income — to be considered as having more than $9,000 in income and being considered above the poverty line. In addition, under this method, the faster that doctor and hospital costs rise, the more poverty is made to decline.

It is also worthy of note that at a conference the Census Bureau convened in the mid-1980s, poverty experts from across the political spectrum concurred that medical benefits should *not* be considered as income in measuring poverty status unless the poverty line were raised at the same time. Otherwise, serious distortion would result. Heritage ignores this admonition, uses the method that gives the largest possible dollar value to medical insurance, and essentially argues that this amount should be considered as income to the poor without raising the poverty line.

There is a legitimate debate over whether non-cash benefits should be counted when measuring poverty, as well as over other issues such as whether the poverty line should be raised. These controversies, and particularly the Heritage pieces, should not obscure several key points:

- No matter what measure of poverty is used, the poverty rate has risen sharply in the past two years, after declining much less than would have been expected during the recovery of the 1980s.

- As a consequence, poverty is now very high by historical standards.

- The poverty rate in the U.S. is well above that of other Western, industrial nations, and the sharp disparity between our rate and that of other countries is not affected much by non-cash benefits. After all, the principal non-cash benefit is medical insurance, and virtually all other industrialized nations have national health insurance.

The Assets of the Poor

Heritage cites figures on the proportion of the poor who own homes or cars or have air conditioning to demonstrate that many of the poor live comfortably. Heritage also claims that hardly any live in inadequate housing.

- Heritage says that only about 2.5 percent of the housing units occupied by poor households have significant structural deficits such as crumbling foundations or missing roof material, and only eight percent live in overcrowded housing. These, however, are only two of a number of measures of inadequate housing that HUD and the Census Bureau use. Heritage ignores those measures that tell a different story.

  For example, the principal HUD analysis of housing problems covering the low-income population is a 1991 HUD report on the number of low-income renters with "worst case" housing needs. HUD defines these as renters who pay over 50 percent of income for housing, live in severely substandard housing, or both. HUD found that *5.1 million low-income renter households* had "worst case" housing needs in 1989. Some 56 percent of all poor renter households had "worst case" housing needs that year.

- Heritage's statements on the assets owned by poor households are also problematic. For example, Heritage says that 38 percent of poor households own homes. But Heritage doesn't explain that nearly half of all poor homeowners are elderly households — and that the rate of homeownership among the elderly poor is *nearly double* the rate among the non-elderly poor. This is significant because most poor elderly homeowners are people who bought their homes long ago and no longer have a mortgage obligation. Census data show that 88 percent of all poor elderly homeowners are people who have paid off their mortgage.

  For these people, remaining in their home may be the most economical choice; it would be more expensive to rent. But the fact that they own their home does not mean these elderly households face no difficulties in buying food and clothing, paying for utilities and transportation, and meeting other necessities.

- Among the *non*-elderly poor households who own homes, a disproportionate share reside in rural areas, where rental units tend not to be as widely available and where rates of substandard housing among poor homeowners are higher than in urban areas. More important, a disproportionate share of non-elderly poor homeowners appear to be households that are likely to be poor for one or a few years, but not on a long-term basis, such as the recently unemployed. It often does not make sense for such households to sell their home during their period of poverty. Here, too, the fact that a household owns its home doesn't mean that it faces no difficulties in making ends meet during its period of poverty and unemployment. This is borne out by Census data showing that in 1989, some 69 percent of all poor homeowners spent more than 30 percent of their income on housing — or more than the maximum amount considered affordable for poor households under standards set during the Reagan Administration.

- Heritage also likes to cite data on the number of households owning homes worth more than $300,000 without explaining that they constitute well under one percent of poor households. Most households owning homes worth this much are likely to be households that experienced a sharp and unusual drop in income in the year they were poor, such as a self-employed businessman or farmer having an unusually bad business or crop year. Such households are not typical of the low-income population.

- In a similar vein, Heritage notes that nearly half of poor households have air conditioning, but fails to mention that nearly half of the poor households with it have just one window unit for their home. A window unit is hardly a luxury, especially in the South, the region where the largest number of poor people live. Heritage also doesn't consider the extent to which air conditioning may be a necessity for some poor elderly people who are sensitive to extremes of heat. Nor does it examine the extent to which some units with air conditioning may be part of an apartment complex that has central air conditioning but is located in a dangerous neighborhood or has physical deficiencies that make the building substandard. By themselves, the figures Heritage cites on air conditioning don't tell us very much.

- Finally, one often-repeated Heritage claim is that "according to government figures," some 22,000 poor households have jacuzzis or heated swimming pools. If true, this would amount to just two-tenths of one percent of poor households, a point Heritage does not acknowledge, presumably because that percentage is too minuscule to be shocking. But the 22,000 figure is *not* true. The data source Heritage cites for it, an Energy Department survey, contains no figure for the number of poor households with these items. Instead, the survey report says that no reliable data are available on this matter because the number of poor households in the survey with these items was so tiny. Heritage essentially manufactured the 22,000 number anyway and then attributed it to the survey. As Jason DeParle of the *New York Times* reported last year, the Energy Department official who managed the study termed Heritage's action "statistical malpractice."

Car Ownership

Heritage's use of car ownership figures to show that the poor live well is also flawed. It fails to take into account that many of the poor who own cars are working families who need their cars to get to work.

- Car ownership is most widespread among the rural poor, precisely the group among the poor with the highest rate of employment, the least access to public transportation, the longest commuting distances, and the greatest need for a vehicle in getting to work.

- Census data show that in 1987, some 71 percent of poor households in rural areas owned a car. By comparison, 49 percent of those in cities did. Census data also show that 65 percent of rural poor families had one or more workers that year, while 50 percent of poor families in urban areas did.

- Further evidence that car ownership among the poor is heavily linked to work comes from HHS data showing that only a very small fraction of AFDC families — six percent — own cars. Most AFDC families are not employed.

- Other recent research has found that car ownership is important for inner-city residents who commute to jobs in the suburbs, where a steadily increasing proportion of low-skilled jobs are migrating. A study of nine urban areas by John Kasarda of the University of North Carolina found that four of every five central-city blacks without a high school education who worked in the suburbs depended on a car to travel to their jobs. He also found that most inner-city black men without a high school diploma who were unemployed lived in a household that did not own a car.

Nutrition

Among the more striking claims the Heritage Foundation has made is that "malnutrition and hunger caused by poverty are virtually non-existent in the U.S." In fact, HHS surveys have found "stunting" to be consistently higher among poor than non-poor children.[1] Also, a report issued in 1990 by the Public Health Service established, as a health goal for the nation, a reduction in the rate of stunting among low-income children. The same Public Health Service report also noted that the prevalence of iron deficiency "is substantially higher in children from families with incomes below the poverty level."

Expenditures vs. Income

Another piece of "data" cited by Heritage as evidence that the Census numbers are fairly meaningless is the statement that "the government's own data show that low-income householders spend $1.79 for every $1.00 of income counted by Census."

This statistic is drawn from the Consumer Expenditure Survey. Yet the data from that survey are widely regarded as questionable by researchers working in the field. These data have numerous anomalies and are often inconsistent from year to year. Researchers are particularly skeptical about the income data from that survey, which frequently conflict with income data from other Census surveys. Researchers regard the income data from the Consumer Expenditure Survey as being much less reliable than the income data from the Census survey on which the poverty figures are based.

Moreover, economists have long noted that some of those who have recently become poor — such as the recently unemployed — have expenditures that exceed their current incomes. These households often attempt to remain in their house or apartment during what they hope will be a temporary period of hardship. Such households often borrow, draw on a life insurance policy, or use up savings to cover rent or mortgage payments or car payments. The fact that their expenses exceed their incomes does not mean they are living well.

A family of four whose income is reduced to $6,000 and borrows funds or uses up savings to pay the rent or mortgage — and spends $9,000 in a year — is spending $1.50 for each dollar in income it receives. But both the family's income and its

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[1]The USDA publication *Nutrition Monitoring in the United States* defines "stunting" as follows: "Inadequate supplies of protein, fat, carbohydrates, vitamins, and minerals can result in growth retardation. If the dietary inadequacy is chronic and mild, the child's linear growth will be slowed, and his height will be low for his age. This condition is called "stunting."

expenditures would be thousands of dollars below the poverty line. Moreover, the family may be depleting its assets or taking on debt.

Dependency

Heritage claims that the War on Poverty is "responsible for destroying the work ethic in low-income neighborhoods." Its principal evidence: "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."

This statement is misleading because it ignores wage trends. When wage levels rise, fewer full-time workers fall into poverty — their earnings lift them above the poverty line. When wages fall, more full-time workers and their families become poor. The principal reason the proportion of poor households with a full-time working head is lower now than it was in the 1950s is because wage levels are much higher today than they were at that time.

- In the 1950s and 1960s, wages rose sharply. By the early 1970s, wages lifted a much larger proportion of working households out of poverty than in the 1950s. The result was a sharp decline in the proportion of poor households headed by a full-time worker.

- In the late 1970s and 1980s, wages declined. Although Heritage does not mention this point, between 1979 and 1989, the proportion of poor adults employed full-time, year-round, *increased* by one-sixth.

- In short, it is wage levels rather than "the welfare system" that principally determine whether the proportion of poor households with full-time workers rises or falls. When wages rise and pay enough to lift full-time working families out of poverty, the proportion falls.

- Heritage also misses the fact that since the 1950s, there has been a sharp decrease at all income levels in the proportion of people over 65 who work. This further reduced the proportion of poor households headed by a full-time worker.

September 3, 1992

CENTER ON BUDGET AND POLICY PRIORITIES

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NUMBER IN POVERTY HITS 20-YEAR HIGH AS RECESSION ADDS 2 MILLION MORE POOR, ANALYSIS FINDS

In 1991, the number of poor Americans hit its highest level in more than 20 years, as 2.1 million more Americans fell into poverty, an analysis of new Census data issued today by the Center on Budget and Policy Priorities said.

The Census data show that 35.7 million Americans were poor last year, a larger number than in any year of the 1970s or 1980s, the Center reported.

The new Census data show that one of every seven Americans — 14.2 percent of the population — were poor last year. This represented an increase over the poverty rate of 13.5 percent in 1990 and 12.8 percent in 1989, before the recession started.

The increase in poverty was particularly sharp among children, the Center said. Some 900,000 additional children became poor last year as the child poverty rate rose from 20.6 percent in 1990 to 21.8 percent in 1991, a higher level than at any time in the 1970s or 1980s except for 1982 and 1983, when the unemployment rate was close to 10 percent. Some 14.3 million children were poor last year. Like the overall number of poor people, the number of poor children was greater than in any other year of the past two decades.

Among children under six, the Center said, the poverty rate rose to 24.6 percent last year, meaning that one of every four young children was poor.

Middle-class Households Also Lose Ground

Middle-income households also lost ground, the analysis said, as median household income — the income of the typical middle-class household — dropped $1,077, after adjusting for inflation, falling for the second consecutive year. The drop in median household income since 1989 totaled $1,624, or 5.1 percent, making it the largest two-year income decline since 1973-1975 — and more than twice as large a two-year income drop as during the recessions of the early 1980s.

Also, the analysis noted, the number of Americans lacking either public or private health insurance in 1991 rose significantly, by 700,000 to 35.4 million. The change in the percentage of Americans without health insurance, however — from 14 percent to 14.1 percent — was not statistically significant.

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Further Poverty Increase Expected in 1992

"Unfortunately, there is more bad news ahead." Center director Robert Greenstein commented. "A further substantial jump in poverty is virtually certain in 1992, since the unemployment rate is now well above 1991 levels."

Greenstein noted that the poverty rate rises when unemployment climbs. The unemployment rate is now a full percentage point higher than its 6.7 percent average for 1991. The Congressional Budget Office has forecast that the unemployment rate will average 7.5 percent for 1992 as a whole.

"U. S. poverty rates exceeded those of our major foreign competitors even before the recession hit, and now the number of poor Americans seems destined to reach levels we have not seen in several decades," Greenstein said. "Combined with the scenes of renewed urban unrest still fresh in our minds, today's report paints a disturbing economic picture."

"The problem isn't just the recession," he observed. "It's a long-term rise both in poverty rates and in income disparities between the affluent and other Americans. The economic picture in 1991 was not unlike that in 1980, with similar unemployment rates and growth rates. But poverty was much higher in 1991 than in 1980 — and income disparities were significantly wider — in part because both measures performed disappointingly during the 1980s."

"Had the poverty rate been the same in 1991 as it was in 1980," Greenstein said, "three million fewer people would have been poor last year."

The Center attributed these adverse trends to a long-term decline in wages, a weakening of the safety net for the poor and the unemployed, and to a lesser extent, an increase in single-parent families, as well as to the effects of the current recession.

Poverty Increase Affects Most Regions

Both the number of poor people and the poverty rate rose last year in all regions except the South. The increase was sharpest in the West, where the poverty rate jumped from 13 percent in 1990 to 14.3 percent in 1991, and the number of poor people rose by 882,000. Poverty also increased in the South, but the rise was not large enough to be statistically significant.

Poverty increased among whites, as the white poverty rate rose from 10.7 percent in 1990 to 11.3 percent in 1991. The number of white poor increased by more than 1.4 million. Poverty rates also increased among blacks — from 31.9 percent in 1990 to 32.7 percent in 1991 — and among Hispanics — from 28.1 percent to 28.7 percent — but because the

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sample sizes used for these groups in the Census survey are smaller, these increases were not statistically significant.

Among children, not only did poverty increase, but those who were poor became poorer. The proportion of poor children who live in families with incomes below *half* of the poverty line rose from 41.6 percent in 1990 to 44.1 percent last year. Nearly half of all poor children thus fell into a category that might be termed the "poorest of the poor."

The increase in poverty also showed up among the Census Bureau's experimental measures of poverty, some of which count non-cash benefits as income. Under all 14 experimental measures, the poverty rate rose last year.

Incomes Declines Widespread

Declines in median household income, like the increases in poverty rates, marked most regions. Between 1990 and 1991, median household income fell by a statistically significant amount in all regions except the Northeast.

Over a two-year period from 1989 to 1991, median household income fell everywhere, with the largest two-year decline coming in the Northeast. Over the two-year period, median income dropped $2,388 — or 6.7 percent — in the Northeast. It fell $1,891 — or 5.5 percent — in the West; $1,652 — or 5.2 percent — in the Midwest; and $1,237 — or 4.4 percent — in the South.

Median household income also declined among both female-headed and married-couple families in 1991, with the decline being sharpest among female-headed families.

Between 1990 and 1991, median income declined among whites and Asians and Pacific Islanders. While the decline among blacks and Hispanics between 1990 and 1991 was not statistically significant, the two-year decline between 1989 and 1991 was significant among all racial and ethnic groups.

Longer-Term Trend Toward Higher Poverty Rates

While the economic downturn has fueled the rise in poverty since 1989, it came after an economic recovery period in which poverty rates declined much less than expected. In 1989, the peak year of the recovery, the poverty rate was higher than in any year of the 1970s, including the deepest recession years of that decade.

The lack of greater progress in reducing poverty during the 1980s is a principal reason that the poverty rate in 1991 was substantially higher than in 1980, a year in which economic conditions were similar. The poverty rate in 1980 stood at 13 percent. This lack of more

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substantial progress is also a further indication that the benefits of the recovery in the 1980s were unevenly distributed.

In both 1980 and 1991, unemployment rates were similar (6.7 percent in 1991; 7.1 percent in 1980). Both also were years in which the Gross Domestic Product, the basic measure of the size of the economy, fell slightly. (It fell 0.7 percent in 1991 and 0.5 percent in 1980.) In both years, the economy was in recession for at least part of the year. Both years also came soon after the peak of a business cycle.

The Principal Factor: Declining Wages

Several factors contributed to this longer-term trend. Principal among them has been a decline in wages, which has made it harder for low-wage workers to climb out of poverty through work.

A Census report issued in May 1992 showed that the proportion of full-time year-round workers who are paid wages too low to lift a family of four out of poverty has grown sharply in recent years. In 1979, some 12.1 percent of full-time year-round workers were paid wages this low. In 1990, some 18 percent were. Data for 1991 are not yet available.

In addition, Labor Department data show that average hourly wages for non-management jobs in the private sector were lower in 1991 than in any year of the 1970s or 1980s, after adjusting for inflation.

Census data also reveal a long-term increase in poverty rates among working families. The poverty rate for families with children in which the family head works climbed nearly one-fourth between 1980 and 1991. Between 1979 and 1991, this rate went up by nearly half.

Further evidence of the role played by declining wages comes from a study by economist Rebecca Blank of Northwestern University. Blank found that poverty declined less during the recovery of the 1980s than during the recovery of the 1960s — even though low-income households increased their employment levels *more* in the 1980s than in the 1960s. The principal reason for the disappointing progress in reducing poverty during the 1980s recovery, Blank discovered, was that the decline in wages canceled out some of the gain from the increases in employment. Blank served as a staff member of the President's Council of Economic Advisers in 1989-1990.

Weakening of the Safety Net

A second factor pushing poverty rates up over the past decade has been declines in government assistance programs, especially those for the poor and the unemployed. In the

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wake of cutbacks in the unemployment insurance program in the early 1980s at both federal and state levels, the proportion of the unemployed receiving unemployment benefits hit a record low in five of the six years from 1984 to 1989. Between July 1990 and November 1991, when an emergency unemployment benefits bill was finally passed, the proportion of the jobless receiving benefits hit the lowest level ever recorded during a recession.

In addition, due to both federal and state reductions, AFDC benefits for families with children have fallen sharply in recent years. Benefits for a family of three with no other income were 23 percent lower in the typical state in 1991 than they had been in 1980, after adjusting for inflation.

The Census data released today show that government cash benefits now reduce poverty among children less than they did in 1980.

Increases in Female-Headed Families

Changes in family structure also have contributed to the rise in poverty since 1980, although the role played during this period by the growth in female-headed families is sometimes overstated. Census data indicate that the proportion of the poor who live in female-headed families has risen over the past decade, but by a relatively modest amount.

In 1980, some 35 percent of all poor people lived in female-headed families. In 1991, some 39 percent did.

If a longer period going back to the 1960s is examined, the increase in the proportion of female-headed families has a larger effect on overall poverty rates. The increase in female-headed families, however, is only one of several trends involving female-headed families during this period. New research by noted poverty experts Peter Gottschalk and Sheldon Danziger shows that while female-headed families were growing rapidly in number, the average number of children in these families was falling sharply, and the educational attainment of single mothers was rising markedly.

For example, in 1968, nearly half of all children in female-headed families — 45 percent — lived in families with *four or more* children; by 1986, only 15 percent of the children in female-headed families were in families this large. This change reduced poverty, since the poverty line rises with family size. Gottschalk and Danziger also found that during this same period, the proportion of female single-parents who had not finished high school was cut in half, another development that lowered the poverty rate. (These are the only years for which these data have been developed.)

The two researchers found that these various trends largely offset each other. The decrease in poverty caused by the drop in the number of children per family and the rise in

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Number of Uninsured Rises

Some 35.4 million Americans — 14.1 percent of the population — had no health insurance during 1991. By comparison, in 1987, the first year for which comparable data are available, 31 million people — 12.9 percent of the population — lacked insurance.

Among the poor, 28.6 percent had no insurance last year. Lack of insurance was not limited to the poor, however. More than 70 percent of those without insurance last year were *above* the poverty line.

Some groups were more likely to be uninsured than others. Hispanics were most likely to be uninsured; 31.5 percent — or nearly one in three — lacked coverage. Some 20.6 percent of blacks and 12.9 percent of whites had no insurance.

These figures understate the problem because they include only people who lacked health insurance for all of 1991. A Census report published earlier this year found, for example, that while 32.6 million people lacked coverage for all of 1988, some 61 million people went without coverage for at least one month during a 28-month period starting in 1987.

educational attainment canceled out much of the increase in poverty caused by the burgeoning number of female-headed families. Their research indicates that focusing only on increases in female-headed families, while ignoring these other important changes in family behavior, produces an inadequate and misleading picture.

Non-Cash Benefits and Alternative Measures of Poverty

The new Census data include 14 experimental ways of measuring poverty, including measures that count non-cash benefits as income. These experimental measures should be used with caution.

The Census Bureau has noted there are "many issues surrounding the accuracy of the poverty definition," including whether various non-cash benefits should be counted as income, whether the poverty line should be changed and raised to a higher level, whether to continue using a different — and lower — poverty line for elderly individuals and couples than for the non-elderly, the omission of the homeless from the official poverty data, and whether to include the value of assets.[1] Some of these issues, such as the counting of non-cash benefits,

[1] Bureau of the Census, *Money, Income and Poverty Status in the United States: 1989*, September 1990, page 15.

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are addressed in the Census Bureau's experimental poverty measures. A number of the other issues the Census Bureau has identified are not addressed by these measures.

For example, poverty experts are divided about whether medical benefits should be counted as income to a poor household. Experts attending a 1985 Census Bureau conference could not agree on this matter. As the Census Bureau has reported, however, the experts did reach consensus that if the value of medical benefits were to be counted as income, the poverty line would have to be raised.[2] Several of the experimental measures of poverty published today by the Census Bureau — the measures that produce the lowest poverty rates — count medical benefits as income *without* raising the poverty line.

If all issues concerning the measurement of poverty were resolved, it is not clear whether the number of people counted as poor would increase or decrease. Some adjustments, such as counting non-cash benefits as income, would lower the poverty count. Other adjustments would raise it. For example, if the separate, lower poverty line for the elderly were discarded, as many analysts believe it should be, the number of elderly people considered poor would rise nearly 25 percent. In addition, a number of analysts believe the poverty threshold should be raised. A 1990 Gallup poll also found most Americans would set the poverty line at a higher level. Such a step would increase the poverty rate.

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[2] Bureau of the Census, *Estimates of Poverty Including the Value of Noncash Benefits: 1987*, August 1988, page 10.

SENATOR SARBANES. As I understood the Census's Report, even using their experimental things, there are different standards you can use which would give you a lesser percentage in poverty. But applying those standards consistently, the number of people in poverty would have increased over the last couple of years.

So the trend line would be the same, even if the level might be somewhat different. Is that correct?

MR. GREENSTEIN. That's correct. And there's a second issue.

As I understand it—Pat Ruggles can correct me if I'm wrong—the Census Bureau considers many technical questions of how to measure poverty and what to count, but views the decision of where to set the poverty line as more of a decision of the Office of Management and Budget.

When the Census Bureau does an experimental measure that counts Medicare and Medicaid as though they were income, the Census Bureau does not at the same time raise the poverty line.

Now, the overwhelming majority of experts who work in the field believe that you cannot legitimately count Medicare and Medicaid as income unless you also raise the poverty line at the same time.

The Census Bureau held a conference in 1985 to which it invited experts with views from conservative to liberal. And as the Census Bureau has reported, the consensus of the experts at the conference was that one could not, should not, count medical benefits in the poverty definition, unless one were to raise the poverty line along with that.

We need to keep that in mind because those alternate measures the Census Bureau issued that yield the lowest poverty figures are measures that count medical benefits without raising the poverty line.

I don't think Census itself proposes that that's what should be done. These measures are helpful for showing us technically what happens if you count various items as income, but that does not mean that these measures give us some truer poverty rate.

SENATOR SARBANES. Ms. Ruggles, please proceed.

STATEMENT OF PATRICIA RUGGLES, SENIOR RESEARCH ASSOCIATE, THE URBAN INSTITUTE

MS. RUGGLES. Thank you. I'm happy to have this opportunity to discuss trends in poverty and in the distribution of incomes among American families. Unfortunately, as the estimates just released by the Census Bureau make clear, the news about current trends in poverty and family incomes is not good.

The number of Americans living in poverty continues to rise. Median-family incomes are actually falling in real terms. Income is growing only for those at the very top of the income distribution, and recent trends towards rising inequality in the distribution of family incomes continue.

The rich are still getting a little bit richer, but families in the middle and at the bottom of the income distribution have, on average, lost income over the last two years. The impacts of declining incomes have been especially devastating for families with children.

I'm going to talk briefly about trends in poverty and then look at trends in income. In the course of talking about trends in poverty, I will indeed address the question that just came up about poverty measurement.

In 1991, more than 35 million Americans lived in poverty. This is an incredibly large number—in the decades since 1964, we've approached this number of poor only once before, in 1983. That peak in poverty came after more than four years of back-to-back recessions. If a similar trend were to occur over the next few years, the total number of poor would exceed anything we've seen since the early 1960s. And unfortunately, the preliminary evidence on economic performance in 1992 lends support to fears that the poverty rate will continue to rise.

Who are these millions of Americans who are poor? Today's poor, unlike those of the 1960s, are especially likely to be children and young people. More than 40 percent of those in poverty are under age 18. Overall, about 14.2 percent of the population lives in families with below-poverty level incomes, but 22.4 percent of American children under age 15 live in poverty. And the younger the child, the higher the probability that he or she will be poor. Almost one preschooler out of four is living in poverty, and a typical American child has more than a one-in-four chance of being born into poverty.

For black children, the odds of being born poor are almost one in two.

What do poverty rates this high mean?

Most people understand poverty to mean a below-subsistence level standard of living. But is it really possible that almost one fourth of American children are in households that truly cannot make ends meet?

Unfortunately, this is probably an underestimate of the proportion of American children who lack regular access to the basic necessities of daily life.

Defining and measuring poverty is a rather technical matter, and there's been a lot of controversy about how family income should be measured, how much money is really needed to support a family of a given size, and so forth.

As Mr. Weinberg explained earlier, the United States has a set of official poverty lines that are used for statistical purposes, such as the measurement of poverty. Under these lines, for example, a mother with two children would be considered poor if she had less than about $11,000 in cash income, or just over $900 a month. Even if her spending on food were only the amount specified in the Department of Agriculture's thrifty food plan, a food budget that represents minimum spending levels under short-term emergency conditions, food costs would still absorb almost a third of her budget. That would leave just over $600 a month to pay for everything else—rent, clothing, utilities, child care, transportation and taxes, for example.

Even though families in these circumstances often double up with others to keep their housing costs down, it's almost impossible to put together a budget that will cover all these expenses in a typical American city. And if the family doesn't have health insurance or qualify for Medicaid, the government health program for the poor, their plight is likely to be even more desperate.

Some analysts argue that poverty is overstated because our measure of income doesn't count noncash benefits such as Medicaid; that is, if a family receives Medicaid, we don't add the value of that health care into their cash incomes before comparing their incomes to the poverty line.

As the above example illustrates, though, our poverty lines are so low that a poverty-level income could not possibly cover the cost of medical care if it were not provided free. And indeed, even with Medicaid, any serious illness is likely to cause major economic hardships for families as poor as these.

The method used to set the poverty lines in the first place was somewhat arbitrary. And I've argued elsewhere that these lines are now seriously outdated. As a result, they substantially understate the real cost of supporting a family at even a subsistence level of living in today's economy.

But the recent rise in the official poverty rate does indicate that more and more American families, and especially more and more children, are living without the resources they need to maintain a decent standard of life.

It is this fact, and not minor technicalities in the measurement of poverty, that should be the major focus of our concern.

As both Mr. Weinberg and Mr. Greenstein have indicated, it's not just families at the bottom of the income distribution that are struggling to make ends meet right now. Families in the middle of the distribution are also losing ground.

Since 1989, median family income has fallen more than 5 percent, indicating that the typical family actually has fewer resources available to cover their needs today than they did two years ago. Declines of this magnitude are fairly common during recessions, but this decline comes on top of a period of extremely low growth for all but the top 20 percent of families.

As a result, median family income today is comparable to what it was in the early 1970s. The typical family is not much better off today than were such families almost 20 years ago, and all signs are that this decline in income has continued into 1992, and family incomes can be expected to fall further in next year's statistics.

SENATOR SARBANES. Let me just interject there. The 7.8 percent unemployment rate which we received, not last month, but the month previous, it ticked down a tenth of a point to 7.7 percent. But the 7.8 percent rate was the highest unemployment rate in the course of this recession, and far higher than anything the Administration had been predicting. They had been predicting that the unemployment rate for the year would be below 7 percent. It is clearly not going to be the case.

So this recession has seen a worsening. We've gone from 5.3 percent unemployment in June of 1990 to 7.7 percent unemployment today. And in fact, despite the assertions that we are on the upswing, the unemployment rate has worsened. So we are now dealing with unemploy- ment at virtually the highest level that it has been in the course of this economic downturn.

MS. RUGGLES. That's right. And as a result, I think we can expect to see lower family incomes and higher poverty rates in next year's statistics.

SENATOR SARBANES. In 1992.

MS. RUGGLES. Even in those that we're seeing now, that's right.

While typical families have seen their incomes stagnate or even decline, high-income families have seen some continued income growth.

As a result, the overall distribution of income has become substantially more unequal over the past decade or so, and today's statistics demonstrate that this trend, too, is continuing. The average incomes of families in the lowest 20 percent fell, as Mr. Weinberg illustrated, between 1979 and 1991. The incomes of those in the middle stagnated. And those in the top 20 percent made large average gains.

In every income category, families with children fared worse than did families as a whole.

These trends are part of a longer term trend towards increasing inequality in the distribution of income, although the trend certainly accelerated during the 1980s. The share of all income that was received by the bottom 20 percent of American families was about 5.5 percent in 1970, and has declined to about 4.5 percent today. Two thirds of that decline took place after 1980.

For families in the middle 20 percent, shares of total family income were pretty stable until about 1980, but they've declined since then. All that money has to be going somewhere, and most of it went to families in the highest 20 percent, who increased their share from about 41 percent of all income in the 1970s to more than 44 percent in 1991. Gains for the top 5 percent of all families were particularly large between 1980 and 1991, when their share rose from 15.3 percent of all income to 17.5 percent.

In other words, the 5 percent of families who are the richest and the five percent of families at the top of the income distribution now have almost four times more income collectively than do the 20 percent of families at the bottom, or about 15 times as much income on a per-family basis.

This ratio has increased substantially since 1970, when the top 5 percent had about 2.8 times as much as the bottom 20 percent, or about 11 times as much per family. Almost all of this increase in the relative share of those at the top has occurred since 1980.

SENATOR SARBANES. Now, you're comparing the 5 percent of families at the top of the income scale with the 20 percent of families at the bottom of the income scale. Is that right?

MS. RUGGLES. That's right.

SENATOR SARBANES. And the 5 percent of people at the top of the income scale have four times more income than the 20 percent of people at the bottom of the income scale. Is that right?

MS. RUGGLES. That's right. Or more than 15 times as much per family.

What do these trends mean for American families? Over the past two decades, two disturbing trends appear to have limited the gains of low- and middle-income families and worsened the degree of hardship experienced by those who are poor.

First, although almost all of today's poor will eventually leave poverty, it will probably happen more slowly for today's poor youngsters than for yesterday's. And second, today's young families can expect smaller gains in their incomes as their earners age than the gains experienced by similar families in the 1950s and 1960s, even though today's family typically has more workers and puts in more hours of work than families did 20 or 30 years ago.

As poverty rates rise, the probability that a poor family will——

SENATOR SARBANES. Can I interject there?

That's an important point, because when you compare family incomes, you have to factor in, as I understand it, the fact that more members of families are now working, and apparently, particularly women, are working longer hours than they used to. Is that correct?

Ms. RUGGLES. That's correct. And, of course, when mothers work, that means the family has child-care costs and things like that. So that their net income is actually down even more than the numbers that we're looking at here would indicate.

SENATOR SARBANES. We did a study that showed that any improvement in the income status of most families in the country was a consequence of more people from the family working and a consequence of them working longer hours. It didn't represent an improvement in the wage or salary situation of the existing workers in the family.

In effect, it is this point that families have been driven to put more people in the work force and work longer hours in order to try to hold up their family income.

Ms. RUGGLES. Yes, that's correct, particularly for lower income workers, lower educated workers, it's necessary to work more hours simply to maintain the same standard of living. Even working more hours, low-income families are not necessarily able to maintain their standard of living.

As poverty rates rise, the probability that a poor family will remain poor increases. When unemployment is high, and many low skilled jobs also pay very low wages, it's likely to take longer for families to work their way out of poverty. While very long spells of poverty are still quite uncommon, it's unfortunately not uncommon for today's poor children to spend much of their childhood living in poverty. And if the distribution of earnings continues to become more unequal over time, and income growth remains poor for younger and less skilled workers, these trends in poverty will almost certainly continue.

Why have family incomes declined so much for families at the bottom of the income distribution over the past decade or so? Why has income growth been so slow even for families in the middle, while families at the top have seen big increases in income?

Most of the answers have to do with changes in the distribution of total earnings that have taken place since the 1970s, just as you pointed out a moment ago.

The past decade has seen increases in inequality within every age group, but the incomes of younger families have been particularly hard hit.

As you noted, these declines in average income occurred in spite of increases in hours worked. Overall, the average family worked about 2 percent more hours in 1989 than in 1979. And in the bottom fifth, family members worked almost 5 percent more hours.

In spite of this, however, their incomes are lower today than they were in real terms in 1979.

As these findings imply, and as the recent JEC staff study that you mentioned confirmed, changes in relative wages account for most of the increase in income and equality over the past decade. Younger workers, especially those with a high school education or less, receive substantially lower real wages today than did similar workers a decade or two ago.

Although the country as a whole experienced a reasonably strong recovery after the recession of the early 1980s, this recovery did not translate into wage gains for those at the bottom or even at the middle of the earnings distribution. If wages had responded to declining unemployment and rising productivity in the 1980s, in the same way that they did on average over the 1947 to 1979 period, incomes in the bottom fifth of the population would have been about 20 percent higher by 1990 than they actually were. Incomes for the middle fifth would have been about 8 percent higher, while those of the top fifth would have been about 7 percent lower.

Why have lower income workers stopped benefiting from the overall growth of the economy, to the same extent that they did over most of the postwar period?

This is a complex question and the answer undoubtedly involves many factors, including changes in family structure, changes in the industrial mix of the economy, and changes in the supply of labor.

Overall, however, several studies have found the most important factor is probably declining demand for lower skilled workers in industrialized countries, which in turn appears to be related to technological changes and to increasing international competition for these jobs.

It should be emphasized that these changes are not the direct result of any government policy. Indeed, similar changes in the distribution of earnings have occurred in most industrialized countries. Policies that mandate higher wages for low-skilled workers or that severely limit international competition are likely to be counter-productive, resulting in higher costs of production and lower demand for U.S. goods, and will ultimately result in lower growth in productivity and earnings for the United States, as a whole.

On the other hand, cuts in unemployment insurance coverage and in family support programs have undoubtedly worsened the impacts of these changes for low- and middle-income families.

In conclusion, as the numbers released today indicate, low- and middle-income families in the United States are continuing to experience worsening standards of living. The numbers of Americans living in poverty is now comparable to the numbers who were poor almost three decades ago, and today's poor are substantially more likely to be children, and especially young children.

The distribution of income and especially of earnings has become substantially more unequal over the past decade or so. Lower-skilled workers are working more hours at lower wages, and even so the total incomes of those near the bottom of the distribution have fallen. Younger families and families with young children have been particularly hard hit, with the result that nearly one American child in four is born to a family whose income is not adequate to provide him or her with the basic necessities of life.

This is a scandal in a country with the resources of the United States. It also bodes ill for our future, as these children grow up inadequately prepared to become the workers and the parents of tomorrow.

What can public policy do to rectify these problems?

Large increases in minimum wages or more protectionist trade policies probably isn't the answer, and these things are likely to hurt rather than help the U.S. economy as a whole.

Similarly, policies like mandated work programs for welfare recipients are almost entirely beside the point. The problem isn't that the poor won't work; it's that they can't earn enough to make ends meet. And while increases in the number of single-parent families have added to the burdens facing today's children, there is no evidence that government policies have caused these increases, and there's little that can be done through public policy to prevent family break-ups or out-of-wedlock births.

What, then, can we do?

Taking a cue from other industrialized countries that have seen similar shifts in the distribution of earnings, but without similar increases in child poverty, we could consider more direct support for families with children who are trying to make ends meet. The costs and quality of child care in the United States, for example, pose a major problem for mothers of young children who must work to support their families, and we could do more to ensure the availability and affordability of decent care for such families.

Similarly, most other industrialized countries provide some form of family allowance to help support young families who are struggling to make ends meet. Even when earnings are inadequate by themselves, such allowances can help maintain the family and can substantially improve the circumstances of young children. Adequate unemployment insurance coverage is also crucial if young families are to meet basic needs during periods of recession.

In the longer run, if we want to promote higher growth and greater opportunities in tomorrow's economy, we must invest more in the education and well-being of our children today. The changes in the distribution of income that have occurred recently can only be reversed if more of today's children grow up to become skilled and productive as workers and parents in the world of tomorrow. Accomplishing that goal means giving more support to the young families of today.

[The prepared statement of Ms. Ruggles follows:]

PREPARED STATEMENT OF PATRICIA RUGGLES

Senator Sarbanes, I am happy to have this opportunity to discuss trends in poverty and in the distribution of incomes among American families. Unfortunately, as the estimates just released by the Census Bureau make clear, the news about current trends in poverty and family incomes is not good. The number of Americans living in poverty continues to rise, and median family Incomes are actually falling in real terms. Income is growing only for those at the top of the income distribution, and recent trends toward rising inequality in the distribution of family incomes continue. The rich are still getting a little bit richer, but families in the middle and at the bottom of the income distribution have on average lost income over the past two years. The impacts of declining incomes have been especially devastating for families with children.

Trends In Poverty

In 1991 more than 35 million Americans lived in poverty. This is an incredibly large number--in the decades since 1964, we have approached this number of poor only once before, in 1983. That peak in poverty came after more than four years of back-to-back recessions. If a similar trend were to occur over (the next few years, the total number of poor would exceed anything we have seen since the early 1960s. And unfortunately, the preliminary evidence on economic performance in 1992 lends support to fears that poverty rates will continue to rise.

Who are these millions of Americans who are poor? Today's poor. unlike t hose of the 1960s, are especially likely to be children and young people. More than 40 percent of persons in poverty are under age 18. Overall, about 14.2 percent of the population lives in households with below-poverty level incomes, but 22.4 percent of American children live in poverty. And the younger the child, the higher the probability that he or she will be poor--almost one preschooler out of four is living in poverty, and a typical American child has more than a one in four chance of being born into poverty. For Black children, the odds of being born poor are almost one in two.

What do poverty rates this high mean? Most people understand "poverty" to mean a below-subsistence level standard of living--but is it really possible that almost one-fourth of American children are in households that truly cannot make ends meet? Unfortunately, this is probably an underestimate of the proportion of American children who lack regular access to the basic necessities of daily life.

Defining and measuring poverty is a somewhat technical matter, and there has been much controversy over how family incomes should be measured, how much money is really needed to support a family of a given size. and so forth. The United States has a set of official poverty lines that are used for statistical purposes such as the measurement of poverty. Under these lines, for example, a mother with two children would be considered poor if she had less than about $11,000 in cash income--or just over $900 per month. Even if her spending on food were only the amount specified in the Department of Agriculture's ""Thrifty food Plan", a food budget that represents minimum spending levels under short- term, emergency conditions, food costs would still absorb almost a third of her budget. This would leave just over $600 per month to pay for everything else--rent, clothing, utilities, child care, transportation, and taxes, for example. Even though families in these circumstances often double up with others to keep their housing costs down it is almost impossible to put together a budget that will cover all these expenses in a typical American city. And if the family does not have health insurance or qualify for Medicaid, the government health program for the poor. their plight is likely to be even more desperate.

Some analysts argue that poverty is overstated because our measure of income doesn't take into account "non-cash" benefits such as Medicaid--that is, if a family receives Medicaid we don't add the value of that health care into their cash incomes before comparing their incomes to the poverty line. As the above example illustrates, however, our poverty lines are so low that a poverty level income could not possibly cover the costs of medical care if it were not provided free--and indeed, even with Medicaid any serious illness is likely to cause major economic hardships for families as poor as these.

The method used to set the poverty lines in the first place was somewhat arbitrary, and I have argued elsewhere that these lines are now seriously outdated. As a result, they substantially understate the real costs of supporting a Family at even a subsistence level of living in today's economy. But the recent rise in the official poverty rate does indicate that more and more American families, and especially, more and more children, are living without the resources they need to maintain a decent standard of life. It is this fact and not minor technicalities in the measurement of poverty, that should be the major focus of our concern.

Trends In Income

It is not just families at the bottom of the income distribution that are struggling to make ends meet, unfortunately. Families in the middle of the income distribution are also losing ground. Since 1989, median family income has fallen more than 5 percent, indicating that the typical family actually has fewer resources available to cover their needs today than they did two years ago. Declines of this magnitude are common during recessions, but this decline comes on top of a period of extremely low income growth for all but the top twenty percent of families. As a result, the median family income today is just about what it was in the early 1970s--the typical family is no better off today than were such families almost 20 years ago. And all signs are that this recession has continued into 1992, and family incomes can be expected to fall further in next year's statistics.

While typical families have seen their incomes stagnate or even decline, high income families have seen some continued income growth. As a result the overall distribution of income has become substantially more unequal over the past decade or so, and today's statistics demonstrate that this trend, too, has continued over this past year. The average incomes of families in the lowest 20 percent fell between 1979 and 1991, the incomes of those in the middle stagnated, and those in the top 20 percent made large average gains. In every income category, families with children fared worse than did families as a whole.

These trends are part of a longer term trend toward increasing inequality in the distribution of income, although that trend accelerated during the 1980s. The share of all income that was received by the bottom 20 percent of American families was about 5.5 percent in 1970, and has declined to about 4.5 percent today. Two-thirds of that decline took place after 1980. For families in the middle 20 percent, shares of total income were fairly stable until 1980, but have declined since then. All that money has to be going somewhere, and most of it went to families in the highest 20 percent, who increased their share from about 41 percent of all income in the 1970s to more than 44 percent in 1991. Gains for the top 5 percent of all families were particularly large between 1980 and 1991, when their share rose from 15.3 percent of all income to 17.5 percent.

In other words, the 5 percent of families at the top of the income distribution now have almost 4 times more income collectively than do the 20 percent of families at the bottom, or about 15 times as much income on a per Family basis. This ratio has increased substantially since 1970, when the top 5 percent had about 2.8 times as much as the bottom 20 percent, or about 11 times as much income per family. Almost all of this increase in the relative share of t hose at the top has occurred since 1980.

What do these trends mean for American families? Over the past two decades, two disturbing trends appear to have limited the gains of low and middle-income families and worsened the degree of hardship experienced by those who are poor. First, although almost all of today's poor will eventually leave poverty, it will probably happen more slowly for today's poor youngsters than for yesterday's. And second, today's young families can expect smaller gains in their incomes as their earners age than the gains experienced by similar families in the 1950s and 1960s--even though today's family typically has more workers and puts in more hours of work than families did 20 or 30 years ago.

As poverty rates rise, the probability that a poor family will remain poor increases. When unemployment is high and many low-skilled jobs also pay very low wages, it is likely to take longer for families to work their way out of poverty. While very long spells of poverty are still quite uncommon, it is unfortunately not uncommon for today's poor children to spend much of their childhood living in poverty. And if the distribution of earnings continues to become more unequal over time, and income growth remains poor for younger less-skilled workers, these trends in poverty will almost certainly continue.

What's Behind The Changing Trends?

Why have family incomes declined so much for families at the bottom of the income distribution over the past decade or so? Why has income growth been so slow even for families in the middle, while families at the top have seen big increases in income? Most of the answers have to do with changes in the distribution of total earnings that have taken place since the late 1970s.

The past decade has seen increases in inequality within every age group, but the incomes of younger families have been particularly hard hit. These declines in average income occurred in spite of increases in hours worked. Overall, the average family worked about 2 percent more hours in 1989 than in 1979; in the bottom fifth, family members worked almost 5 percent more hours. For couples with children, small declines in the hours worked by adult males were more than offset by large increases in adult women's hours. Even though such families in the bottom 20 percent worked almost 5 percent more hours in all than had similar families a decade earlier, they earned almost 3 percent less.

As these findings imply, (and as recent JEC Staff Studies have confirmed) changes in relative wages account for most of the increase in income inequality over the past decade. Younger workers, especially those with a high school education or less, receive substantially lower real wages today than did similar workers a decade or two ago.

Although the country as a whole experienced a reasonably strong recovery after the recession of the early 1980s, this recovery did not translate into wage gains for those at the bottom--or even the middle--of the earnings distribution. If wages had responded to declining unemployment and rising productivity in the 1980s in the same way that they did on average over the 1947-1979 period, incomes in the bottom fifth of the population would have been about 20 percent higher by 1990 than they actually were. Incomes for the middle fifth would have been about 8 percent higher, while those of the top fifth would have been about 7 percent <u>lower</u>.

Why have lower-income workers stopped benefiting from the overall growth of the economy to the same extent that they did over most of the postwar period? This is a complex question, and the answer undoubtedly involves many factors, including changes in family structure, changes in the industrial mix of the economy, and changes in the supply of labor. Overall, however, several studies have found that the most important factor is probably declining demand for lower skilled workers in industrialized countries, which in turn appears to be related to technological changes and increasing international competition for these jobs.

It should be emphasized that these changes are not the direct result of any government policy--indeed, similar changes in the distribution of earnings have occurred in most industrialized countries. Policies that mandate higher wages for low-skilled workers or that severely limit international competition are likely to be counterproductive, resulting in higher costs of production and lower demand for U.S. goods--and ultimately lower growth in productivity and earnings for the U.S. as a whole. On the other hand, cuts in unemployment insurance coverage and in family support programs have undoubtedly worsened the impacts of these changes for middle and low income families.

<u>Conclusion</u>

As the numbers released today indicate, low and middle income families in the United States are continuing to experience worsening standards of living. The number of Americans living in poverty is now comparable to the numbers who were poor almost three decades ago--and today's poor are substantially more likely to be children, and especially young children. The distribution of income and especially of earnings has become substantially more unequal over the past decade or so. Lower-skilled workers are working more hours at lower wages, and even so the total incomes of those near the bottom of the distribution have fallen. Younger families and families with young children have been particularly hard hit, with the result that nearly one American child in four is born to a family whose income is not adequate to provide him or her with the basic necessities of life. This is a scandal in a country with the resources of the United States. It also bodes ill for our future, as these children grow up inadequately prepared to become the workers and parents of tomorrow.

What can public policy do to rectify or at least ameliorate these problems? As discussed above, large increases in minimum wages or more protectionist trade policies probably aren't the answer, and are likely to hurt rather than help the U.S. economy as a whole. Similarly, policies such as mandated work programs for welfare recipients are almost entirely beside the point--the problem isn't that the poor won't work, it's that they can't earn enough to make ends meet. And while increases in the number of single-parent families have added to the burdens facing today's children, there is no evidence that government policies have caused these increases, and there is little that can be done through public policy to prevent family break-ups or out-of-wedlock births.

If none of these options is likely to do much good, what can we do? Taking a cue from other industrialized countries that have seen similar shifts in the distribution of earnings--but without similar increases in child poverty--we could consider more direct support for families with children who are trying to make ends meet. The costs and quality of child care in the United States, for example, pose a major problem for mothers of young children who must work to support their families, and we could do more to ensure the availability and affordability of decent care for such families. Similarly, most other industrialized countries provide some form of family allowance to help support young families who are struggling to make ends meet. Even when earnings are inadequate by themselves, such allowances can help maintain the family and can substantially improve the circumstances of young children. Adequate unemployment insurance average is also crucial if young families are to meet basic needs during periods of recession.

In the longer run, if we want to promote higher growth and greater opportunities in tomorrow's economy, we must invest more in the education and well-being of our children today. The changes in the distribution of income that have occurred recently can only be reversed if more of today's children grow up to become skilled and productive as workers and parents in the world of tomorrow. Accomplishing that goal means giving more support to the young families of today.

Senator Sarbanes. Thank you very much.

Mr. Rector, we'd be happy to hear from you.

STATEMENT OF ROBERT RECTOR, POLICY ANALYST ON WELFARE AND FAMILY ISSUES, THE HERITAGE FOUNDATION

Mr. Rector. The numbers released from the Census Bureau today tell us two basically different things, one of which is quite true and the other which is quite untrue.

The first thing that they tell us is that due to the current recession, caused largely by Congress's insistence on having the second largest tax increase in U.S. history at the beginning of an economic downturn, there are millions of people who have lost their jobs.

That is a reality and it has caused a decline in family income, and it is a direct result of congressional policies.

The suffering that that unemployment——

Senator Sarbanes. It was a policy signed onto by the President, I might note.

Mr. Rector. Well, certainly against our advice, but at the insistence of Congress, certainly not the President's own initiative and idea.

Senator Sarbanes. Well, that is hard to say. You could not have gotten it without a sharing of view by the Executive and the Congress. That is what happened, and I think we ought to just make that clear.

Mr. Rector. If you would concede that that tax increase caused this recession and its suffering, then I might be willing to concede that the President was also complicit.

Senator Sarbanes. Well, I do not concede that. But to the extent that you are going to focus on the tax increase, you have to encompass the Executive within the responsibility for it.

Mr. Rector. The Congress was the party that asked for the tax increase.

At any rate, the second element of the Census Bureau report today is another assertion that there are over 30 million people in the United States living in poverty.

This is largely a myth and is in fact a sort of cruel hoax, both on the taxpayer and on the poor. It gives us an extremely distorted picture of our social circumstances, and in doing that it arrests the real debate over welfare reform, and also fails to give the taxpayer credit for his rather lavish generosity in supporting the welfare state over the last 25 years.

If I could turn to this chart, I think this summarizes my basic positions here today.

This chart is really rather remarkable. If you believe that the information on this chart is correct, which apparently Mr. Greenstein, Ms. Ruggles and the Census Bureau do believe, it is in fact the strongest conceivable indictment of the war on poverty imaginable, because what it shows is that from 1950 to roughly the mid-1960s, around 1966, the poverty rate, the percentage of the U.S. population which was poor, plummeted almost 1 percentage point a year, falling from 32 percent to around 15 percent in the mid-1960s.

However, within two or three years of the time in which the war on poverty started and the other figure on this chart, which is constant dollar welfare spending, welfare spending adjusted for inflation, began to go up. The poverty rate leveled off and has basically remained unchanged for almost 25 years.

It squiggles a bit as we go into recessions and out of them, but it basically has remained unchanged. It might actually even have a slight upward curve here.

Now, the question would be, why, at the exact point in time in which we began to dramatically expand welfare spending, again, adjusted in inflation—and these figures do not include social security or Medicare for the middle class. This is solely means-tested programs for very low- income people, as well as some urban aid thrown in here, nothing for the middle class in there. Why, at exactly the point in time in which we began to dramatically expand this spending to assist the poor, did that regular decline in the poverty rate level off and virtually come to an end?

What that chart would mean, if those figures are true, is that the war on poverty not only succeeded in greatly expanding behavioral poverty—meaning by that, the illegitimate birth rate, the dependency rate, the erosion of the work ethic, and the rate of crime in the United States over the last 25 years—but it also had zero effect in raising the material living standards of poor people.

Now, as you know, Senator, I'm no fan of big government. But even I do not believe that the government of the United States can increase welfare spending in constant dollars five-fold over a 25-year period and have no impact on the living standards of low-income individuals.

Even I, the critic of government, do not believe that you can expand welfare cash, food and housing assistance alone, four-fold over a 25-year period, and have no impact on the poverty rate in the United States. And even I do not believe that the government of the United States can spend $226 billion a year, 4.1 percent of the gross national product of the United States, giving assistance to poor people, more than 2½ times the amount of money which is needed to raise the income of every single poor person in the United States above the poverty threshold, even I do not believe that the government of the United States can spend that kind of money and have had no impact on poverty for 25 years.

Now, what is the cause of this paradox? Let me make eight basic points.

The first is welfare spending is growing. We were told that during the 1980s, welfare spending was cut, cut, cut. Well, it's not true. Welfare spending went up. Even if we eliminate the medical factor, welfare spending on food, housing and cash, even adjusted for the increase in the population in constant dollars, went up during the 1980s.

Welfare spending went up from around $40 billion in constant dollars in 1965, when the war on poverty began, to $226 billion today. It rose from 1.7 percent of the gross national product to 4.1 percent of the gross national product, and is now as a percentage of GNP, virtually at the same place it was during the middle of the Great Depression in the 1930s.

Senator Sarbanes. If medical care was not included in your welfare spending, what would your welfare spending show?

MR. RECTOR. If medical care were taken out, the welfare spending would be about $130 billion.

SENATOR SARBANES. And you have it up at, what, $230?

MR. RECTOR. $226. It's close to half of the total.

SENATOR SARBANES. So the welfare spending, then, would be down fairly close to the red line. Is that right?

MR. RECTOR. Yes, but it would have still shown a four-fold increase between 1965 and today. And it would have shown a dramatic increase on a per-capita basis.

It would still be, even if you take out the medical care, the amount of spending on food, housing, and cash in the welfare system, is 30 percent more than is needed to raise the income of every single poor American above the poverty thresholds.

SENATOR SARBANES. But a substantial part of that increase in welfare spending is as a consequence of medical care.

MR. RECTOR. Yes, indeed. In fact, if you look at my written testimony, I believe the third chart breaks this spending out by different types of programs.

SENATOR SARBANES. Okay. Thank you.

MR. RECTOR. Now, as I said, the amount of money being spent, if you include medical care and some social services, is 2½ times what is needed to raise everyone's income above the poverty thresholds.

However, if you restricted it to food, cash and housing alone, it is still 130 percent of what is needed to raise incomes above the poverty threshold.

However, the problem is that, of this total spending equaling 4.1 percent of GNP, the Census Bureau counts only $32 billion as income received by poor people. The total amount of money that is being spent on noninstitutionalized persons in the United States, to assist them to either be more self-sufficient or to raise their living standards directly, being given to them, but is not being counted by the Census Bureau, is equal to $150 billion, or 2.7 percent of GNP.

Now, I simply assert that if this money is not doing anything worth counting in order to raise the living standards of poor Americans, then we can cut it out and return those funds to the American taxpayer.

It would be a return, a cut in taxes of about $2000 per household, money going back, if we truly believe that all of these funds that we are spending and devoting to the poor, in fact, have zero impact on their standard of living.

I think, however, if we actually tried to cut any of that spending, many of the people who would like to pretend that it doesn't exist would raise the greatest uproar.

SENATOR SARBANES. I notice in your chart on the composition of welfare spending by program type that the biggest category is education and training.

MR. RECTOR. No.

SENATOR SARBANES. That is not correct?

MR. RECTOR. The biggest category is cash, food and housing. The second biggest category is medical. Then education and training and community development come to about $26 billion.

SENATOR SARBANES. Okay.

MR. RECTOR. Now, I would also assert the fourth point, that the alleged increase in inequality, which we have heard so much about this morning, does not exist if we actually count these in-kind benefits.

If we counted the increase in in-kind benefits that is going to the bottom two quintiles or the bottom 40 percent of the population in, as if it really occurred, which I believe it did—I do not believe this money was sent to Brazil—we would show, in fact, that the bottom two quintiles of the population have a higher share of total income than they did in 1970.

The problem is that the entire increase in cash, food and housing assistance to poor people, in constant dollars, which has occurred since the beginning of the War on Poverty, is uncounted by the Census Bureau. It is as if the war on poverty never occurred at all.

SENATOR SARBANES. Well, they do count it in one of their measurements.

MR. RECTOR. In one of their alternative indicators, which is usually published on page 160 in one of the books, and is never ever talked about by politicians or the press whatsoever, they count a tiny fraction of noncash benefits.

But even in that best indicator, they are missing nearly half of the food, cash and housing assistance, and almost all of the medical assistance given to poor people.

Now, the consequence of this is that the actual standard of living of people who are defined as poor by the Census Bureau is dramatically different than what the average American citizen thinks about when he hears the word poverty.

When the average American citizen hears the word poverty, he's thinking about destitution. The man on the street thinks poverty—that means something like a person who is unable to feed his family, to clothe them, or to provide a reasonably warm, decent and dry house or apartment for them to live in. But that has nothing to do with poverty as defined by the Census Bureau.

What we find instead, using the Census Bureau's own unpublicized data and data from other government agencies, which is largely unknown and never comes to political light, is that 40 percent of all the households who are defined as poor by the Census Bureau actually own their own homes. Over one million households defined as poor by the Census Bureau actually own homes worth over $80,000. And close to 75,000 households who are defined as poor own homes worth over $300,000.

The average home owned by a poor person is a three-bedroom house with a garage and a porch or a patio.

SENATOR SARBANES. What percent of those, what you are calling poor, are elderly, who own their homes?

MR. RECTOR. Less than half. These are not what I'm calling poor. These are what the Census Bureau calls poor.

SENATOR SARBANES. About half of them would be elderly?

MR. RECTOR. A little less than half, about 45 percent, I believe.

SENATOR SARBANES. Forty-five percent are elderly.

MR. RECTOR. Yes.

SENATOR SARBANES. And you define elderly as——

MR. RECTOR. Over 65.

SENATOR SARBANES. Over 65. And what percent would be, say, 50 to 65?

MR. RECTOR. I don't have that, Senator.

SENATOR SARBANES. Ages 50 to 65.

MR. RECTOR. Yes. A lot of these people are elderly homeowner who own a car and all their furniture and have a reasonably decent house. Others of them are families with children that also own a house.

If you go on with this, if you look at both homeowners and poor renters, we find that the Census Bureau tells us that only 8 percent of all poor homeowners and renters are overcrowded. Ninety-two percent of them have ample housing space to live in.

In fact, close to two thirds of them have more than two rooms per person in the home or the apartment that they live in.

Further, we look and see that 62 percent of poor persons own their own cars. In fact, 14 percent of them own two or more cars. And 50 percent of poor persons in the year 1989 had air conditioning in their home, in comparison to only about 32 percent of the general U.S. population just 20 years ago.

So, in certain respects, the living standards of poor people are actually higher than those of the average citizen just 20 years ago.

Further, we look and find that if we look at the expenditures of low-income individuals, the Bureau of Labor Statistics' Consumer Expenditures Survey tells us that people in the low income quintile spend $1.74 for every one dollar of income that the Census Bureau says that they have.

I wonder how they do that. I would certainly like to do that in my family budget.

I think the reason that they do that is because the Census Bureau doesn't have any idea, or really any interest, in what their actual income is.

Finally, I would say that the poor people today in fact have actual material living standards that are far higher than the average American citizen in most of the 20th century. In fact, if we look at the bottom 20 percent of households today, we find that their per-capita expenditures are greater than those of the median American household, after adjusting for inflation, in 1960.

What we have is a dramatic improvement in living standards, rather than the picture which the Census Bureau annually presents to us.

And finally, I would say on this point that we hear continual talk about how hungry and malnourished poor children are. The fact of the matter is that if I were to take a chart of the average nutriment consumption—vitamins, minerals, and proteins—of poor children here and compare it with children of the middle class, you, Senator, would not be able to tell the difference between the two of them, and that in almost every nutriment category the consumption would be well above the recommended norm.

And as a consequence of that, when poor children grow to reach adulthood today, they in fact, rather than being hungry and malnourished, grow up by the time they're age 18 to be one inch taller and ten full pounds heavier than the GIs who stormed the beaches of Normandy in World War II.

They are not only not hungry and malnourished, they are in fact supernourished by any conceivable human standard.

SENATOR SARBANES. Well, of course, the whole population is getting bigger.

MR. RECTOR. Indeed, as theirs did, too. They are in fact taller and stronger than the average kids in the late 1950s, exactly what I'm saying.

We have not seen a static picture on poverty for 25 years. We have seen, if we knew the real facts, dramatic increases in the living standards of poor people, as well as middle-class people.

This does not——

SENATOR SARBANES. You are saying poverty as an absolute measure. If they're doing better than 50 years ago—it's an interesting historical perspective—you could even do it internationally. You could make the point that poor people here are better off than poor people or, indeed, even middle-income people in, say, African countries.

MR. RECTOR. Indeed, they're much better off in many respects than people in Western Europe. They're more likely to have basic amenities like bathrooms and color televisions. They have larger houses and less crowding than the average citizen in West Germany and France and Italy.

Poor Americans have two times as much housing space as the average citizen in Japan, and four times as much housing space as the average citizen in the Soviet Union.

Now, does this mean, point number seven, that the war on poverty succeeded because we have largely done away with material poverty, in the sense that it's ordinarily understood by the public?

No, it does not really mean that, because the major consequence of all of this spending on the poor has not been to raise their net incomes, but really to displace work with welfare. We have taken an entire segment of the population, moved them out of the mainstream, and moved them into a situation of permanent dependency.

That brings me to point number eight.

The real problem that we need to focus on when we're talking about the underclass, which is not necessarily exactly the same as the poor, but it's very similar, is the problem of behavioral poverty.

Behavioral poverty is a cluster of pathologies, including increasing illegitimacy, increasing dependency, eroded work ethic, divorce, rising crime, drug abuse, and school failure.

And what we have seen in the war on poverty is that exactly at the point at which this dramatic increase in welfare spending began, and the dramatic increase in the benefits per-family provided began, we also saw, coincident with that, a dramatic increase in behavioral poverty.

When the war on poverty began, roughly one out of four black children in this country was born out of wedlock. Today, that figure is two out of three. And that figure is for real. Unlike what the Census Bureau told you this morning, that figure is for real. And there is a whole lot of human tragedy in that figure, because we know that children need and deserve two parents, that a child——

SENATOR SARBANES. What's the figure amongst whites?

MR. RECTOR. It's about 20 percent, I believe. Bob would know that. I don't have that right now. This is not a phenomenon that's restricted to blacks. It's also occurring among low-income whites.

SENATOR SARBANES. What was it? My understanding is that that phenomenon, in fact, in percentage terms, is rising faster amongst whites than amongst blacks.

MR. RECTOR. The places where it is rising fastest, Senator, are among low-income whites and blacks, as I understand it, both, I believe, as a consequence of the welfare system.

Research by Dr. Robert Plotnick at Washington University in fact showed that increasing the welfare benefits in a state by as little as $200 a month would cause 150 percent increase in the teen illegitimate birth rate within that state.

Therefore, it should not come as a surprise to us that the disintegration of the American family has directly coincided with this huge expansion of the welfare system, which penalizes work and marriage and rewards single parenthood and nonwork.

SENATOR SARBANES. Do you challenge the figure that the number of single-parent families with four children or more has declined very substantially over the last 20 years?

MR. RECTOR. No. That makes perfect sense to me. But we are having more and more single parents. That's the problem. And a child in a single-parent family is just multiple disadvantaged. Let me give you one example of that.

SENATOR SARBANES. I just want to get at the point that we used to have a problem with single parents, with a very large number of children, four or more.

MR. RECTOR. Yes.

SENATOR SARBANES. That problem has significantly declined.

MR. RECTOR. That's correct. The average single mother on welfare has two children and stays on welfare about ten years. But she does not have large numbers of children.

But let me give one example of what happens when we destroy the American family and when we cause an increase in single parenthood.

Research by Dr. June O'Neill, formerly of the Urban Institute, has shown very clearly that a young black man growing up in a single-parent family in an urban center is twice as likely to get involved in criminal activity as a similar young black man who grows up in that same urban center, at the same family income level, at the same parental education level, but he has a mom and a dad in the home.

The child who is raised without a father, again, is twice as likely to get involved in crime. And in fact, if we think about—I haven't confirmed this—but I have been told that those four young black men who dragged the truck driver out of his truck in Los Angeles and beat him nearly to death, every single one of those young men came from a single-parent family in which there was a mother in the house, but the father was really the welfare state and Uncle Sam.

The real paradox of welfare, the real issue that we have to deal with, is really being sidetracked by this pseudo-discussion of material poverty, which, at best, is grossly exaggerated and, at worst, is not a problem at all, is that the welfare state is a paradox, Senator. Under the current programs we have, the more money we spend on these existing welfare programs to grope and try to deal with material poverty, raising people's material living standards, the higher the behavioral poverty level that we're going to have.

The current welfare system, in all but five states in the United States, the average mother on welfare already receives welfare benefits well above the poverty threshold. The average benefits received is about $14,000, when you factor in her participation in all the different programs that are available to her.

She doesn't get them all, but when you factor them all in, it comes to about $14,000 a year.

We could conceive of that as a $14,000 welfare paycheck on which we really establish two conditions that she has to fulfill in order to get that paycheck.

One is she can't work, and the other is she can't marry a fully employed male.

I call it the welfare incentive system from hell. If you really, really wanted to destroy the quality of life of low-income Americans, what we would do would be to invent a system just like that, and then spend a lot of money on it. And that's what we've succeeded in doing.

I have some other comments on how we can begin to measure poverty, and also how we could begin to deal effectively by reforming the welfare system to deal with behavioral poverty, but I will leave those to the questions.

[The prepared statement of Mr. Rector follows:]

PREPARED STATEMENT OF ROBERT RECTOR

Today the U.S. Census Bureau will release its annual report on income and poverty. The report will almost certainly show that the current prolonged recession -- caused largely by Congress' 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. However, expansion of welfare programs will not truly help the unemployed. What they need are jobs and economic growth. Bigger government and higher taxes will not help to produce jobs and growth. Let me begin my testimony with seven basic assertions:

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. This figure excludes programs for the middle class like Social Security. Contrary to political claims, welfare spending increased during the 1980s after adjusting for inflation. Nor was the recent increase restricted to medical aid; in constant dollars, means-tested 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 above the poverty income levels. Part of the $226 billion dollars in welfare spending does go to persons in nursing homes and other institutions who are not included in the annual Census population and poverty count. However, $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 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. The missing funds, which were spent on low income persons but not counted by the Census, equalled 2.7 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 are "poor" in the sense understood by the general public. Nearly all of the 30 million plus people identified as poor by the Census 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 are may be little material poverty left, this does not mean that the War on Poverty was a success. The recent expansion of the welfare state

has not really raised incomes of less affluent Americans. Instead it has largely replaced wealth 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 promote 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. 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 increasing behavioral poverty. Welfare 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 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.

By creating a false picture of chronic, pervasive poverty, the Census report harms both the taxpayer and the poor. The false picture of pervasive material poverty has led to the increased spending on welfare programs which cause behavioral poverty. It has distracted attention from and made more difficult serious discussions of welfare reforms which are needed to truly 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 fit that description. 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 Census data 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 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 <u>average</u> citizens in these countries, not to those classified as poor.)

* The government's own studies show that low income persons spend $1.79 for every $1.00 of income reported by the Census Bureau.

* 62 percent of "poor" households own a car; 14 percent own two or more cars; a third own microwave ovens.

* "Poor" Americans live in a larger houses or apartments, eat more meat, are more likely to own cars and dishwashers than is the general population in Western Europe.

* About fifty-three percent of "poor" households, renters as well as owners, have air conditioning. By contrast, just 20 years ago only 36 percent of the entire population enjoyed air conditioning.

* About 80 percent of poor American households own color televisions. Poor Americans are more likely to own a color television set than the average household in France, West Germany, or Italy.

* 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 that the GI's who stormed the beaches of Normandy in World War II.

* An accurate count of food, housing, and medical aid would show that today the lowest income two-fifths of households have a greater share of total income than they did 20 years ago. Remarkably, this economic equalization has occurred despite the rapid proliferation of poverty-prone single parent families.

* In all but five states, the combined value of welfare benefits received by the average single mother enrolled in the AFDC program exceeds the official poverty income threshold.

* 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 three 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 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 many fold. Since then, welfare spending in constant dollars has increased five fold. 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. The average American household has paid over $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 pretty bleak. As Chart 1 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 after adjusting for inflation. But as Chart 1 shows, coincident with this spending explosion, the poverty rate levels off and with a few modest dips and peaks remains largely unchange for the next 23 years. Moreover, during the same period that welfare spending soared, "behavioral poverty" began a dramatic increase.

* How is it possible for total welfare spending in constant dollars to have quintupled over the last 25 years while the poverty rate remains 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 is that it is not possible. Not even the government can spend $226 billion per year on low income people without having a significant effect on living standards. The simple fact is that Census counts little of this welfare assistance in calculating the number of poor Americans. But if this uncounted spending is not raising living standards we should do the taxpayer a favor and eliminate it.

Political Con Game

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 informed that there are over 30 million poor people and greater spending is again urged. The cycle continues year after year.

As noted, total welfare spending equalled $226 billion in 1990. the last year for which data is available. Of that sum the Census counted only $32.5 billion as income. The funds which were spent on the poor but not counted by the Census amount to 2.7 percent of GNP. Missing cash, food, and housing spending alone was around $70 billion, almost the total increase since the war on poverty began and more than enough to raise the incomes of all poor people above the poverty level.

Rebuttal by Welfare Enthusiasts
In the past, criticisms have been made of the analysis of welfare and poverty given above. I would like to briefly respond to these criticisms.

Charge #1 In addition to its widely publicized official poverty measure which counts only cash income, the Census also has alternative poverty measures which count non-cash 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 omit most welfare spending. For example, they omit nearly half of cash, food, and housing aid.

Charge #2 The 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 of welfare spending 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. 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. To the CRS list of programs I have added Medicare aid for poor persons and a few programs which target aid to economically disadvantaged areas such as Urban Development Action Grants (UDAG). This yields a total of $226 billion in welfare spending by federal, state, and local governments in 1990. A list of all the welfare programs included in my count of welfare spending is included in the appendix to this testimony.

Charge #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 of 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.

Charge #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 150 percent from 1970 to 1990.

Charge #5 It may be true that most of the persons defined as "poor" by the Census Bureau have actual incomes above the 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 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 has actually proposed raising the current poverty income thresholds above the income level of the median American family in the early 1950s, adjusting for inflation. According to Dr. Ruggles, "Ozzie and Harriet" were poor. If Dr. Ruggles' 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 considered middle class today would be redefined as poor. This gives new meaning to the Biblical injunction: "The poor are always with us."

These notions have nothing to do with "poverty". What Dr. Ruggles and her supporters are interested in is radical income redistribution. If an individual's income falls below a certain level, say 50% of the income of the average family, then the middle class family would be taxed and its income redistributed to the persons with low income. While the American public has little interest in government income redistribution per se, it is concerned about "poverty". Hence the effort to camouflage redistributionist schemes under the guise of "poverty". It is really just an abuse of the English language for political purposes.

Reforming the Measure of Material Poverty

In my publications, I have repeatedly offered recommendations on improving the government's assessment of material poverty. I will briefly summarize these recommendations.

1) Focus on the numerous government surveys which assess the actual food consumption, physiological

status, and housing conditions of the "poor". Expand these surveys, conduct them more frequently, and periodically issue their findings in a single integrated report. Ask questions like: How many people lack food; how many are physiologically malnourished; how many lack reasonably decent housing? The answer will be a small fraction of the 30 million currently defined as poor.

2) Integrate and expand the Survey of Income and Program Participation (SIPP) and the Consumer Expenditure Survey. Get a very accurate count of welfare benefits and their cost to the taxpayer. Then ask questions like: How many families spend less than the Agriculture Department's Thrifty Food Budget on food after non-cash benefits are included? Who are they? In how many families do housing costs represent over 50 percent of total consumption including all welfare aid? Who are they?

3) In all reports on poverty include data and a discussion of the important issue of behavioral poverty.

Rethinking the Issue: Material Poverty Versus Behavioral Poverty

For the general public the real problem with welfare is not merely the rapidly expanding cost -- which now absorbs 4.1 percent of the entire national economy -- but the sense that welfare actually harms, rather than helps, the poor.

The key dilemma of the welfare state is that the prolific spending intended to alleviate material poverty has led to a dramatic increase in "behavioral poverty". The War on Poverty may have raised the material standard of living of some Americans, but at the cost of creating whole communities where traditional two parent families have vanished, work is rare or non-existent, and multiple generations have grown up dependent on government transfers.

Our current welfare system may best be conceptualized as a system which offers each single mother a "paycheck" worth an average of between $8,500 and $15,000, depending on the state. The mother has a contract with the government: She will continue to receive her "paycheck" as long as she fulfills two conditions:

1) She must not work; and

2) She must not marry a fully employed male.

I call this the incentive system from hell. The current welfare system has made marriage economically irrational for most low-income parents. Welfare has converted the low-income working husband from a necessary breadwinner into a net financial handicap. It has transformed marriage from a legal institution designed to protect and nurture children into an institution which financially penalizes nearly all low-income parents who enter into it.

Across the nation, the current welfare system has all but destroyed family structure in the inner-city. Welfare establishes strong financial disincentives which effectively block the formation of intact, two-parent families. Example: Suppose a young man in the inner-city has fathered a child out of wedlock with his girlfriend. If this young father abandons his responsibilities to the mother and child, government will step in and support the mother and child with welfare. If the mother has a second child out of wedlock, as is common, average combined benefits will reach around $13,000 per year.

If, on the other hand, the young man does what society believes is morally correct (i.e., marries the mother and takes a job to support the family), government policy takes the opposite course. Welfare benefits would be almost completely eliminated. If the young father makes more than $4.50 per hour, the federal government actually begins taking away his income through taxes. The federal welfare reform act of 1988 will permit the young father to marry the mother and join the family to receive welfare, but only as long as he does not work. Once he takes a full-time job to support his family, the welfare benefits are quickly eliminated and the father's earnings are subject to taxation.

The onset of the "War on Poverty" directly coincided with the disintegration of the low-income family -- the black family in particular. At the outset of the Second World War, the black illegitimate birth rate was slightly less than 19 percent. Between 1955 and 1965 it rose slowly, from 22 percent in 1955 to 28 percent in 1965. Beginning in the late 1960s, however, the relatively slow growth in black illegitimate births skyrocketed -- reaching 49 percent in 1975 and 65 percent in 1989. If current trends continue, the black illegitimate birth rate will reach 75 percent in ten years.

Generous welfare benefits to single mothers directly contributed to the rise in illegitimate births. Recent research by Shelley Lundberg and Robert D. Plotnick of the University of Washington shows that an increase of roughly $200 per month in welfare benefits per family causes the teenage illegitimate birth rate in a state to increase by 150 percent. Similarly, high benefits discourage single mothers from remarrying. Research by Dr. Robert Hutchens of Cornell University shows that a 10 percent increase in AFDC benefits in a state will cause a decrease in the marriage rate of all single mothers in the state by 8 percent. Welfare programs discourage young men and women from marrying and promote the disintegration of existing two-parent families.

Penalizing Work

For the poor, another devastating legacy of the past 25 years has been the dramatic reduction in work effort. For a growing number of poor Americans, the existence of substantial welfare programs makes not working a reasonable alternative to long-term employment. During the late 1960s and early 1970s, social scientists at the Office of Economic Opportunity (OEO) conducted a series of controlled experiments to examine the effect of welfare benefits on work effort. The longest running and most comprehensive of these experiments was conducted between 1971 and 1978 in Seattle and Denver, and became know as the Seattle/Denver Income Maintenance Experiment, or "SIME/DIME."

Advocates of expanding welfare had hoped that SIME/DIME and similar experiments conducted in other cities would prove that generous welfare benefits did not adversely affect "work effort." Instead, the SIME/DIME experiment found that every $1.00 of extra welfare given to low income persons reduced labor and earnings by $0.80. The results of the SIME/DIME study are directly applicable to existing welfare programs: nearly all have strong anti-work effect like those studied in the SIME/DIME experiment.

The effects of welfare in undermining the work ethic are readily apparent. In the mid-1950s nearly one-third of poor households were headed by an adult who worked full time throughout the year. Today, with greater welfare benefits available, only 16.4 percent of poor families are headed by a full time working adult.

Inter-Generational Dependence

Of the 3.8 million families currently receiving assistance through Aid to Families with Dependant Children (AFDC), well over half will remain dependant for over ten years; many for fifteen years or longer. Welfare dependency also appears to spread from one generation to another. Children raised in families that receive welfare assistance are themselves three times more likely to be on welfare than other children when they become adults. This inter-generational dependency is a clear indication that the welfare system is failing in its goal to lift the poor from poverty to self-sufficiency.

Effects of Family Disintegration

The collapse of family structure in turn has crippling effects on the health, emotional stability, educational achievements, and life prospects of low income children. Children raised in single parent families, when compared to those in intact families, are one third more likely to exhibit behavioral problems such as hyperactivity, antisocial behavior, and anxiety. In regard to more extreme disorders, children deprived of a two parent home are two to three times more likely to need psychiatric care than those in two parent families. And they are more likely to commit suicide as teenagers. Absence of a father also increases the probability that a child will use drugs and engage in criminal activity.

Research by Dr. June O'Neill, formerly of the Urban Institute, show that a young black man raised in a single parent home is twice as likely to commit crimes, when compared to a black man raised in a two parent family with otherwise identical income and social characteristics.

Because the father plays a key role in a child's cognitive development, children in single parent families score lower on IQ tests and other tests of mental ability. Children in single parent families are three times as likely to fail and repeat a year in grade school than are children in two parent families. In all respects, the differences between children raised in single parent and those raised in intact homes are profound, and such differences persist even if single parent homes are compared to two parent homes of exactly the same income level and educational standing.

But the greatest tragedy is that children from broken homes, when grown to adulthood, will pass the same problems on to their own children. Weakened in their own development, children from single parent homes are markedly less likely to be able to establish a stable married life when they become adults. Young white women raised in single parent families are 164 percent more likely to bear children out of wedlock themselves and 111 percent more likely to have children as teenagers. If these women do marry, their marriages are 92 percent more likely to end in divorce than are the marriages of women raised in two parent families. Family instability and its attendant problems are passed on to future generations. And being raised in a single parent family also triples the probability that a child will become a welfare recipient as an adult.

Conclusion: How to Really Help Low Income Americans

The key to helping low income Americans is not to throw tens of billions of dollars more into conventional welfare programs to combat a problem of material poverty which is either greatly exaggerated or non-existent. Rather, we must help low income Americans form stable families and become self sufficient. We must convert welfare from a one-way handout into a system of mutual obligation. We must convert welfare from a system which rewards non-work and single parenthood into one which rewards work and marriage. Key to doing this is to require most welfare recipients to perform community service in exchange for the benefits they receive. We must make low income neighborhoods secure from crime, and that means locking up the felons who prey on the poor, and keeping them locked up.

We must improve the education of low income children through competition in education. Let's empower low income parents to choose the schools their children will attend through vouchers. If Jesse Jackson can send his kids to private school, why shouldn't a poor parent have the same choice?

We also must strengthen the church in the inner city community and across the country. Religious belief is the strongest single factor in determining whether a poor child will finish school and escape from poverty. We must give poor parents with strong religious beliefs the right to reinforce that belief in their children; they should be given education vouchers and the right to use those vouchers to send their children to a religious school if they so choose.

Details on these policy proposals are included in the article "Requiem for the War on Poverty" which I have given to the committee. I hope you will review them.

MEANS TESTED PROGRAMS AND OTHER WELFARE SPENDING

CASH AID

01) Aid to Families with Dependent Children
02) Supplemental Security Income
03) Pensions for Needy Veterans, their Dependents, and Survivors
04) General Assistance (cash component)
05) Earned Income Tax Credit (EITC)
06) Foster Care
07) Assistance to Refugees and Cuban/Haitian Entrants (cash component)
08) Emergency Assistance (EA) to Needy Families with Children
09) Adoption Assistance
10) Dependency and Indemnity Compensation (DIC) and Death Compensation for Parents of Veterans
11) General Assistance to Indians

MEDICAL AID

01) Medicaid
02) Medical Care for Low Income Veterans Without Service-Connected Disability
03) General Assistance (Medical Care Component)
04) Indian Health Services
05) Maternal and Child Health Services Block Grant, Title V of the Social Security Act
06) Community Health Centers
07) Medical Assistance to Refugees and Cuban/Haitian Entrants
08) Migrant Health Centers
09) Medicare for Poor Persons

FOOD AID

01) Food Stamps
02) School Lunch Program (Free and Reduced Price Segments)
03) Special Supplemental Food Program for Women, Infants, and Children (WIC)
04) Temporary Emergency Food Assistance Program (TEFAP)
05) Nutrition Program for the Elderly
06) School Breakfast Program (Free and Reduced Price Segments)
07) Child Care Food Program
08) Summer Food Service Program for Children
09) Food Program for Needy Indian Families
10) Commodity Supplemental Food Program (CSFP)
11) Special Milk Program (free segment)

HOUSING AID

01) Section 8 Lower Income Housing Assistance

02) Low-Rent Public Housing
03) Section 502 Rural Housing Loans
04) Section 236 Interest Reduction Payments
05) Section 515 Rural Rental Housing Loans
06) Section 521 Rural Rental Assistance Payments
07) Section 235 Homeownership Assistance for Low-Income Families
08) Section 101 Rent Supplements
09) Indian Housing Improvement Grants
10) Section 504 Rural Housing Repair Loans and Grants
11) Section 514 Farm Labor Housing Loans
12) Section 523 Rural Housing Self-Help Technical Assistance Grants and Section 523 and 524 Rural Housing Site Loans
13) Section 516 Farm Labor Housing Grants
14) Section 533 Rural Housing Preservation Grants
15) Public Housing Expenditures by State Governments *

ENERGY AID

01) Low-Income Home Energy Assistance Program (LIHEAP)
02) Weatherization Assistance

EDUCATION AID

01) Pell Grants
02) Head Start
03) Title One Grants to Local Education Authorities for Educationally Deprived Children, Elementary and Secondary Education Act *
04) College Work-Study Program
05) Supplemental Educational Opportunity Grants
06) Vocational Educational Opportunities, Disadvantaged Activities
07) Chapter I Migrant Education Program
08) Special Programs for Students from Disadvantaged Backgrounds (TRIO Programs)
09) State Student Incentive Grants
10) Fellowships for Graduate and Professional Study
11) Follow Through
12) Nursing Loans and Grants *
13) Health Professions Student Loans and Scholarships
14) Even Start *

JOBS AND TRAINING AID

01) Training for Disadvantaged Adults and Youth (JTPA II-A)
02) Summer Youth Employment Program (JTPA II-B)
03) Job Corps (JTPA IV)
04) Senior Community Service Employment Program
05) Work Incentive Program (WIN) and Job Opportunity and Basic Skills Training (JOBS) -- JOBS replaced WIN in 1988
06) Foster Grandparents

07) Senior Companions
08) Migrant and Seasonal Farmworkers Program *
09) Indian and Native American Employment and Training Program *

SOCIAL SERVICES

01) Social Services Block Grant (Title XX)
02) Community Services Block Grant
03) Legal Services
04) Emergency Food and Shelter Program
05) Social Services for Refugees and Cuban/Haitian Entrants
06) Title X Family Planning
07) VISTA
08) Child Welfare *
09) Title III Supportive Services, Older Americans Act *

DEVELOPMENT AID

01) Community Development Block Grant *
02) UDAG -- Urban Development Block Grant *
03) Economic Development Administration *
04) Appalachian Regional Development *
09) Legalization Impact Aid

HISTORICAL PROGRAMS NO LONGER IN OPERATION

CASH AID

01) Aid to Cuban Refugees
02) Aid to Indochinese Refugees
03) Aid to War Refugees

MEDICAL AID

01) Assistance for Crippled Children

FOOD AID

01) Food Donations to Institutions (not schools)
02) Food Stamps in 1940s
03) Donated Foods to Schools

JOBS AND TRAINING AID

01) CETA Title 6 Counter Cyclic Public Service Employment

02) CETA-IVA Youth Employment Demonstration
03) CETA-II Comprehensive Employment and Training

SERVICES

01) Office of Economic Opportunity Programs

DEVELOPMENT AID

01) Urban Renewal
02) Miscellaneous HUD Spending
03) Urban Planning Aid
04) New Communities
05) Technical Self Help

WORK RELIEF

01) Civilian Conservation Corps
02) Civil Works Administration
03) Works Project Administration
04) National Youth Administration
05) Other Work Relief

GENERAL RELIEF

01) Reconstruction Finance Corporation
02) Food Emergency Relief Administration
03) Farm Security Administration
04) War Refugee Assistance

* Current Program not included in Congressional Research Service List

Chart 1

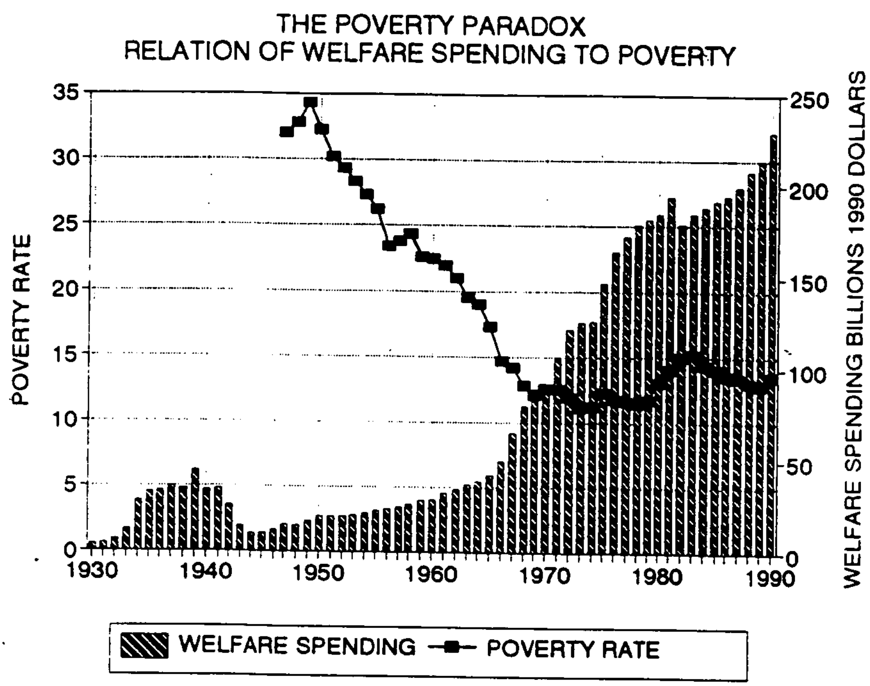

THE POVERTY PARADOX
RELATION OF WELFARE SPENDING TO POVERTY
POVERTY RATE
WELFARE SPENDING BILLIONS 1990 DOLLARS
0
5
10
15
20
25
30
35
0
50
100
150
200
250
1930
1940
1950
1960
1970
1980
1990
WELFARE SPENDING
POVERTY RATE

Chart 2

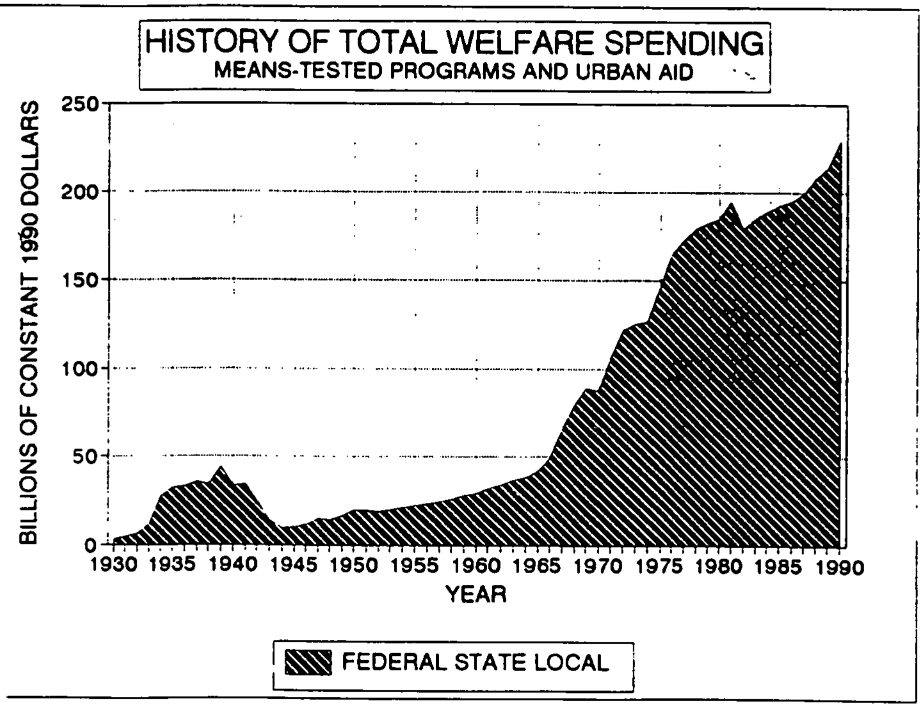

HISTORY OF TOTAL WELFARE SPENDING
MEANS-TESTED PROGRAMS AND URBAN AID
BILLIONS OF CONSTANT 1990 DOLLARS
0
50
100
150
200
250
1930 1935 1940 1945 1950 1955 1960 1965 1970 1975 1980 1985 1990
YEAR
FEDERAL STATE LOCAL

Chart 3

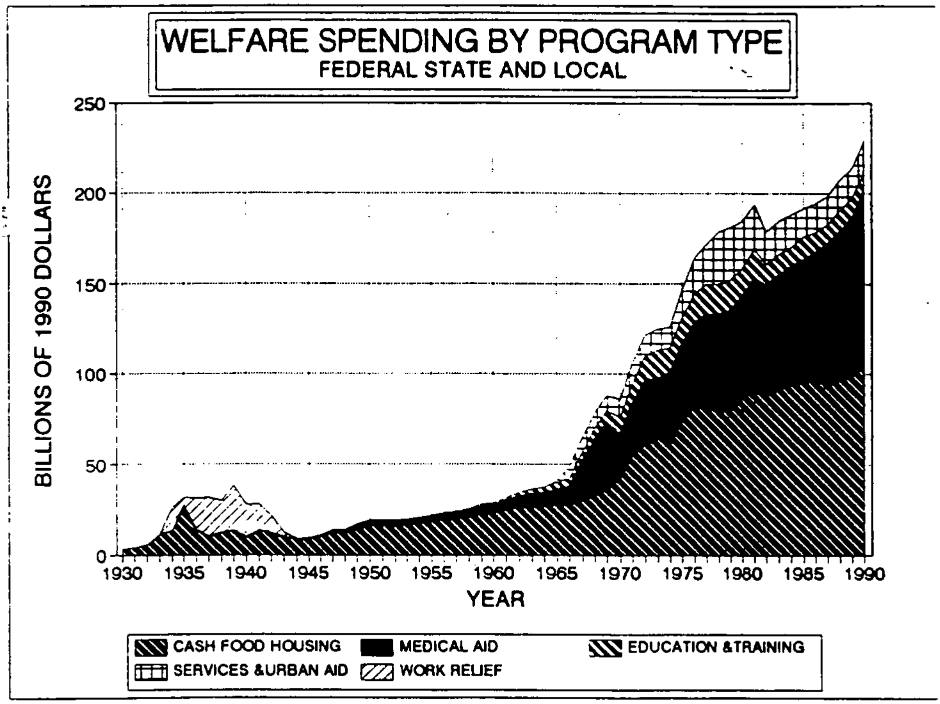
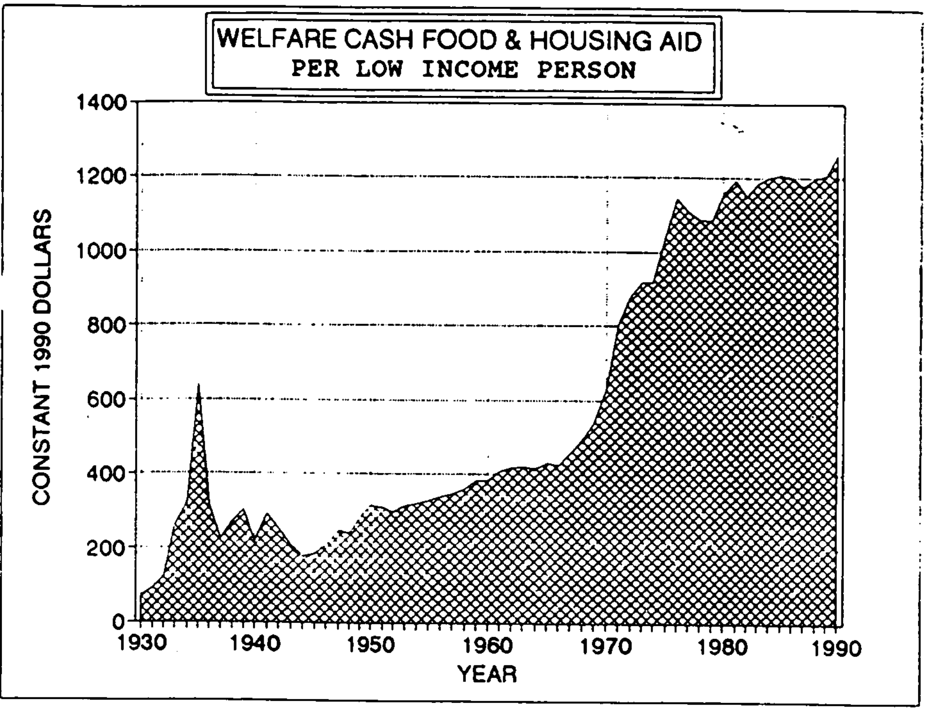
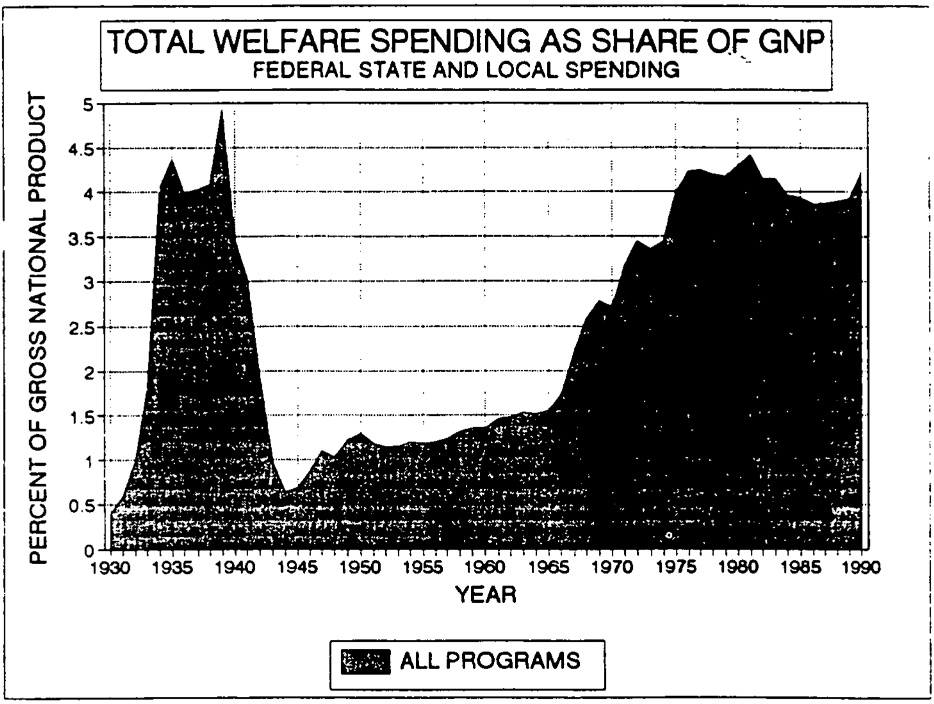

WELFARE SPENDING BY PROGRAM TYPE
FEDERAL STATE AND LOCAL
BILLIONS OF 1990 DOLLARS
0
50
100
150
200
250
1930
1935
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
YEAR
CASH FOOD HOUSING
MEDICAL AID
EDUCATION &TRAINING
SERVICES &URBAN AID
WORK RELIEF

Chart 4



Low income population means the lowest income third of the nation.

Chart 5


TOTAL WELFARE SPENDING AS SHARE OF GNP
FEDERAL STATE AND LOCAL SPENDING
PERCENT OF GROSS NATIONAL PRODUCT
5
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
1930
1935
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
YEAR
ALL PROGRAMS

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 Short-Fall
Means-tested Cash Assistance	55.1	50.3	32.5	17.8
Means-tested Non-Cash Food Assistance	25.26	25.26	0	25.26
Means-tested Non-Cash Housing and Energy Assistance	22.65	22.65	0	22.65
Medicaid and Other Medical Benefits	97.6	60.7	0	60.7
Urban Development	3.1	3.1	0	3.1
Social Services and Training	23.24	23.24	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 1988-90*, (Washington, D.C.: Congressional Research Service, The Library of Congress), September 1991. *Background Material on Programs Withing the Jurisdiction of the Committee on Ways and Means.* Unpublished data provided by Dept. of Health and Human Services and other government agencies.

SENATOR SARBANES. Thank you very much, Mr. Rector.

First, Mr. Greenstein, do you have any comments? In your statement, you set out an argument about the poverty measures, which Mr. Rector has challenged. I wondered if you had any response to that.

MR. GREENSTEIN. Mr. Chairman, I've been reading Mr. Rector's material for sometime, and in recent months I've started to check some of his numbers and look at some of the research behind it.

In the 20 years that I've worked in this area, I don't think I've ever seen anything more irresponsible than the consistent misuse of data. It would take me a long time to go through. I'll just pick a few examples.

Based on the material Mr. Rector put out this week for the Committee, I've supplied an eight-page piece of a series of misuses of data reflected in those materials.

I think it's instructive that in one of Mr. Rector's first pieces, he accused the Census Bureau of running a Soviet-style disinformation campaign. I think there's a serious question of who's running the disinformation campaign here.

Let's start with the point of that table, in which he says, "Isn't it striking that the decline in poverty stops when the columns in his figures start going up more rapidly?"

Well, as you know, Mr. Chairman, from your training, the fact that two events occur during the same period does not necessarily mean one caused the other. One has to do a little more careful research than that.

And as this Committee knows very——

SENATOR SARBANES. Like the story of the young girl in England during the war. They never had any bananas because the ships could not get in. This is on this causation factor.

The war ended and a shipment of bananas came, and the mother sent the girl and her younger brother off to London for a visit on the train. She gave him these bananas as of bonus to eat for lunch on the way up.

As the train was going along, they started eating their lunch and then they came to the banana and the girl took a bite of her banana just as the train went into a tunnel. Everything went dark, completely black.

She shouted in an agitated voice to her brother, "Billy, don't take a bite of your banana. You'll go blind."

[Laughter.]

This is on this point of causation.

MR. GREENSTEIN. Well, let me flesh out what I mean.

As this Committee knows very well, there was a fundamental change in the American economy starting around 1973 that affected everyone, not just poor people. The rate of productivity growth slowed appreciably. Average real wages stopped rising. The trend in median income slowed down.

What we see when we look at poverty trends over the past two decades is that the paramount factors influencing these trends are not spending on poverty programs. They are the unemployment rate and wage levels.

If you take those figures from the periods of the 1960s, the unemployment rate in 1968 averaged about 3.5 percent. You simply cannot compare that to a year in which the unemployment rate is 7 percent, as we had through much of the 1980s.

I think Isabel Sawhill of the Urban Institute has shown that if the average annual growth rate—the GNP growth rate—had been the same from 1973 to the present, as it was from 1945 to 1973, the average middle-income family would have $12,000 a year more in income now. That doesn't have anything to do with poverty programs, and it demonstrates the powerful effect that the economy exerts on income levels.

In short, the principal factors affecting the trends in poverty rates are the basic trends in the economy, which changed significantly in the early 1970s. That's the major reason poverty stopped going down.

Mr. Rector didn't mention that. He talked about $226 billion in spending and said basically that the Census Bureau counts only $32.5 billion.

I was looking into this earlier in the week and found that in his list of "missing welfare spending," he takes the total cost of a number of government programs, divides it by the number of households that the Census Bureau classifies as poor, and says that Census misses $13,000 in income per poor household, which it should have counted.

I looked at which programs he included in these calculations. He counted the cost of Head Start, job training programs, programs to provide in-home services to handicapped people, the Legal Services program, and funds to help defray the cost of homeless shelters. It doesn't seem to me that if an indigent person gets legal assistance to try and get a landlord to make repairs, that should somehow be counted as income and that it be considered as lifting the person above the poverty line. No serious analyst suggests that programs such as these should be counted.

Mr. Rector also said that these are only programs for the very poor. That's not true. Look at his list of programs. He has things like reduced price school lunches in there. But you can't be eligible for reduced price school lunches unless your income exceeds 130 percent of the poverty line. The funds spent on these lunches are not "income" for "poor people" that the Census fails to count in measuring poverty.

He also counts the full cost of the benefits provided under the earned income tax credit. The income limit for the EITC exceeds $22,000. That's double the poverty line for a family of three. He counts Pell Grants. He counts the cost of the college work-study program. Large numbers of the people in these programs are not below the poverty line.

He includes all of the administrative costs for these programs as though those are somehow amounts that the Census Bureau should count as income going to the poor. Most egregious of all is his treatment of health-care programs. He takes the total amount of Medicaid costs and a portion of Medicare costs, divides these costs by the number of poor households, and says that's a missing amount per household that should be counted as income.

Years ago, the Census Bureau rejected using that type of calculation even as an experimental approach, because the Bureau found that it produced dubious results. For example, this approach would cause an elderly couple with Medicare and Medicaid, but no other income, to be considered as having $9,000 in income and being several thousand dollars below the poverty line.

Virtually all experts in the field believe that this is not a valid way to look at these issues.

SENATOR SARBANES. Actually, if you're a very poor person with hardly any income, but you were very ill and entitled to Medicaid and there were large Medicaid expenditures in order to treat your illness, and that was counted as income, you could be reflected as a very rich person, could you not?

MR. RECTOR. It's not usually done that way, Senator.

MR. GREENSTEIN. It is not done that way on a per-person basis. It's done by category. You take all the spending on Medicaid and you divide it by the number of poor households.

In the material Mr. Rector circulated to media across the city this week, he even included the Medicaid expenditures for people in nursing homes and institutions—people whom the Census Bureau excludes from the poverty count—divided it by the number of people the Census Bureau does classify as poor, and included that in the amount of income per poor household that the Census had missed.

For another example, let's take housing. We spend a lot more on housing than we did 20 years ago. In 1970—these are HUD figures—there were 400,000 fewer low-income renters than there were low-income rental units. In 1989, there were 4.1 million more low-income renters than rental units. We went from a surplus of 400,000 to a shortage of 4 million, even though we have lots more housing subsidies.

Why? Because the number of low-cost housing units shrank dramatically in the private, unsubsidized market. Government had to spend more on housing just to keep the low-income housing shortage from getting even worse.

That doesn't mean that poor people, in general, are housed more affordably than 20 years ago, even though government housing programs cost more now. But in the simplistic way these figures are used in Mr. Rector's chart, the implication is that there was increased housing spending, so people must be a lot better off.

You could do such an analysis with many of his figures. Mr. Rector said a majority of the poor who own their homes are not elderly. But close to 50 percent of the poor who own their homes are elderly, and the homeownership rate among poor elderly households is double the rate among poor nonelderly households. Most of the elderly poor homeowners have paid off their mortgages, and it is more economical for them to stay in their homes than to rent.

For the nonelderly poor who are homeowners, many of them are recently unemployed people. What do we want them to do if they're going to be out of work for a year or two? Do we want them to sell their home in the meantime and then when they get a job, they don't have one?

The fact that they don't sell their home during their period of unemployment doesn't help them buy clothes, or eat, or meet other kinds of necessities.

I've looked at his——

SENATOR SARBANES. As I understand Mr. Rector's statement, because I put this question to him—and he can correct me if I didn't understand him—45 percent of the poor people who own their homes are 65 or older.

MR. RECTOR. Something like that. I can get you the exact number.

SENATOR SARBANES. It is 45 percent.

MR. RECTOR. I'm not disagreeing with him.

SENATOR SARBANES. And then I asked how many of the poor people who own their homes were between, say, 50 and 65? And we don't have that figure available to us.

MR. GREENSTEIN. Mr. Rector also says that half of the poor have air conditioning. So I looked at the source where he got the data from. It turns out about half of the poor who have air conditioning have one window unit for their home. One window unit. Is that a luxury? Suppose you live in the South. Suppose you're an elderly person who's sensitive to heat.

He mentions that 60 percent have cars. Well, when you look at the AFDC data, only 6 percent of AFDC families have cars. Who are these poor households who own cars?

It appears that many of them are families that work and use their cars to commute. It turns out that 70 percent of poor households in rural areas own cars, and 65 percent of households in rural areas that are poor have a worker.

MR. GREENSTEIN. He says that 14 percent of poor households have two cars. But 19 percent of poor households have two or more workers. And if you're in a rural area and trying to work to make some low wages, it's hard to do so without a car.

We have new research that shows that in nine cities that were studied, four of every five black central-city males without a high school diploma who had jobs in the suburbs—which is where more of the low-skilled jobs are now moving—depended on a car to commute to work. At the same time, the majority of unemployed central-city black males who didn't have jobs also didn't have access to cars. Cars can be important in trying to get some wages.

We need to look at these figures in context. And what bothers me about the way Mr. Rector has used these figures is that it is sensationalism. He takes figures on the number of households that have expensive homes, but doesn't say that the number represents less than 1 percent of all poor households. A few years ago, he tried to claim that 22,000 of the poor had Jacuzzis and that the number came from a government survey. But it turned out that the number wasn't in the government survey at all. The Energy Department official who managed the survey said that what Mr. Rector did was statistical malpractice, that the Energy Department had no such figure, and that the number of per households with Jacuzzis was so small in their survey that they couldn't come up with any reliable number, even a small one.

MR. RECTOR. That is not true, but go ahead, Bob.

MR. GREENSTEIN. It is true and was reported by Jason DeParle of the *New York Times*.

SENATOR SARBANES. Mr. Rector, I'll give you an opportunity in a minute.

MR. GREENSTEIN. In addition, Mr. Rector states that poor people spend $1.87 for each dollar in income. That's from the Consumer Expenditure Survey. It is well known among researchers in the field that there are serious questions about data quality with the Consumer Expenditure Survey, especially the income data.

It is unclear how valid those data are. It is also known that you have a lot of people who are recently poor, who try not to move out of their home or apartment, and they go into debt instead. They borrow money. They cash in the life insurance. They use up savings to keep up the car payment and the rent or mortgage payment.

If a household has $6,000 in income and spends $9,000 so it doesn't get evicted, the household is spending $1.50 for each dollar in income. But both its expenditures and its income are still below the poverty line.

So we really need to take a pretty careful look at what all of these figures mean. I think the conclusions that Mr. Rector draws are quite simplistic.

One last point. The research in the field does not support the claim that the War on Poverty has totally destroyed the work ethic. The main evidence Mr. Rector cites is that the proportion of poor households that have a full-time worker is about half what it was in the 1950s.

As many researchers have noted, however, when wages rise, full-time workers are less likely to be poor. Wages are much higher today than they were in the 1950s. If you work full-time, you're less likely to be poor now than you were in the 1950s. But in itself that doesn't tell you anything about what has happened to the work ethic or about the impact of the War on Poverty.

In addition, Mr. Rector neglects to mention that during the period since the late 1970s, when wages have fallen, the proportion of households with a full-time worker has gone back up.

Why would that be the case if, as Mr. Rector says, rising welfare spending were continuing to destroy the work ethic?

The fact is that the change in the proportion of poor households with a full-time worker is mainly a function of what happens to wages. When wages go up, the proportion of poor households headed by full-time workers drops. Wages go down, the proportion of poor headed by full-time workers rises.

So let's not draw the simplistic conclusions that the Census numbers are meaningless, that the poor are living in luxury, or that the War on Poverty has destroyed the work ethic. The truth is much more complex than that.

SENATOR SARBANES. Mr. Rector?

MR. RECTOR. Yes, I'll just make a few points.

One is that I did not contend that all of this welfare spending goes to people with incomes below the poverty level. I think I make that quite clear in my written testimony.

It does, however, all go to low-income persons. It would be very difficult, Bob, to find any program on here, on my list and in this computation that is providing any significant assistance to families who are not in the bottom two quintiles of the population or to families with incomes, say, above $18,000 a year.

SENATOR SARBANES. You mean the bottom 40 percent?

MR. RECTOR. Bottom 40 percent. We don't only aid poor people. We aid low-income people.

But let's say that a third or 25 percent of all the food, cash and housing assistance does not go to poor people, but goes to people whose income is slightly above the poverty level, as it well should. That would still leave enough cash, food, and housing assistance to raise the income of every single poor person above the poverty threshold.

Mr. Greenstein does not like the fact that I count some $90 billion or $100 billion in assistance for medical assistance for low-income people.

I think he would agree with the fact that they didn't have that type of assistance in 1965, but are receiving really very substantial and generous assistance from the taxpayer at this point in time, is in fact a very significant rise in their standard of living.

I'm sure if I tried to cut that program back, that Bob Greenstein would be in here fighting against those cut-backs.

But let's throw out social services, we won't count those. And let's throw out medical assistance and don't count it. The fact of the matter is that you're still spending or missing about $6,000 for every poor household in cash, food and housing assistance that's being given to these people and it's not being counted by the Census Bureau. This is very close to the total amount of money that's needed to wipe out all poverty in the United States.

And if we want to talk about modest inadequacies in survey instruments, I think this is something of a modest inadequacy.

Again, I think that it is, in fact, the most scathing criticism conceivable to say that the welfare spending in the United States, in constant dollars, just on cash, food and housing, can quadruple since the war on poverty began—where did the money go? Did it go to Brazil?

I don't even believe that even the Post Office could spend that level of money and be so inefficient that it had very little or no impact on the living standards of poor people.

Now, again, Bob brought up the point about basic trends in the economy. I agree with that. That's one of the factors here. I think there are three factors that have contributed to the growth of the underclass and the growth of dependency and the growth of poverty.

They are the welfare states—these declines in productivity and wages that Bob alluded to—and I also think changes in culture, where we promoted and are now much more willing to accept out-of-wedlock birth and other types of behavior, that tend to make people vulnerable to poverty.

SENATOR SARBANES. What about a slow growth economy?

MR. RECTOR. Oh, yes, absolutely.

SENATOR SARBANES. Would you list that as another factor?

MR. RECTOR. Well, that's what I mean by low growth in productivity and wages. In fact, I have written about that extensively in my writings, as I think Bob Greenstein is well aware.

I would make a point on that and I think it's very important because I think some misinformation has been presented here today.

There were a lot of figures given earlier today about median household income. The median household income is very, very dependent upon the increase in single-parent families. If you could indulge me just for a minute, I'll try and explain this, Senator. And I'll just give a very simple explanation of it.

For example, in a population of ten, if the median household income is the fifth household, if in between two time periods you grow from having ten households to having two extra households at the bottom, both of whom are single parents—so instead of now having ten households, you have twelve—the household that is the median is no longer the same household that was the median in the first period. You've shifted down from being household number five to household number six. And that very dramatically pulls down the median household income.

If we look at a factor that relatively adjusts for and takes into consideration the growth in single-parent households. That is, looking at the median income of married couple families, what we see is a fairly steady rise in median family income from 1971 to 1981, rising in constant dollars from about $34,500 to $38,000. And then between 1981 and 1990, rising again from around $38,000 to around $41,500.

But what the real difference is in that period—and I've done this study—is that you have to look at the post-tax income. The problem is that in the 1970s, increases in taxation on the average family with children took away about 60 cents out of every additional dollar's earnings that they made in constant dollars. You doubled it up.

SENATOR SARBANES. Let me interject here. The median family income that you are talking about is for a married couple.

MR. RECTOR. Yes, that's right.

SENATOR SARBANES. In which both are working.

MR. RECTOR. No, no, but it's even stronger if they're both working, yes.

SENATOR SARBANES. Well, this is median income of married couples, wife not in the paid labor force—this red line. And this is what that line shows you.

MR. RECTOR. What inflator was used on it, Senator?

SENATOR SARBANES. 1991 dollars. And the figure you're giving me, which tracks roughly with the figures you were quoting, is the median income of married-couple families in which the wife is working.

MR. RECTOR. Mine includes both the working and nonworking. But, Senator, I think you're anticipating my point and I agree with where you're going. You can go ahead and make it.

The first point I was going to make, though, is that for the average family with children, the average family of four, during the 1970s, although there was an increase in income, the Federal Government took about 60 cents out of every additional dollar that was earned in those families.

The 1980s was the first decade since World War II in which the effective tax rate on the average family with children did not go up. In every decade prior to that, it had gone up dramatically, rising from about 2 percent of family income in 1950 to around 24 percent of family income by 1980.

Now, Ronald Reagan puts the brakes on that process, and for the first decade in the postwar period the effective tax rate on families with children did not go up. He wasn't successful in pulling it down, but he at least let people keep the same share of their income at the end of the decade as at the beginning of the decade. And as a consequence of that, the growth in post-tax income for average families was much better during the 1980s than during the 1970s, or significantly better.

I would also agree with the point that you're making, Senator, that a disappointingly large share of the growth of income of families with children since 1970 has been due to the fact that we have put both spouses into the work force. And I have written about this extensively. And if you look—as you did there—I don't think that you have a good deflator on that, but we'll basically agree on that. But if you look at, for example, the wages of the average American husband or the average American male worker, between 1950 and 1970, in constant dollars, they roughly doubled.

Between 1970 and 1990, they increased by only about 20 percent.

SENATOR SARBANES. Which deflator are you advocating?

MR. RECTOR. CPI-UX1, the one that was used by——

SENATOR SARBANES. Well, that is the deflator that was used here.

MR. RECTOR. All right.

SENATOR SARBANES. That is the deflator that was used on this chart, the very one——

MR. RECTOR. Okay. We're using the same data.

SENATOR SARBANES. No, let me just finish. You have cast some doubts on this chart on the assertion that we were not using the right deflator. And the fact is that we have used the exact deflator that you just indicated should be used.

MR. RECTOR. I didn't mean to do that, Senator. I think that that's a very good chart, and in fact I agree with you wholeheartedly on this issue.

SENATOR SARBANES. Thank you.

MR. RECTOR. If I could make the point about what happened between 1970 and 1980, particularly if you take the growth in noncash, health insurance and things, wages for the average husband went up about 20 percent—much, much slower than between 1950 and 1970. This is due to a decline in productivity growth in our economy.

I certainly think that that's something that we need to deal with. That's a subject that I would recommend that this Committee look into very strongly, and I also agree with Bob Greenstein that that has an effect, a very negative effect, on low-income families. However, it has nothing to do with the question that's presented in this chart. And I'll simply back up one step.

Let's assume that none of this welfare spending had the negative effects on behavior that I contend it did, that it did not have any effect on discouraging people from working, didn't have any effect on increasing single parenthood, although it's very difficult to believe that these figures are simply coincidental, and there was no real causal relationship.

Even so, we still have the enduring question of how it is that we can spend this level of money, and the more money we seem to spend, the flatter the poverty rate becomes.

I'll simply make one more point in response to Bob Greenstein. He said that welfare does not discourage work. In the late——

MR. GREENSTEIN. I did not. That is a direct misquote, Robert.

MR. RECTOR. I'm sorry. Bob. It doesn't discourage it a lot?

SENATOR SARBANES. If he didn't say it, it doesn't have to be answered.

MR. GREENSTEIN. There is a difference between saying that there's a modest work disincentive effect, which is the basic finding of the research literature in the field, and saying that welfare has destroyed the work ethic and has made people poorer than they would be without cash assistance, which is what you say.

SENATOR SARBANES. Well, in any event, Governor Clinton has indicated that he's going to combine welfare with training and working and moving people off of welfare.

MR. RECTOR. I'm very glad that Governor Clinton has adopted the position of the Heritage Foundation on that issue, after fighting against it for about ten years.

I would simply make this point, though. In the mid-1970s, we did an experiment called the Seattle Denver Income Maintenance Experiment. It was, as far as I know, the largest controlled experiment on the effects of cash transfers to low-income people on their behavior. It was not exactly like the existing welfare system, but the program structures and benefit rates are in fact very similar to what we have today.

I would simply point out that one of the findings in that was that of every extra one dollar of income given through that system, there was a reduction of labor participation in earnings of roughly 80 cents. Some figures show lower, maybe 60 cents. But nevertheless—this is the strongest data we have and I think it supports common sense—that one of the effects of welfare in simply giving people cash income is to discourage earnings, which is why we need to convert the welfare system from being a one-way hand-out, a check in the mail, into a system of being of mutual obligation, in which we provide assistance, but we expect something in return from the welfare recipient in exchange for the assistance we give. In most cases, that should be to either find a job or to participate in some type of community service.

SENATOR SARBANES. That is exactly what Governor Clinton has said, incidentally.

MS. RUGGLES. Yes.

SENATOR SARBANES. Now, we are going to have to draw this to a close. But before I do that, Ms. Ruggles, I want to give you an opportunity for any additional comments you may want to make, out of a sense of fairness, since we have spent so much time with Mr. Greenstein and Mr. Rector.

MS. RUGGLES. Thank you. I appreciate that very much, Senator.

My view is that Mr. Rector has indeed counted welfare benefits in much the same way that the Bush campaign has counted tax increases in Arkansas. We are seeing a substantial amount of double-counting and overcounting and so on.

But I think that that isn't even the main point. I think that Mr. Rector has somehow made it sound as though these welfare benefits that we give to maybe 10 percent of the poor have changed the behavior of not only all the poor, but all of the other single-parent families that have shown up over the last couple of decades.

That seems awfully unlikely to me. I can't believe that our programs for the poor are so powerful that they're the cause of all of the increase in single-parent families that we've seen over this period, most of which has occurred among nonpoor families.

So I find this to be not particularly useful or interesting as a way of analyzing this.

SENATOR SARBANES. Now, you are making the point that there has been an increase in single-parent families amongst the nonpoor, a significant increase.

Ms. Ruggles. And I don't believe it was caused by AFDC.

Senator Sarbanes. Well, there is no way it could be caused.

Ms. Ruggles. Right.

Senator Sarbanes. And I assume, actually, that probably the percentage increase in single-parent families amongst the nonpoor may in fact have outstripped the percentage increase amongst the poor.

Ms. Ruggles. Yes. In the most recent period, it slightly exceeds the percentage increase among the poor, that's right.

Senator Sarbanes. So there is some trendline for the increase in single-parent families that is not related to a poverty condition and programs addressed to a poverty condition, since you are seeing in fact a larger proportion of this phenomenon amongst nonpoor people. Is that correct?

Ms. Ruggles. That's right. Furthermore, these benefits that go to single-parent families only go to a minority of poor people. The majority of benefits that go to poor people go to the elderly and to the disabled, not to single-parent families.

I don't believe, therefore, that this humongous increase in benefits that Mr. Rector is talking about can possibly have caused some massive behavioral change on the part of the poor. I think that's absurd.

I think that I have much more modest beliefs about what it's possible for the government to do. I don't think that the government causes major social trends, like the trend toward divorce or the trend towards single-parenthood. And I don't think the government can cure them, either.

I think the role of the government is to attempt, in this case, to cushion the impacts of major economic downturns, major changes in society, that otherwise are going to result in long-term poverty and lower educated, less healthy young kids, and in lower productivity in the future.

Senator Sarbanes. Am I correct that these same trends are, perhaps not to the same degree, taking place in other advanced industrial countries as well?

Ms. Ruggles. Absolutely. You're seeing exactly the same trends elsewhere. It really is not at all associated, as far as one can tell from the statistics, with the specific social welfare policies of the country.

The one thing that is specifically associated with the social welfare policies is poverty rates among kids. They're lower in countries that spend more money on kids.

But other than that, there isn't any particular association between these social trends and public spending.

Senator Sarbanes. Did you have any other point you wanted to make?

Ms. Ruggles. I think that's pretty much it. My main focus would be that, Mr. Rector's comments notwithstanding, virtually everyone who studies these issues really does believe that poverty does exist in the United States, that particularly we have a big problem with poor kids in the United States, and in a country as rich as ours, having one child in four born into a family in poverty is horrible.

Senator Sarbanes. Well, it used to be that the poverty was very much amongst the elderly, wasn't it?

Ms. Ruggles. That's right.

SENATOR SARBANES. And we have succeeded in bringing the rate down amongst the elderly, although I must confess, I'm disturbed by Mr. Rector's focus on homeownership, because my perception on the homeownership issue for the poor is that it is very much an elderly or a near-elderly issue.

MS. RUGGLES. Yes.

SENATOR SARBANES. By his own figures, 45 percent of the poor owning homes are over 65. So about half of it is clearly the elderly. And my guess is, if we had the figures, another significant number would be people 50 to 65 who are approaching their elderly years, who own their homes.

Now, we have succeeded in bringing the elderly down, from close to 30 percent in 1967 to where they are 12.2 percent today.

MS. RUGGLES. That 's right. And the way we've done that is through the very types of social programs that Mr. Rector has been arguing against. We've been extremely successful in reducing poverty among the elderly.

SENATOR SARBANES. Well, we have also done it through social security, which I do not think he included in his chart.

MR. RECTOR. No. And if I could make a point on that. One of the reasons why it has declined is that we actually bother to count the assistance we give the elderly. Most of the assistance we have given the elderly is in the form of cash, through social security, through SSI. It's a much higher percentage of the aid to the elderly who actually gets counted.

If you applied the same sort of miscounting techniques toward them——

MS. RUGGLES. That's simply not true. Most of it is in medical benefits.

SENATOR SARBANES. I was just going to say that.

MR. RECTOR. Most of what has caused the decline in the measured poverty rate is in cash.

SENATOR SARBANES. But a lot of it is Medicare and Medicaid, which of course you've factored in over there as an item in——

MR. RECTOR. Not Medicare. Only Medicare for the poor people. It's about, I think, 10 percent.

SENATOR SARBANES. Well, that is a large part of it, since a very large percentage of medical costs are associated with the last year to 18 months of peoples' lives. The figure on that is very dramatic in terms of how much of our medical dollar is spent at that point in people's lives.

Well, this has been a very helpful panel and we're appreciative to all of you for your testimony.

The Committee stands adjourned.

[Whereupon, at 4:00 p.m., the Committee adjourned, subject to the call of the Chair.]

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