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Neil Reynolds

Governments cannot buy an end to poverty

In the U.S., spending on poverty programs just keeps increasing – and so does the number of poor people

In 1964, in his first State of the Union address, U.S. President Lyndon Johnson declared “an unconditional war on poverty in America.” In the ensuing 46 years, as calculated by economist Michael Tanner at the Washington-based Cato Institute, the U.S. has spent more than \$15-trillion (U.S.) to end poverty – an amount that now exceeds the entire U.S. national debt. (The federal government alone operates 122 poverty programs.) Federal welfare program spending last year hit \$600-billion, more than \$15,000 for every American (man, woman and child) officially designated as poor. The country could save billions by mailing a single cheque to each one of them.

The U.S. Census Bureau reported last week that the U.S. poverty rate increased to 14.3 per cent of the population in 2009 (43.6 million people) from 13.2 per cent in 2008 (39.8 million people): Altogether, in a single year, an increase of 3.8 million people. And some authorities say the upward trend is far from finished: Public policy research economist Isabel Sawhill (at the Washington-based Brookings Institution) anticipates that the poverty rate will reach 16 per cent in the next four years – approaching the rate (18 per cent) when Mr. Johnson proclaimed his “unconditional declaration of war.”

For his part, President Barack Obama took the recession-driven poverty statistics to call for another increase in government spending. The rise in the poverty rate, he said, “makes it clear that our work has just begun.” In his most recent proposal, Mr. Obama suggests that the next phase of the job requires an additional \$180-billion – which, approved by Congress, would take federal stimulus spending in less than two years to a neat \$1-trillion.

It is implicit in Mr. Obama's remarks that the President regards government spending – that is, more of it – as the only conceivable way to end poverty. But in some cases, government spending is almost certainly the cause of it. In his 2009 round of stimulus spending, for example, Mr. Obama established an “emergency fund” that requires the federal government to pay 80 per cent of the cost of any new poverty programs introduced by the states – an obvious incentive to find new welfare “clients.” According to Cato's Mr. Tanner, this one program effectively revoked President Bill Clinton's welfare reform legislation of the 1990s.

One of the causes of official poverty in the U.S. is the fact that the Census Bureau doesn't count all of the cash income (or cash-equivalent income) of the poor. It does not count, for example, tax credits for low-income workers. Counting these credits would reduce the number of “official poor” by eight million people – enough to cut the poverty rate last year by almost 20 per cent. (The U.S. defines “poverty” as an income of less than \$22,000 – earned income plus government transfers – for a family of four.)

The Census Bureau doesn't count food stamps, either – though food stamps are worth thousands of dollars a year. In the past two “lean years,” the use of food stamps increased by 50 per cent – but reliance on food stamps had increased by 50 per cent in the preceding four “good years” as well. In fact, the food stamp program has never stopped growing from its humble beginning in 1964 – funded at a mere \$75-million a year – when Mr. Johnson heralded it as “a wise use of our agricultural abundance.” In February, 2010, the food stamp program (more properly now, “the food card program”) set a new record – with 43 million “card holders.” The cost per person: \$1,500 a year. The cost for the country: \$64.5-billion.

It is curious, based on a half century of expenditures and experiments, that you apparently cannot buy an end to poverty – or buy even a slight diminution of it. To what degree do governments acquire poverty with their poverty programs? Obviously, millions of people rely on welfare for a decent existence but the official statistics do exaggerate the number. The U.S. Labor Bureau of Statistics notes, without explanation, that (in 2008) the poorest one-fifth of the population reported incomes of only \$10,000 a year – but spending of \$22,000. Former Federal Reserve economist W. Michael Cox and financial journalist Ralph Alm, in *Myths of Rich and Poor*, report that the officially poor people of the United States, were they to form a country of their own, would be roughly as well off as Europeans.

For its part, of course, Canada has no official poverty rate. Our unofficial rate is roughly a resilient 12 per cent. The Canadian experience, though, confirms the American experience – especially in our futile efforts to buy off aboriginal poverty. Not all of our MPs, though, recognize the limitations of government.

In June, NDP MP Tony Martin introduced a private member's bill (C-545) that would oblige the federal government to eliminate poverty in Canada – with the bureaucratic assistance of “an Office of the Poverty Elimination Commissioner.” Liberal and Bloc MPs supported the bill, although – this is Canada – the legislation would permit Quebec to “opt out.”