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Poor America

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Each year the Census Bureau calculates the nation's poverty rate, based on the number of people with incomes below the official poverty line, about \$20,000 for a family of four in 2004. Since last year's poverty rate of 12.7% was essentially equal to the 1968 rate of 12.8%, it seems that little progress has been made. But many analysts—on the right and the left—have pointed out that, by many other measures, poor people's physical and material well-being is considerably better now than in the late '60s. How else to explain why so many poor now have color TV (93%) and air conditioning (50%), and own their own homes (46%)?

While many have proposed revising the official poverty measure, getting agreement is about as likely as Bush carrying Manhattan. The poverty line or its multiple is the basis of eligibility for dozens of government antipoverty programs, involving the distributions of hundreds of billions of dollars. Change it—up or down—and hundreds of thousands of people gain or lose benefits.

That's what makes a new data series by the Census Bureau, "The Effects of Government Taxes and Transfers on Income and Poverty: 2004," so significant. Developed after nine months of meetings between outside experts and senior government officials from the Census Bureau and other federal agencies, it allows us to get a better view of the resources available to low-income Americans.

First, the series gets a better fix on "market income" poverty—poverty before taxes and means-tested transfers like cash welfare. (Although the Census Bureau counts it separately, Social Security, like pensions, is included as market income since it is "earned" during one's working years.) Now we can use the correct inflation adjustment, count the income of cohabitators and coresidents, and include the implicit income of home ownership. (The last mostly affects the elderly.) Finally, adding in government estimates of unreported income results in a market income poverty rate of about 7.9%, not the official rate of 12.7%. Second, as suggested by the name of the new data series, government transfer programs also reduce financial need. Taking into account welfare payments, food stamps and housing assistance (noncash benefits are presently not counted) results in a poverty rate of about 5.1%—and even this excludes the value of Medicaid for the poor, roughly \$2,000 per person.

Even with these calculations, about 15 million people are below the poverty line and millions more just above it. But the broader point must not be lost: Millions of low income Americans are living better lives than they did before. Period.