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CONGRESSIONAL TESTIMONY

Understanding and Reducing Poverty in America

**Testimony before
Joint Economic Committee
United States Senate**

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My name is Robert Rector. I am a Senior Research Fellow at The Heritage Foundation. I am honored to have the opportunity to discuss poverty and poverty reduction at this hearing. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Summary

Point #1 The welfare state is enormous.

In FY2008, federal, state and local governments will spend \$679 billion on means-tested welfare programs. Means-tested welfare programs provide: cash, food, housing, free or subsidized medical care, and targeted social services to poor and low income Americans. This high level of spending is not the result of a temporary, short-term surge in expenditures, but, rather, is the product of a steady incremental growth in spending over the last two decades.

- In 2008, means-tested welfare spending will exceed total defense outlays including the cost of the war in Iraq.
- Total welfare spending amounts to around \$6,000 for each person in the lowest income third of the population.¹
- Since the beginning of the War on Poverty under Lyndon Johnson, the U.S has spent \$14.3 trillion on welfare (in constant 2007 dollars).

Point #2 Most “poor” Americans are not “poor” in any normally understood sense of the word.

For most Americans, the word “poverty” suggests destitution: an inability to provide a family with nutritious food, clothing, and reasonable shelter. But only a small number of the 37 million persons classified as “poor” by the Census Bureau fit that description. While real material hardship certainly does occur, it is limited in scope and severity. Most of America’s “poor” live in material conditions that would be judged as comfortable or well-off just a few generations ago. Today, the expenditures per person of the lowest-income one-fifth (or quintile) of households equal those of the median American household in the early 1970s, after adjusting for inflation.²

For example, according to the government’s own data, nearly two thirds of households defined by Census as “poor” have cable or satellite television. Eighty five percent have air conditioning.

Overall, the typical American defined as poor by the government has a car, air conditioning, a refrigerator, a stove, a clothes washer and dryer, and a microwave. He has

¹ This figure excludes means-tested spending on persons in nursing homes.

² Comparison of the average expenditure per person of the lowest quintile in 2001 with the middle quintile in 1973. Sources: U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditure Survey: Integrated Diary and Interview Survey Data, 1972–73*, Bulletin No. 1992, released in 1979, and U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditures in 2001*, Report No. 966, April 2003. Figures adjusted for inflation by the personal consumption expenditure index.

two color televisions, and cable or satellite TV reception. He has a VCR, a DVD player, and a stereo. He is able to obtain medical care. His home is in good repair and is not overcrowded. By his own report, his family is not hungry and he had sufficient funds in the past year to meet his family's essential needs. While this individual's life is not opulent, it is equally far from the popular images of dire poverty conveyed by the press, liberal activists, and politicians.

Point #3 The United States does not have higher poverty rates than European nations

Studies which claim that the U.S. has a higher poverty rate than European nations use a distorted technique that creates higher income standard for assessing poverty in the United States than in other nations. Because of these biased methods, many Americans are deemed "poor" when, in fact, they have higher real incomes than persons identified as "non-poor" in Europe. By contrast, if a fair, uniform standard of comparison is used, the lowest income tenth of the U.S. population is found to have a real income that is roughly equal to, or higher than, most European nations. The median income in the U.S. is also higher than nearly all European nations.

Point #4 Poverty levels in the U.S. remain high because the U.S. is aggressively importing poverty from abroad.

In recent decades the U.S. has imported over ten million high school dropouts from abroad through both legal and illegal immigrant channels. Currently a third of all immigrant adults in the U.S. lack a high school degree. Overall, immigrants in the U.S. have substantially higher poverty rates than non-immigrants.

- One in eight poor children in the U.S. (as measured by the Census Bureau) is the child of an illegal immigrant.
- One quarter of all poor Americans are in immigrant families.
- High school drop out immigrants and their children cost U.S. taxpayers \$92 billion per year as measured by total benefits and services received minus total taxes paid.³

Point #5 The major cause of child poverty in the U.S. is the high level of out-of-wedlock childbearing.

Last year, 38 percent of American children were born out-of-wedlock, mainly to poorly educated young adult women. Children born and raised outside marriage are about seven times more likely to live in poverty than are children born to and raised by a married couple.

Point #6 A second major cause of child poverty in the U.S. is the low level of parental work.

³Robert Rector and Christine Kim, *The Fiscal Cost of Low Skill Immigrants to the U.S. Taxpayer*, The Heritage Foundation Special Report, #14, May 22, 2007

The second major cause of child poverty is consistent low levels of parental work. In a typical year, only about one fourth of all poor households with children have the equivalent of a full-time/full year worker.

Point #7 Reducing poverty will require addressing the root causes, not the mere symptoms, of poverty.

To reduce poverty, the U.S. must:

- 1) Substantially reduce the number of illegal immigrants in the U.S. by enforcing, for the first time, the twenty year old law against hiring illegals.
- 2) Reform the legal immigration system to increase the future number of high skill immigrants entering the U.S. and reduce the future inflow of low skill immigrants who are likely to be poor and welfare dependent.
- 3) Increase work among welfare recipients by establishing work requirements for able-bodied, non-elderly adults receiving Food Stamp or public housing benefits.
- 4) Decrease out-of-wedlock childbearing by reducing the anti-marriage penalties in means-tested welfare programs and by offering voluntary life skills planning to young adult women at risk of non-marital pregnancy.

How Poor Are America's Poor?⁴

For most Americans, the word “poverty” suggests destitution: an inability to provide a family with nutritious food, clothing, and reasonable shelter. For example, the “Poverty Pulse” poll taken by the Catholic Campaign for Human Development in 2002 asked the general public the question: “How would you describe being poor in the U.S.?” The overwhelming majority of responses focused on homelessness, hunger or not being able to eat properly, and not being able to meet basic needs.⁵

But if poverty means lacking nutritious food, adequate warm housing, and clothing for a family, relatively few of the 37 million people identified as being “in poverty” by the Census Bureau could be characterized as poor. While material hardship does exist in the United States, it is quite restricted in scope and severity. The average “poor” person, as defined by the government, has a living standard far higher than the public imagines.

The following are facts about persons defined as “poor” by the Census Bureau, taken from various government reports:

- Forty-three percent of all poor households actually own their own homes. The average home owned by persons classified as poor by the Census Bureau is a three-bedroom house with one-and-a-half baths, a garage, and a porch or patio.
- Eighty five percent of poor households have air conditioning. By contrast, 35 years ago, only 36 percent of the entire U.S. population enjoyed air conditioning.

⁴ See Robert Rector, “How Poor Are America's Poor? Examining the ‘Plague’ of Poverty in America,” *The Heritage Foundation Backgrounder*, Number 2064, August 27, 2007

⁵ See Campaign for Human Development, *Poverty Pulse*, January 2002, at www.usccb.org/cchd/povertyusa/povpulse.htm. Interestingly, only about 1 percent of those surveyed regarded poverty in the terms the government does: as having an income below a specified level.

- Only 6 percent of poor households are overcrowded. More than two-thirds have more than two rooms per person.
- The average poor American has more living space than the average individual living in Paris, London, Vienna, Athens, and other cities throughout Europe. (These comparisons are to the *average* citizens in foreign countries, not to those classified as poor.)
- Nearly three-quarters of poor households own a car; 30 percent own two or more cars.
- Ninety-eight percent of poor households have a color television; two thirds own two or more color televisions
- Sixty four percent have cable or satellite TV reception.
- Nearly all have a VCR and a DVD player;
- Forty seven percent have a personal computer,
- Eighty two percent own microwave ovens,
- Sixty percent have a stereo,
- and a quarter have an automatic dishwasher.

As a group, America's poor are far from being chronically undernourished. 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 actually consume more meat than do higher-income children and have average protein intakes 100 percent above recommended levels. Most poor children today are, in fact, super-nourished and grow up to be, on average, one inch taller and 10 pounds heavier than the GIs who stormed the beaches of Normandy in World War II.

While the poor are generally well-nourished, some poor families do experience hunger, meaning a temporary discomfort due to food shortages. According to the U.S. Department of Agriculture (USDA), 13 percent of poor families and 2.6 percent of poor children experience hunger at some point during the year. In most cases, their hunger is short-term. Ninety-two percent of the poor report their families always had "enough" food to eat over the last four months, while only 1.5 percent say they "often" did not have enough to eat during that period.

It is widely believed that a lack of financial resources forces poor people to eat low-quality diets that are deficient in nutrients and high in fat. However, survey data show that nutrient density (amount of vitamins, minerals, and protein per kilocalorie of food) does not vary by income class.⁶ Nor do the poor consume higher-fat diets than do the middle class; the percentage of persons with high fat intake (as a share of total calories) is

⁶C. T. Windham et al., "Nutrient Density of Diets in the USDA Nationwide Food Consumption Survey, 1977-1978: Impact of Socioeconomic Status on Dietary Density," *Journal of the American Dietetic Association*, January 1983.

virtually the same for low-income and upper-middle-income persons.⁷ Over-consumption of calories in general, however, is a major problem among the poor, as it is within the general U.S. population.⁸

On the other hand, the living conditions of the average poor American should not be taken as representing all the poor. There is actually a wide range in living conditions among the poor. For example, around sixty percent of poor households have cell phones and a third have telephone answering machines, but, at the other extreme, approximately one-tenth have no phone at all. While the majority of poor households do not experience significant material problems, roughly a third do experience at least one problem during the year such as overcrowding, temporary food shortages, or difficulty getting medical care.

Cross National Comparisons of Persons with Low Income

Many studies show that the U.S. has a higher poverty rate than European nations. These studies are flawed because they employ the concept of “relative poverty”. Typically, a family is judged to be in “relative poverty” if its income is less than half the median family income in the nation where it lives. Since median family incomes differ widely between nations, the “relative poverty” concept sets the “poverty bar” at different heights for different nations. Because the U.S. has a substantially higher median family income than most European nations, the poverty bar is set higher for the U.S. than elsewhere. This means the real income needed to be judged “non-poor” in the U.S. is substantially higher than in Europe.

Studies of “relative poverty” are therefore misleading. For example, using a relative poverty measure, Poland is found to have less poverty than the U.S. In fact, the real incomes of individuals at the bottom of the income distribution in Poland are only third of the incomes of similar Americans. Median family income in Poland is only about a quarter of the U.S. median. How can Poland realistically be said to have less poverty than the U.S.? Similarly, when the relative poverty concept is applied to states within the U.S., Arkansas is found to have little poverty while Massachusetts has a lot. Such “findings” are nonsense.

Analysis that compares low income persons across nations by a single uniform standard produces different results.⁹ For example, the real disposable income of the least affluent tenth of the U.S. population can be compared to the real incomes of similar groups in European and other advanced nations. Such analysis shows that the lowest income

⁷Interagency Board for Nutrition Monitoring and Related Research, *Third Report on Nutrition Monitoring in the United States* (Washington, D.C.: U.S. Government Printing Office, 1995), p. VA 167.

⁸ See Robert Rector, “Hunger Hysteria: Examining Food Security and Obesity in America”, The Heritage Foundation WebMemo #1701, November 13, 2007

⁹ Andrea Brandolini and Timothy M. Smeeding, “Inequality Patterns in Western-type Democracies: Cross-Country Differences and Time Changes,” Luxembourg Income Study Working Paper Series, Working Paper No. 458, April 200, Figure 3, p. 33. The figures referenced in the text compare real disposable family income adjusted for family size in the tenth centile (P10) in various countries. Currencies were converted by purchasing power parity ratios.

Americans have the same or higher incomes when compared to similar groups in most advanced nations.

Specifically, the lowest income tenth of families in the U.S. has a higher disposable income than the lowest income tenth in: France, Sweden, United Kingdom, Ireland, Australia, Spain, Italy, Israel, Greece, and Portugal. Incomes of the bottom tenth in the U.S. are roughly equal to those in France, Belgium, Netherlands, Germany, and Canada. But U.S. bottom incomes are lower than such incomes in Denmark, Switzerland, Norway and Luxembourg. Critically, the median family income is substantially higher in the U.S. than in all European countries except Luxembourg.¹⁰ (See charts 1 and 2.)

Stop Importing Poverty and Welfare Dependence

America is currently experiencing near record levels of immigration. Each year roughly 1.5 million legal and illegal immigrants enter and take up residence in the U.S. Currently one in eight Americans is foreign born. One in ten Mexicans lives in the U.S.

Today's immigrants are disproportionately poorly educated. This occurs because illegal immigration primarily attracts low skill workers and the legal immigration system favors kinship ties over skill levels. As result, one third of all adult immigrants lack a high school degree, compared to only nine percent of non-immigrants.¹¹

There is a common misconception that the low education levels of recent immigrants are part of a permanent historical pattern, and that the U.S. has always admitted immigrants who were poorly educated relative to the native born population. Historically, this was not the case. Throughout most of U.S. history, the education level of immigrants was equal to, or greater than, that of non-immigrants.

The steady influx of low skill (without a high school degree) and semi-skilled (with only a high school degree) immigrants inevitably leads to increases in the number of poor persons in the U.S. Low and semi-skilled immigrants and their families now comprise almost one fifth of all poor persons in the U.S.

While there is a common myth that immigrants use little welfare, in reality, immigrants are heavy users of welfare services. In FY 2008, low and semi-skilled immigrants received some \$90 billion in means-tested welfare aid. This high level of welfare receipt is especially striking since many in this group are illegal immigrants currently barred from welfare use. Welfare expenditures would rise even more strongly if illegal immigrants are granted amnesty and eventual access to the welfare system.

Current immigration inflows operate against normal social goals and policies. While society seeks to reduce poverty and dependence, current immigration increases both. Immigration practices, both legal and illegal, operate like a system of trans-national

¹⁰ Ibid.

¹¹ Robert Rector "Importing Poverty: Immigration and Poverty in the United States", *The Heritage Foundation Special Report*, SR-9, October, 25, 2006, p. 29.

welfare outreach bringing millions of poor and fiscally dependent individuals into the U.S. Immigration policy and practice must be redirected with a new focus on reducing poverty and welfare. Any new policy should seek to benefit, not burden, the taxpayer.

Residence in the U.S. offers enormous economic opportunities and societal benefits. Hundreds of millions more people would immigrate to the U.S. if they had the opportunity. Given this context, the U.S. must be selective in its immigration policy. In the future, U.S. immigration policy should encourage high-skill immigration and strictly limit poverty-generating low-skill immigration. In general, government policy should limit immigration to those who will be net fiscal contributors, avoiding those who will increase poverty and impose new costs on overburdened U.S. taxpayers.

Specifically, immigration policy should seek to substantially reduce the number of illegal immigrants in the U.S. and to increase the skill level of future legal immigrants. To accomplish this, the government should:

- 1) **Enforce the current law against employing illegal immigrants.** Illegal immigrants are predominantly low skilled. Overtime, they impose large costs on the taxpayer. In 1986, the U.S. gave amnesty to 3 million illegal aliens in exchange for a prohibition on hiring illegals in the future. While amnesty was granted, the law against hiring illegals was never enforced in more than a token manner. As a result, there are now 11 to 12 million illegal immigrants in the U.S. Since the majority of illegal immigrants come to the U.S. for jobs, serious enforcement of the ban on hiring illegal labor would substantially reduce employment of illegal aliens and encouraging many to leave the U.S. Reducing the number of low skill illegal immigrants in the nation and limiting the future flow of illegal immigrants will reduce future costs to the taxpayer.
- 2) **Reduce the number of legal permanent residence visas based on kinship and increase the number of visas allocated to high skilled workers.** Under current law, the visa lottery and visa preferences for adult brothers, sisters and parents tend to bring a high proportion of low skill immigrants into the U.S. While low skill immigrants create a fiscal burden for U.S. taxpayers, high skill immigrants will tend to pay more in taxes than they receive in benefits. The legal immigration system should be altered to reduce the number of low skill immigrants entering the country and increase the number of new entrants with high levels of education and skills in demand by U.S. firms.

Reducing Child Poverty by Increasing Parental Work

Low levels of parental work are a major factor contributing to child poverty. In good economic times or bad, the typical poor family with children is supported by only 800 hours of work during a year: That amounts to 16 hours of work per week. If work in each family were raised to 2,000 hours per year—the equivalent of one adult working 40 hours

per week through the year—nearly 75 percent of poor children would be lifted out of official poverty.¹²

The key to increasing parental work is to set up work requirements attached to welfare benefits received by poor families. Government has already had significant success with this type of work-inducing strategy as part of the welfare reform legislation of 1996. This reform replaced the old Aid to Families with Dependent Children (AFDC) program with a new program called Temporary Assistance to Needy Families (TANF). A key element in the new program was a requirement that some welfare mothers either prepare for work or get jobs as a condition of receiving TANF aid.

As this work requirement went into effect, welfare rolls plummeted and employment of single mothers increased in an unprecedented manner. As employment of single mothers rose, child poverty dropped rapidly. For example, in the quarter-century before welfare reform, there was no net change in the poverty rate of children in single-mother families; after reform was enacted, the poverty rate dropped in an unprecedented fashion, falling from 53.1 percent in 1995 to 39.8 percent in 2001.¹³

Unfortunately, the work-inducing provisions of welfare reform were limited in scope and intensity. Even in the TANF program, over half the adult beneficiaries are idle on the rolls and are not engaged in activities leading to self-sufficiency. Work requirements are nonexistent in closely related programs such as food stamps and public housing.

But, increasing parental work can dramatically reduce child poverty. To accomplish this, TANF work requirements should be strengthened and new work requirements should be established for able-bodied, non-working adults receiving food stamp or housing benefits.

Reducing Child Poverty by Reducing Non-marital Childbearing

Currently, 38 percent of all children born in the U.S. are born out-of-wedlock. Out-of-wedlock births commonly occur to the least educated women in society. Most non-marital births occur to women in their early 20's, only 15 percent occur to girls under 18. Virtually no non-marital pregnancies are due to a lack of access to birth control.

Around half of the women who have non-marital births are co-habiting with the father at the time of birth. Another quarter are in a romantic relationship with the father. Both the mother and the father tend to have positive attitudes toward marriage, but do not regard being married or having a stable relationship as an important pre-condition to having children.

Contrary to popular perceptions, nearly all the non-married fathers-to-be are employed; on average, their earnings are higher than the mothers'. The earnings of the father are sufficient to have a strong potential anti-poverty effect on the mother and child. In fact, if poor single mothers married the fathers of their children, almost three-quarters would

¹²Robert E. Rector and Rea S. Hederman, Jr., "The Role of Parental Work in Child Poverty," Heritage Foundation *Center for Data Analysis Report* No. CDA03-01, January 27, 2003.

¹³Robert Rector and Patrick F. Fagan, "The Continuing Good News About Welfare Reform," Heritage Foundation *Backgrounders* No. 1620, February 6, 2003.

immediately be lifted out of poverty.¹⁴ Unfortunately, without marriage and commitment, most non-married fathers leave the mother a few years after the child's birth.

The decline of marriage is a major contributing factor to high levels of child poverty. Because healthy marriage has very strong positive economic and social effects, policies should be undertaken to strengthen the culture and practice of marriage in low income communities. (Some argue it is sufficient to promote "fatherhood" rather than marriage, but to have a significant economic and social impact the father must be consistently present in the home over the long term. This is extremely unlikely in absence of marital commitment.)

To promote healthy marriage, government should include steps to reduce the anti-marriage penalties embedded in means-tested welfare programs. It should also offer life skills training to help young, low income couples plan more realistically for the challenges of conception, childbirth and child rearing. Voluntary education and counseling should be offered to young adult women at risk of non-marital pregnancy and childbearing with a focus on helping the mother understand the benefits of commitment and marriage to children and adults. This service could be offered through referrals from current Title X birth control clinics which provide contraceptives to over four million low income, young adult women each year. Public education campaigns about the value of marriage in low income communities where marriage has deeply eroded could also prove helpful.

Conclusion

A free market system generates considerable wealth. By and large, the market allocates this wealth fairly, according to the productive contributions of workers, entrepreneurs, and investors. However, there is no doubt that the distribution of economic returns under market can be very unequal. Therefore, there is broad consensus in our society that the government should, to some extent, buffer and protect the least capable and most vulnerable citizens against the rough edges of the wealth-generating market system.

However, there is no consensus for unconditional economic redistribution for its own sake. The amount of assistance and conditions for giving it remain hotly contested. There is little support for assistance to individuals whose need for aid appears to be largely self-inflicted. An abiding concern remains over the culture of poverty which, by fostering self-defeating behaviors, constricts the ability of individuals to support themselves and prosper.

There is little public support for a welfare system that rewards idleness, or promotes single parenthood while ignoring or penalizing marriage. Unfortunately, the current welfare system does both. (Ironically, most plans for expanding welfare implicitly increase the responsibilities of taxpayers while minimizing the responsibilities of recipients.) There is little public support for immigration policies that actively import poverty and welfare dependence. Unfortunately, the current broken immigration system

¹⁴Robert E. Rector, Kirk A. Johnson, Ph.D., Patrick F. Fagan, and Lauren R. Noyes, "Increasing Marriage Would Dramatically Reduce Child Poverty," Heritage Foundation *Center for Data Analysis Report* No. CDA03-06, May 20, 2003.

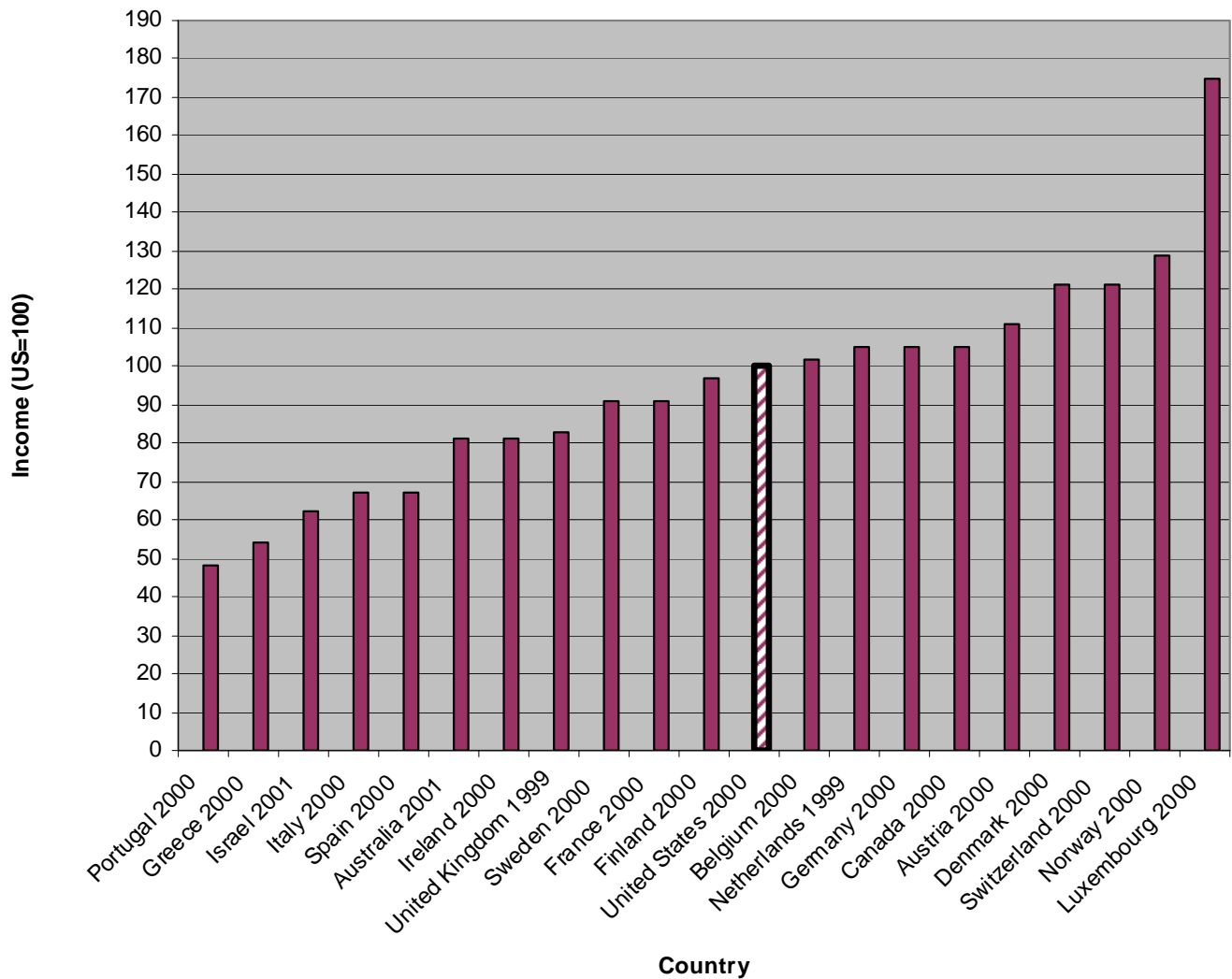
does both. Most proposed reforms will increase the problem. In many respects, the current welfare and immigration systems fail to reflect core values of the American public.

Sadly, a major problem in developing reasonable policies to reduce poverty in the U.S. is the implicit taboo on discussing the real causes of poverty: lack of parental work, high levels of out-of-wedlock childbearing, and low skill immigration. In most discussions of poverty, political correctness prevails: The predominant causes of poverty rarely receive more than a token comment. This process was vividly apparent in the discussions about poverty following the flooding of New Orleans by hurricane Katrina.

But as long as the real causes of poverty are swept under the carpet, policies to diminish poverty, and the more important social ills of low income communities, will remain inefficient and ineffective.

Chart 1

Comparisons of the Real Incomes of Low Income Persons in
The United States and Other Developed Nations
(Incomes of Individuals at the 10th Percentile of Income Distribution in Each Country)*

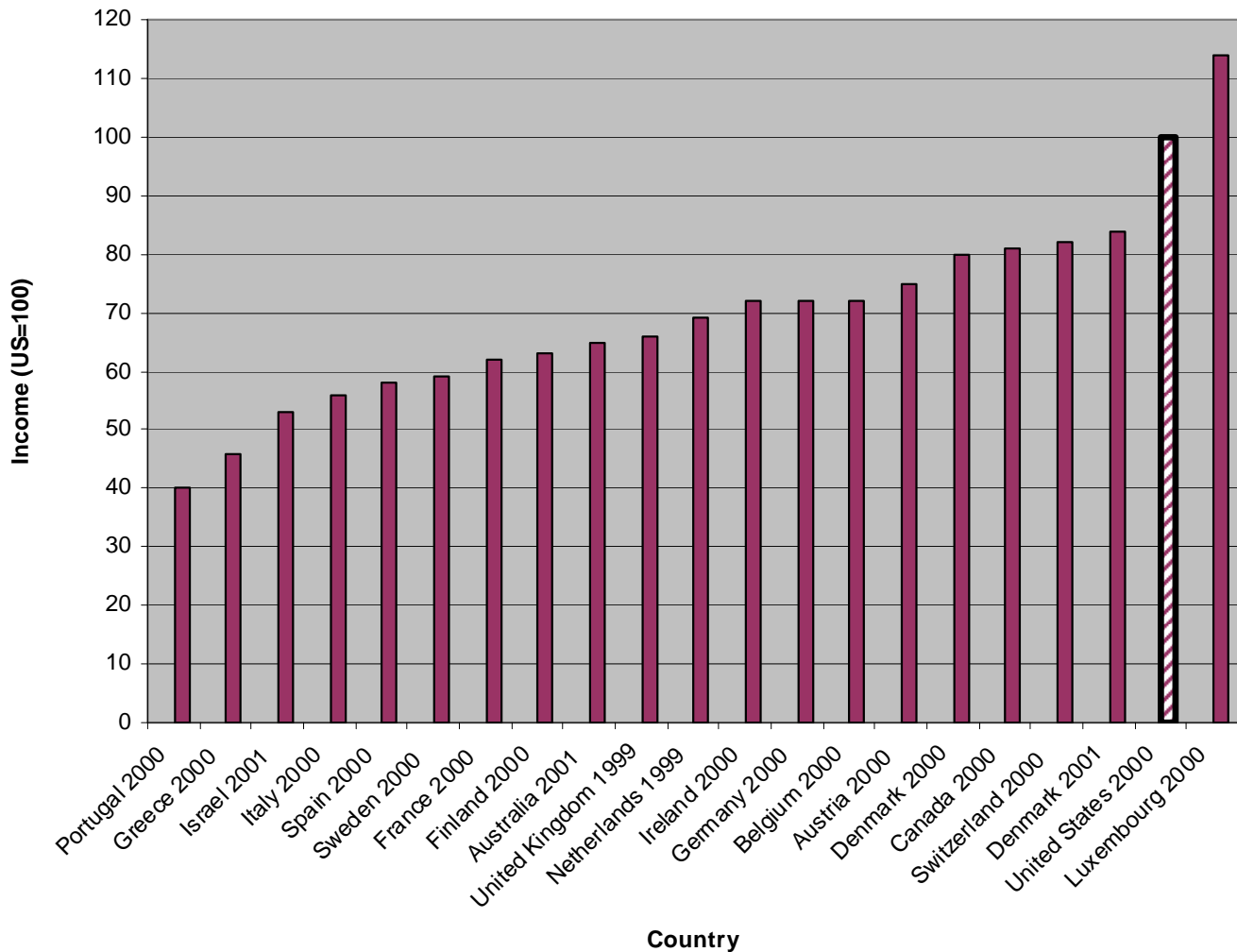


*Real disposable income per family adjusted for family size. Currencies converted by purchasing power parity factors.

Source: Andrea Brandolini and Timothy M. Smeeding, "Inequality Patterns in Western-type Democracies: Cross-Country Differences and Time Changes," Luxembourg Income Study Working Paper Series, Working Paper No. 458, April 2007, Figure 3, p. 33.

Chart 2

Comparisons of Real Median Family Income in The United States and Other Developed Nations



Source: Andrea Brandolini and Timothy M. Smeeding, "Inequality Patterns in Western-type Democracies: Cross-Country Differences and Time Changes," Luxembourg Income Study Working Paper Series, Working Paper No. 458, April 2007, Figure 3, p. 33.

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