

BRIEF ANALYSIS

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How Poor Are the Poor?

The Census Bureau recently reported that 38.1 million Americans lived in poverty in 1994 — 14.5 percent of the U.S. population. These new data are a troubling reminder that poverty remains a serious national problem. Undoubtedly, they will be cited often in congressional debates over the reform of national welfare programs.

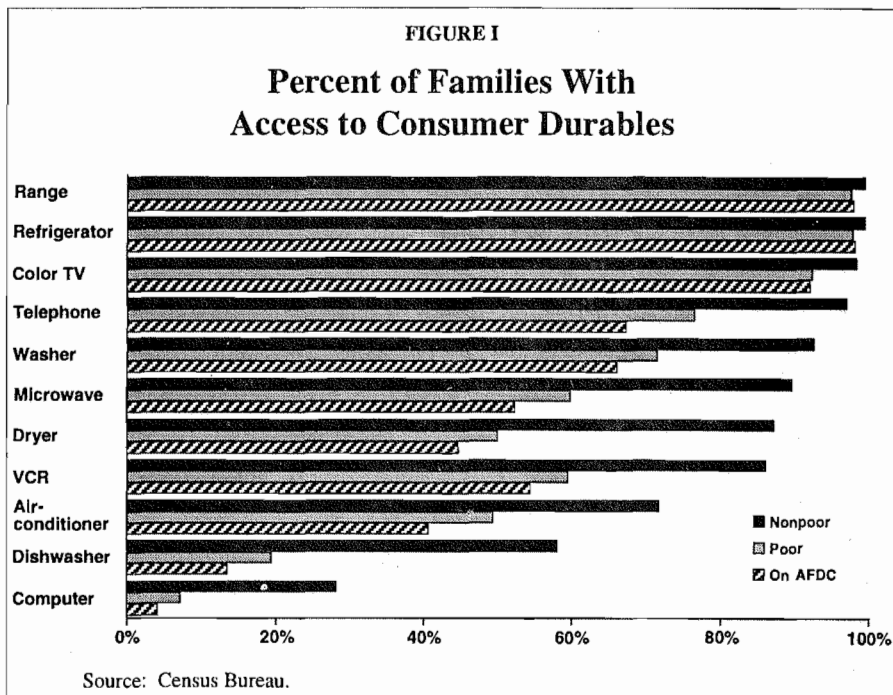
Poor Consumers.

Although the poverty rate receives the most attention, another recent Census Bureau report adds an important perspective on the state of the poor in America today. It looks at major consumer durable goods owned or rented in 1992 by the poor and those in one major welfare program — Aid to Families with Dependent Children (AFDC). The data are illustrated in Figure I.

As one can see, even those on welfare have extraordinary access to conveniences, labor-saving devices and even luxury goods. For example, 92.2 percent of those on welfare have access to color televisions. Yet it was not too many years ago that color TVs were the height of luxury, available only to the rich.

Of course, today it is hard to buy a TV that is not color. Black and white TVs have virtually disappeared from stores as prices on color sets have fallen steadily. Thus widespread access to color televisions even by the poor is less an indication of indulgence than of simple market forces. In short, last year's luxury is today's commonplace.

Similarly, access by the poor to refrigerators and stoves is comparable to that of the nonpoor, and access to telephones, air-conditioners, washing machines and clothes dryers is high. This is perhaps not surprising, since many of these items are standard features even in public housing. But what about VCRs? According to the Census Bureau, 60 percent of the poor and almost as many on welfare have access to them. Indeed, 7.4 percent of the poor and 4.2 percent of those on welfare have access even to personal computers.



To put these numbers in perspective, it is worth looking at overall ownership of major consumer durables in other industrialized countries. According to the marketing research firm Euro-monitor:

■ Ownership of dishwashers was lower in the Netherlands, Italy and the United Kingdom (U.K.) than among Americans living in poverty in 1991.

- Ownership of clothes dryers in Sweden was about the same as among the American poor.
- The U.K. was the only European country where ownership of VCRs exceeded that of the American poor.
- And in every European country, people had less access to microwave ovens than the U.S. poor — U.K. ownership being the highest at 48 percent.

Since the European statistics cover only ownership and the U.S. statistics report access — whether ownership or rental — the figures are not precisely comparable. Still, it appears that impoverished Americans live better than many of the nonpoor in wealthy European countries.

Material Well-Being. Another perspective on the issue comes from the Bureau of Labor Statistics (BLS), which annually collects data on consumer expenditures. These data indicate a high level of material well-being among many low-income Americans.

As Figure II shows, consumption by households in the lowest 20 percent of the income distribution averaged \$13,957 in 1993, while their income averaged only \$6,395. Insofar as consumption is a truer measure of living standards, many low-income Americans are far better off than their income alone would suggest.

How can it be that low-income households are able to consume so much more than their income? There are a variety of explanations, including that people simply live beyond their means, have unreported income or have a low income temporarily.

Of greater importance, however, are two other facts. First, in-kind benefits are excluded when income is calculated because the official income figures are based solely on money income. Thus a poor person may live in public housing and receive food stamps, which are not treated as income. Yet food and housing are two of the largest expenditures in any family budget. If they are provided, obviously it is possible to live more comfortably on less cash income.

Second, a large percentage of those with low money incomes are the elderly. Many have low expenses and may have substantial assets. According to the Census Bureau, those over age 65 accounted for 36.5 percent of persons in the bottom 20 percent of households ranked

by income. Yet this group had a median net worth of \$30,400, compared to \$4,249 for all people in the quintile.

To be sure, much of this wealth is in the form of home equity. But it still has important implications for interpreting the income data. According to the BLS, in 1991, 41 percent of those in the bottom quintile owned their own home, and of these more than 70 percent had no mortgage. In other words, they owned their homes free and clear, with no payments to make.

The lesson is that while many of those who appear to be poor really are, many others are not.

This Brief Analysis was prepared by Bruce Bartlett, a Senior Fellow at the National Center for Policy Analysis.

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