How Government Wages War on the Poor

Despite the scarcity of jobs, unemployment benefits were cut off for 1.3 million people. Another 3.6 million are next.

Fifty years ago in his first State of the Union address, President Lyndon Johnson declared an "unconditional war on poverty." Who would have thought, back in 1964, that the government would desert to the other side?

If it seems strange to claim that the federal government has become more anti-poor than anti-poverty, consider these recent or current policies. (The list is not exhaustive.)

Emergency unemployment compensation ended for 1.3 million jobless Americans just after Christmas. Unless it is restored, as Democrats are now struggling to do, another 3.6 million will lose their benefits this year. Scaling back unemployment compensation is a highly efficient way to create more poor people. Never has the government terminated such benefits while jobs were so scarce.

Last month's acclaimed bipartisan budget deal included cuts in food stamps, though not nearly as much as Republicans sought.

The two parties are now girding for battle over raising the federal minimum wage; it would be the first such increase in almost five years. The Democrats want to boost the minimum hourly wage from the current $7.25 to $10.10 in three annual increments. Even though the evidence suggests that modest increases in the minimum wage raise the incomes of poor and near-poor workers without causing much job loss, the opposition is substantial.

Many Republican governors are declining the Medicaid component of ObamaCare—an option given them by the Supreme Court's split-the-baby decision on health mandates. These refusals deprive poor and near-poor families of a sorely needed benefit that would cost the states next to nothing. And, of course, the unremitting war against unions continues in state capitol across the country, though this is more germane to the general issue of inequality than to poverty.

Looking back in his 1988 State of the Union address, President Ronald Reagan famously declared that "the federal government fought the war on poverty and poverty won." He was referring to the failure of the official poverty rate to decline much—a refrain still heard today. He also was ignoring, or perhaps rationalizing, the fact that Reaganomics marked the beginning of the federal government's conversion from fighting poverty to fighting the poor (and the middle class). But was his claim about a stagnating poverty rate even factually correct?

A study published last month by a team of researchers from Columbia University suggests that Reagan and many others were misled by faulty measures of poverty. The report re-examined history using superior measures of poverty that mimic the Census...
Bureau’s new and improved techniques. It found that, while the traditional measure shows the fraction of people below the poverty line rising by 0.8 percentage points between 1967 and 2012, the new measure of poverty declines by 9.8 points. That’s meaningful progress.

However, poverty—and, more generally, inequality—fought back fiercely. The counterattack had, and continues to have, two different roots: the market and the government.

The market has played the bigger role. Starting in the late 1970s, the U.S. labor market began to turn ferociously against workers with low skills and education. To cite just one indicator, the wage advantage of male college graduates over male high-school graduates soared to 46% by 2010 from only 20% in 1979. There were many reasons. Globalization doubtless played some role, as did the decline in private-sector unionization. But technology was clearly the major villain.

It may seem strange to cast technology in the role of the villain, and in a larger sense it’s not. Improving technology is the main source of higher living standards. So it is good, not bad, for a country to experience faster technological progress. But new technologies inevitably leave some people behind. And that began to occur in a big way starting at the end of the 1970s.

The Internet revolution gave this process new momentum and a new twist. While e-commerce eliminated many “ordinary” jobs (think Amazon instead of bookstores, or online reservation systems instead of travel agents), it also enhanced the opportunities and rewards for some “extraordinary” jobs. Think of entertainers or inventors of successful apps, for example. The result has been that the rich got richer while the poor and middle class got relatively poorer.

No one should blame these powerful market forces on Ronald Reagan, George W. Bush, or today’s congressional Republicans. And no one should try to hinder technological progress. But rather than trying to mitigate poverty or inequality, the U.S. government piled on. Had this been a football game, the government would have been flagged for unnecessary roughness.

It started with the Reagan tax cuts for the rich, the unprecedented budget deficits they caused, and the associated pressure to reduce spending on social programs of all kinds. Presidents George H.W. Bush and Bill Clinton, and Congress, eventually fixed the budget deficit with a mix of higher taxes and lower spending. But only the extraordinary job creation during Mr. Clinton’s second term, which pulled the unemployment rate as low as 3.9%, was powerful enough to halt—albeit temporarily—the market’s march toward greater inequality.

That brief shining moment was followed by the presidency of George W. Bush, who took the country back to Reaganomics: huge tax cuts for the rich, exploding budget deficits and numerous efforts to trim social programs. (One big exception: Medicare Part D.)

Today, President Obama wants to get the federal government back on the side of the poor. Partly for that reason, and partly because of the 50th anniversary of Johnson’s landmark speech, America’s high levels of poverty and inequality are attracting unusual amounts of media and political attention.

But actions speak louder than words. Look back at the list of anti-poor policies early in this column. Now try to think of anti-poverty policies that either have been enacted or stand a chance of enactment. So on which side has the government been?

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