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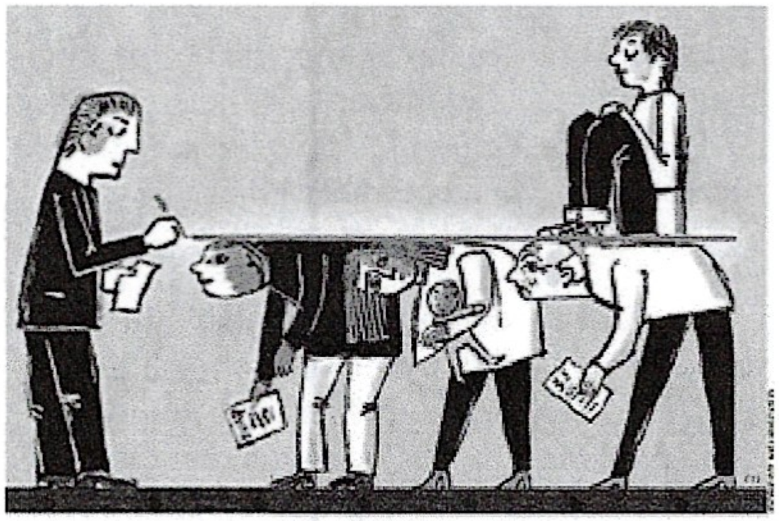
Its flawed income measure leads to the overpayment of welfare, including Medicaid, to recipients.



ROBERT NEUBECKER

The Census Defines Poverty Up

By Phil Gramm And John Early

The Trump administration recently promised that it "will not cut Social Security, Medicare, or Medicaid benefits." The determination not to reform retirement benefit entitlements is politically understandable. But there is no reason to include Medicaid, the nation's most abused welfare program, in that pledge. Means-tested welfare, or welfare tied to a person's income level or "means," is the main driver of the budget deficit—not Social Security, which is almost 90% selffunded by its dedicated payroll tax, or Medicare, which is 50% funded by premiums and payroll taxes.

Spending on Medicaid, Internal Revenue Service cash welfare payments (refundable tax credits) and the Supplemental Nutrition Assistance Program (food stamps) has grown in inflation-adjusted dollars by 671%, 1,463% and 289% respectively since 1990. By contrast, total real Medicare, Social Security and defense expenditures have grown by 383%, 186% and 38% respectively. Medicaid absorbs seven times as much general revenue as Social Security—more than Social Security and Medicare combined.

While eligibility standards for means-tested programs vary, all are anchored to the Census Bureau's measures of household income and poverty. The Census has for decades overstated the extent of poverty because it doesn't count as income 88% of transfer payments made to households classified as poor. The Census doesn't count refundable tax credit checks, foodstamp debit cards, Medicaid and some 100 other federal, state and local transfer payments as income to the recipients.

Inflation-adjusted government transfer payments to those being classified as poor are almost 20 times greater in real purchasing power than they were when the War on Poverty began, yet the country's official poverty rate is still about 11%, the same as 50 years ago. This is because the government hasn't counted most welfare payments as income and has used the resulting biased income measure to justify who qualifies for welfare. The bias in the Census income measure alone has led to massive waste that dwarfs every wasteful program Elon Musk has uncovered.

But there's good news: The Congressional Budget Office in January issued a new poverty measure that sharply contrasts with the Census measure, and confirms previous independent studies of Census bias. This new measure counts a higher percentage of transfer payments as income and estimates that the poverty rate in 2021 was 0.8%—much lower than the Census rate of 11.6%. The Census has stonewalled the CBO finding and has not even acted on its own recent study showing that the official poverty count is five million too high.

During the War on Poverty, the government adopted a commonsense definition of poverty: having resources that are not enough to meet basic needs. The Census's poverty measure today isn't consistent with that definition because it fails to count the more than $2 trillion in government benefits that are given to low-income households to meet their needs. By not counting these payments, the Census reports that the average household income in the bottom fifth of income recipients is only $17,650, when if you count all government-provided benefits it's more than $65,000.

Medicaid is a behemoth welfare program. Depending on their state and family characteristics, families with incomes as high as 319% of the poverty level ($102,559 for a family of four) can receive Medicaid. The income Medicaid compares to the poverty threshold to determine eligibility is even more problematic than the Census measure—it excludes a higher percentage of government welfare payments and even some Social Security income. Pruning Medicaid enrollment based on a full accounting of the beneficiary's income would in no way harm the poor, who constitute only about one-third of Medicaid beneficiaries based on the Census measure and only 2% to 3% based on the more accurate CBO measure. Narrowing eligibility to those in real need would dramatically reduce the budget deficit. And those savings would be in addition to savings that could be achieved by addressing the numerous abuses in the Medicaid delivery system.

Food-stamp eligibility generally requires an income below 130% of the federal poverty level, but states can raise that limit; California sets it at 200%. Income used to determine eligibility and the size of the benefits starts with a definition similar to Medicaid. The food-stamp calculation shrinks its measure of income further by deducting such items as 20% of earned income, dependent care costs and some shelter costs (rent or mortgage payments, fuels and utilities). Many states offer automatic food-stamp enrollment to those eligible for other welfare programs.

No welfare payments are counted as income in determining eligibility for federal refundable tax credits, vastly expanding IRS payments. The IRS has become a major dispenser of welfare.

With the federal deficit at 6.4% of gross domestic product and the total national debt at 122% of GDP, the Census's undercounting of income and the overpayment of welfare that it generates cry out for reform. The U.S. could see enormous savings by implementing work requirements as a condition for receiving welfare, forcing the Census to count all transfer payments as income and adjusting welfare payments based on accurate income measures.

Families defined as poor receive $257 billion more a year than is required to lift them out of poverty, and $1.48 trillion in welfare payments a year go to families that weren't poor before receiving welfare benefits. Whether we should call this waste, fraud or abuse is debatable, but the fact that it's bankrupting America isn't.

Mr. Gramm is a former chairman of the Senate Banking Committee and a nonresident senior fellow at the American Enterprise Institute. Mr. Early served twice as assistant commissioner at the Bureau of Labor Statistics and is an adjunct scholar to the Cato Institute. This article is based on their book: "The Myth of American Inequality."

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