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Poverty and the Social Welfare State in the United States and Other Nations

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Abstract

Among affluent nations, contrary to the conventional wisdom, the United States has one of the highest levels of social welfare spending per capita. Using a uniform measure to compare poverty levels in the United States and Europe shows that the poverty rate is lower in the U.S. than in the United Kingdom and roughly the same as the rates in most other West European countries. The official U.S. poverty measure tells very little about the actual living conditions of the poor because the vast majority of means-tested welfare spending is not included. Government data show that the living standards of the poor are very different from common notions of poverty. In working to reduce poverty, the goal should not be to outspend other nations in government programs, but rather to promote self-sufficiency and true well-being.

It is generally argued that the U.S. has a small social welfare system compared to other rich nations and far more poverty. Contrary to conventional wisdom, however, noted liberal scholars Irwin Garfinkel, Lee Rainwater, and Timothy Smeeding conclude in *Wealth and Welfare States: Is America a Laggard or Leader?* that "Welfare state programs are quite large in the United States."[1]

Garfinkel, Rainwater, and Smeeding examine social welfare spending and poverty in rich nations. They define social welfare as having five components: health care spending; education spending; cash retirement benefits; other government cash transfers such as unemployment insurance and the earned income tax credit (EITC); and non-cash aid such as food stamps and public housing.[2]

Key Points

- Social welfare expenditures consist of spending on health care, education, retirement benefits, and other government transfer payments. The U.S. social welfare spending differs from systems in other advanced nations because it contains a larger private-sector/non-governmental component.
- When governmental and non-governmental spending are combined, social welfare absorbs around one-third of U.S. GDP. Because the U.S. is wealthier than most other advanced nations, real per capita social welfare spending is significantly higher in the U.S. than elsewhere.
- Compared against a uniform standard, the U.S. poverty rate is similar to poverty rates in other advanced nations.
- Instead of seeking to outspend other nations, the U.S. should seek to reduce poverty by promoting self-sufficiency through increased work and marriage.

This paper, in its entirety, can be found at **http://report.heritage.org/bg3057**

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The authors find that the social welfare system in the U.S. differs widely from the systems in the other advanced industrial nations they surveyed. In the U.S., social welfare spending draws on both public and private resources; in Europe, government mainly controls the resources and benefits. For example, in the U.S., government health care spending is targeted to elderly and low-income persons; the American middle and working classes rely primarily on employer-provided health insurance. The U.S. government health care system is, therefore, more redistributive than the systems of most other developed nations.

Elderly middle-class Americans also are more likely to have private pensions than are Europeans. Middle-class parents in the U.S. pay for much of the cost of their children's post-secondary education; in Europe, the government pays. Overall, in Europe, the upper middle class is heavily dependent on government benefits; in the U.S., it relies much more on its own resources.

Setting aside the private sector, the U.S. still has a very large social welfare system. In fact, among affluent nations, the U.S. has the third highest level of per capita government social welfare spending.[3] This is striking given that government spending is more tightly targeted on the poor and elderly in the U.S.

When private-sector contributions to retirement, health care, and education are added to the count, social welfare spending in the U.S. dwarfs that of other nations. In fact, social welfare spending per capita in the U.S. rises to nearly twice the European average.[4] As Garfinkel, Rainwater, and Smeeding conclude, "For those who believe the absolute size of the US welfare state is small, the data presented…[in the book] are shocking and constitute a wake up call. Once health and education benefits are counted, real per capita social welfare in the United States is larger than in almost all other countries!"[5] Only one nation (Norway) spends more per person than the U.S. spends.[6]

A Uniform Standard of Comparison

How much of this spending reaches the poor? The left often claims that the U.S has a far higher poverty rate than other developed nations have. These claims are usually based on a "relative poverty" standard in which being "poor" is defined as having an income below 50 percent of the national median.[7] Since the median income in the United States is substantially higher than the median income in most European countries, these comparisons establish a higher hurdle for escaping from "poverty" in the U.S. than is found elsewhere.

To measure the poverty-fighting success of the United States versus Europe according to this uneven standard is like having a race in which the European sprinters run 100 meters and the American runner runs 125 meters. The Europeans reach the finish line first and are declared faster. Using such non-uniform standards to compare countries can obviously be misleading.

1. Irwin Garfinkel, Lee Rainwater, and Timothy Smeeding, *Wealth and Welfare States: Is America a Laggard or Leader?* (New York: Oxford University Press, 2010), p. 1. Garfinkel, Rainwater and Smeeding do not endorse the governmental policies in the United States; rather, their comparisons are intended to provide factual information and to remove simplistic perceptions about low social welfare spending and high poverty rates in the U.S.
2. The "social welfare spending" used by Garfinkel et al. should be distinguished from the U.S. means-tested welfare system described by Robert Rector et al. in various papers. The U.S. means-tested welfare system contains over 80 programs that provide cash, food, housing, medical, and social services targeted to poor and low-income Americans. In 2015, spending on the means-tested system was over $1 trillion and absorbed around 6 percent of gross domestic product (GDP). The "social welfare spending" system described by Garfinkel, Rainwater, and Smeeding is far larger. The following are not included in means-tested welfare but are included in "social welfare spending": private-sector expenditures on health, education, and retirement; Social Security and Medicare; unemployment insurance and workmen's compensation; and most government spending on primary, secondary, and post-secondary education. The Garfinkel-Rainwater-Smeeding analysis focuses on the year 2000. In that year, social welfare spending absorbed around a third of U.S. GDP. One-third of GDP in 2015 would be around $6 trillion.
3. International comparisons are made using purchasing power parity (PPP) currency conversions. Garfinkel, Rainwater, and Smeeding, *Wealth and Welfare States*, p. 45.
4. Ibid. The nations compared include Australia, Canada, Ireland, the United States, the United Kingdom, Belgium, France, Italy, Germany, the Netherlands, Spain, Finland, Norway, and Sweden. As a share of GDP, social welfare expenditures in the U.S. are slightly less than the average for other wealthy nations. However, because the U.S. is wealthier than most other advanced nations, real per capita social welfare spending is significantly higher in the U.S. than elsewhere.
5. Ibid., p. 45.
6. Ibid., p. 44.
7. Ibid., pp. 72–73.

A more meaningful analysis would compare countries against a uniform standard. To their credit, Garfinkel, Rainwater, and Smeeding provide this.[8] They measure the percentage of people in each country who fall below the U.S. poverty income threshold ($24,008 per year for a family of four in 2014)[9] and reasonably broaden the measure of income to include "non-cash" benefits such as food stamps, the earned income tax credit, and equivalent programs in other nations.[10] They also subtract taxes paid by low-income families, which are heavy in Europe.[11] (The poverty comparison does not include health care and education.)

By this uniform measure, the U.S. was found to have a poverty rate in 2000 that was lower than the United Kingdom's but higher than the poverty rates of most other West European nations. But the differences in poverty according to this uniform standard were very small. For example, the poverty rate in the U.S. was 8.7 percent, while the average among other affluent countries was around 7.6 percent. The rate in Germany was 7.3 percent, and in Sweden, it was 7.5 percent.[12]

Many liberals prefer a higher income cutoff for determining whether a family is poor. To that end, Garfinkel, Rainwater, and Smeeding also compare countries against a higher uniform standard. In each country, individuals were judged poor if their income fell below 125 percent of the U.S. poverty threshold (or $30,000 for a family of four in 2014). By this standard, the U.S. in 2000 was found to have a poverty rate of 13.9 percent, slightly lower than the average of other rich countries (14.8 percent). Germany matched the U.S. at 13.9 percent, while Sweden had a higher poverty rate of 15.4 percent.[13] Neither of these comparisons supports the conventional notion that poverty is far more extensive in the U.S. than in other developed nations.

However, since the U.S. spends more per capita on social welfare, why isn't the poverty rate actually lower here than in Europe? The answer is that the U.S. spends proportionally more on education and health care and that this spending is not included in the poverty calculations.

The poverty comparisons in *Wealth and Welfare* are based on the year 2000. Since then, the number of Americans who are considered poor before receipt of welfare has risen by nearly half.[14] But cash, food, and housing benefits in means-tested anti-poverty programs have increased even faster. Adjusting for inflation, means-tested cash, food, and housing benefits per poor person are slightly higher today than in 2000.[15] Overall, means-tested welfare spending providing cash, food, housing, medical care, and targeted social services to poor and low-income Americans rose from 4.4 percent of gross domestic product (GDP) in 2000 to nearly 6 percent in 2014.[16] (These figures do not include Social Security or Medicare.) If poverty in the U.S. has increased relative to poverty in other nations

8. Garfinkel, Rainwater, and Smeeding appear to prefer a relative poverty measure that, in effect, simply measures inequality, but they assert that additional understanding can be obtained by also measuring poverty by an absolute or uniform standard. They acknowledge that the greater prosperity of the U.S. does have a positive impact on the absolute living standards of the poor in the U.S.

9. Garfinkel, Rainwater, and Smeeding's book was published in 2010; however, the poverty comparison between nations was based on the year 2000. The U.S. poverty income threshold for a family of four in 2000 was $17,483. Each year, the U.S. poverty income thresholds are adjusted for inflation, so the poverty threshold for a family of four in 2014 ($24,008) would have the same purchasing power as $17,483 had in 2000.

10. The poverty comparisons are described in greater detail in Timothy Smeeding, "Poor People in Rich Nations: The United States in Comparative Perspective," *Journal of Economic Perspectives*, Vol. 20, No. 1 (Winter 2006), pp. 69–90. The nations compared include the United States, the United Kingdom, Canada, Germany, Belgium, Austria, the Netherlands, Sweden, and Finland.

11. Garfinkel, Rainwater, and Smeeding, *Wealth and Welfare States*, p. 51.

12. Smeeding, "Poor People in Rich Nations: The United States in Comparative Perspective," p. 77.

13. Ibid.

14. U.S. Census Bureau, Historical Poverty Tables–People, Table 2, "Poverty Status of People by Family Relationship, Race, and Hispanic Origin: 1959 to 2013," http://www.census.gov/hhes/www/poverty/data/historical/people.html (accessed September 2, 2015). The amount of means-tested cash welfare that is included in the "money income" standard used in the official poverty measure is so minute that the spending has little impact on the poverty rate. Thus, the official poverty figures in Table 2 are very close to pre-welfare receipt numbers.

15. Data available from the author upon request.

16. Data available from the author upon request.

since 2000, it is due to poor economic performance, not a lack of government spending.[17]

Living Standards of the Poor in the United States

The actual living standards of Americans defined as poor by the government are far higher than most imagine. The federal government measures poverty by comparing a household's "money income" to specific poverty income thresholds. If a family's income falls below the relevant threshold, it is identified as poor. As noted, in 2014, the poverty income threshold for a family of four was $24,008.

The problem is that the Census Bureau's count of income is wildly inaccurate. In the first place, the Census definition of "money income" excludes nearly all of the welfare state. Last year, government spent over $1 trillion on means-tested welfare programs for the poor and near poor; over 90 percent of this spending is omitted by the Census for purposes of calculating official poverty.

If a family receives benefits from major programs such as food stamps, public housing, section 8 housing, the refundable earned income tax credit, the Women, Infants and Children food program, energy aid, and Medicaid, Census ignores those benefits completely for purposes of determining if the family lives in poverty. The Census does count benefits from a few cash programs such as Temporary Assistance for Needy Families (TANF) and Supplemental Security Income (SSI) as income, but it severely undercounts spending on those programs. Excluding expensive medical benefits from the calculation of poverty may make sense, but ignoring the other welfare programs is severely misleading. A principal merit of Garfinkel, Rainwater, and Smeeding's poverty analysis is that they make a good-faith effort to include the EITC and food benefits in their calculations and to correct for underreporting.

The government's own data show that the actual living conditions of the more than 45 million people who are deemed "poor" by the Census Bureau differ greatly from popular conceptions of poverty.[18] Consider these facts taken from various government reports:[19]

- Eighty percent of poor households have air conditioning. By contrast, at the beginning of the War on Poverty, only about 12 percent of the entire U.S. population enjoyed air conditioning.
- Nearly three-quarters have a car or truck; 31 percent have two or more cars or trucks.[20]
- Nearly two-thirds have cable or satellite television.

17. Another way to analyze the growth of means-tested welfare spending is to compare spending on cash, food, and housing programs to the pre-welfare poverty gap. The pre-welfare poverty gap is the amount of government welfare benefits that would need to be added to raise everyone's income at least to the poverty income threshold. In constant dollars, the pre-welfare poverty gap has increased by two-thirds since 2000. However, government spending on means-tested cash, food, and housing has increased proportionately. In 2000, the ratio of means-tested spending on cash, food, and housing to the pre-welfare poverty gap was 1.75. In 2013, it was 1.76. Data available from the author upon request.
18. The government surveys that provide data on the actual living conditions of poor Americans include the Residential Energy Consumption Survey, What We Eat in America, Food Security, the National Health and Nutrition Examination Survey, the American Housing Survey, and the Survey of Income and Program Participation. See U.S. Department of Energy, Energy Information Administration, Residential Energy Consumption Survey (RECS), http://www.eia.doe.gov/emeu/recs/ (accessed September 2, 2015); U.S. Department of Agriculture, What We Eat in America, NHANES 2007–2008, Table 4, "Nutrient Intakes from Food," http://www.ars.usda.gov/SP2UserFiles/Place/12355000/pdf/0708/Table_4_NIN_POV_07.pdf (accessed September 2, 2015); Mark Nord, "Food Insecurity in Households with Children: Prevalence, Severity, and Household Characteristics," U.S. Department of Agriculture, Economic Research Service *Economic Information Bulletin* No. 56, September 2009, http://www.ers.usda.gov/Publications/EIB56/EIB56.pdf (accessed September 2, 2015); U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, "About the National Health and Nutrition Examination Survey," http://www.cdc.gov/nchs/nhanes/about_nhanes.htm (accessed September 2, 2015); U.S. Census Bureau, Current Housing Reports, Series H150/11, *American Housing Survey for the United States: 2011*, September 2013, http://www.census.gov/programs-surveys/ahs/data/2011/h150-11.html (accessed September 2, 2015); and U.S. Census Bureau, Survey of Income and Program Participation, 2001 Panel, Wave 8 Topical Module, 2003, http://www.census.gov/programs-surveys/sipp/data/2001-panel/wave-8.html (accessed September 2, 2015).
19. Unless otherwise noted, data on the physical amenities in poor households are calculated from the 2009 Residential Energy Consumption Survey (RECS) conducted by the U.S. Department of Energy, http://www.eia.gov/consumption/residential/data/2009/index.cfm?view=microdata (accessed September 8, 2014).
20. U.S. Census Bureau, *American Housing Survey for the United States: 2011*.

- Half have a personal computer; one in seven has two or more computers.
- More than half of poor families with children have a video game system such as an Xbox or PlayStation.
- Forty-three percent have Internet access.
- Forty percent have a wide-screen plasma or LCD TV.
- A quarter have a digital video recorder system such as a TIVO.

Poverty, Nutrition, and Hunger. Despite impressions to the contrary, most of those who are designated as poor by the U.S. government do not experience undernutrition, hunger, or food shortages.[21] Information on these topics is collected by the U.S. Department of Agriculture's household food security survey. The USDA survey shows that in 2009:

- Ninety-six percent of poor parents stated that their children were never hungry at any time during the year because they could not afford food.
- Some 82 percent of poor adults reported that they were never hungry at any time in the prior year due to lack of money to buy food.
- 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.[22]
- Most poor children today are in fact supernourished and grow up to be, on average, one inch taller and 10 pounds heavier that the GIs who stormed the beaches of Normandy in World War II.[23]

Housing and Poverty. Depictions of poverty in America that suggest the majority of the poor are homeless or residing in dilapidated living conditions do not give an accurate picture of poverty in the United States. While such families do exist, they are far from typical of the population defined as poor by the Census Bureau. The actual housing conditions of poor families are very different.[24]

- Over the course of a year, only 4 percent of poor persons become temporarily homeless. At a single point in time, one in 70 poor persons is homeless.[25]
- Only 9.5 percent of the poor live in mobile homes or trailers; 49.5 percent live in separate single-family houses or townhouses, and 40 percent live in apartments.
- Forty-two 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.

21. The figures on food consumption and hunger were calculated from U.S. Census Bureau, Current Population Survey, December 2009 Food Security Supplement. The December supplement data provide the basis for the household food security reports of the U.S. Department of Agriculture.
22. Katherine S. Tippett, Sharon J. Mickle, Joseph D. Goldman, Katherine E. Sykes, D. Annetta Cook, Rhonda S. Sebastian, John W. Wilson, and Julie Smith, *Food and Nutrient Intakes by Individuals in the United States, 1 Day, 1989–91*, U.S. Department of Agriculture, Agricultural Research Service, NFS Report No. 90-2, September 1995, http://www.ars.usda.gov/SP2UserFiles/Place/12355000/pdf/csfii8991_rep_91-2.pdf (accessed September 2, 2015). More recent data are available from the authors upon request.
23. Bernard D. Karpinos, "Current Height and Weight of Youths of Military Age," *Human Biology*, Vol. 33, No. 4 (December 1961), pp. 335–364. Recent data on young males in poverty provided by the National Center for Health Statistics of the U.S. Department of Health and Human Services, based on the second National Health and Nutrition Examination Survey.
24. Unless otherwise noted, figures on the housing of poor households are taken from U.S. Census Bureau, *American Housing Survey for the United States: 2011.*
25. U.S. Department of Housing and Urban Development, Office of Community Planning and Development, *The 2009 Annual Homeless Assessment Report to Congress*, June 2010, p. 8, http://www.hudhre.info/documents/5thHomelessAssessmentReport.pdf (accessed September 2, 2015).

- Only 7 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 Sweden, France, Germany, or the United Kingdom. (These comparisons are to the *average* citizens in foreign countries, not to those who are classified as poor.)[26]

- The vast majority of the homes or apartments of the poor are in good repair and without significant defects.

By his own report, the average poor person had sufficient funds to meet all essential needs and was able to obtain medical care for his family throughout the year whenever needed.

Of course, poor Americans clearly do not live in the lap of luxury. Many of the poor struggle to make ends meet, but they are generally struggling to pay for cable TV, air conditioning, and a car while putting food on the table. The average poor person is far from affluent, but his lifestyle is equally far from the images of stark deprivation purveyed by advocacy groups and the mainstream media.

Conclusion

Social welfare expenditures consist of spending on health care, education, retirement benefits, and other government transfer payments. The U.S. social welfare system differs from systems in other advanced nations because it contains a larger private-sector/non-governmental component.

When governmental and non-governmental spending are combined, social welfare absorbs around one-third of U.S. gross domestic product. As a share of GDP, social welfare expenditures in the U.S. are slightly less than the average for other wealthy nations. However, because the U.S. is wealthier than most other advanced nations, real per capita social welfare spending is significantly higher in the U.S. than elsewhere.

The U.S. has very high levels of health care spending per capita and education spending per student. This higher spending does not always lead to improved results. Reforms should be undertaken to reduce health care and education costs while improving outcomes.

Compared against a uniform standard, the U.S. has a poverty rate that is similar to poverty rates in most other advanced nations. However, the U.S. should not seek to outspend other nations in its anti-poverty programs. Instead, the U.S. should seek to reduce poverty by promoting self-sufficiency: the ability to support one's self and family above the poverty level without reliance on welfare aid.

The key to improving self-sufficiency is to increase work and healthy marriage. Increased self-reliance will lead to an enhanced sense of self-achievement, a principal component of human well-being.[27] Restoring healthy marriage will sharply reduce poverty, improve child outcomes, and increase adult happiness.[28]

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26. Kees Dol and Marietta Haffner, eds., *Housing Statistics in the European Union 2010*, Netherlands Ministry of the Interior and Kingdom Relations, September 2010, p. 51, Table 2.1, "Average Useful Floor Area per Dwelling and per Person (m^2)," http://www.bmwfw.gv.at/Wirtschaftspolitik/Wohnungspolitik/Documents/housing_statistics_in_the_european_union_2010.pdf (accessed September 2, 2015); U.S. Department of Energy, 2005 Residential Energy Consumption Survey, Consumption & Expenditures Tables, Summary Statistics, Table US1, "Total Energy Consumption, Expenditures, and Intensities, 2005, Part 2: Household Characteristics," http://www.eia.gov/emeu/recs/recs2005/hc2005_tables/c&e/pdf/tableus1part2.pdf (accessed September 2, 2015).

27. Martin E. P. Seligman, *Flourish: A Visionary New Understanding of Happiness and Well-Being* (New York: Simon and Schuster, 2011).

28. David Myers, "Close Relationships and Quality of Life," in Daniel Kahneman, Edward Diener, and Norbert Schwarz, eds., *Well-Being: The Foundations of Hedonic Psychology* (New York: Russell Sage Foundation, 1999), pp. 374-391; David G. Blanchflower and Andrew J. Oswald, "Well-Being Over Time in Britain and the USA," NBER *Working Paper* No. 7487, January 2000, http://www.nber.org/papers/w7487.pdf (accessed September 2, 2015).