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ABSTRACT

This booklet contains the proceedings of a Congressional hearing held to review the broad policy implications involved in defining poverty and income, and to gather information on the relationship of the poverty definition and eligibility for public assistance, revenue sharing, block grants, and other programs. Addressing the general question of whether current poverty standards portray true need, statements of, and communications from Representatives, government officials, and scholars are included. Finally, three articles are attached: (1) "Multiple Benefits and the Safety Net" (Maurice MacDonald); (2) "Poverty in the United States: Where Do We Stand?" (the Winter, 1984, issue of the Institute for Research on Poverty's journal, "Focus"); and (3) "The Measurement of Poverty" (Sheldon Danzinger and Peter Gottschalk). (KH)

CENSUS AND DESIGNATION OF POVERTY AND INCOME

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON CENSUS AND POPULATION

OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

AND THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

MAY 15, 1984

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CENSUS AND DESIGNATION OF POVERTY AND INCOME

TUESDAY, MAY 15, 1984

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON CENSUS AND POPULATION, COMMITTEE ON POST OFFICE AND CIVIL SERVICE, AND SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS,

Washington, DC.

The subcommittees met, pursuant to notice, at 9:45 a.m., in room 311, Cannon House Office Building, Hon. Charles B. Rangel (chairman of the Subcommittee on Oversight of the Committee on Ways and Means) presiding.

Mr. RANGEL. The Subcommittee on Census and Population will come to order.

This is a joint meeting held with the Ways and Means Subcommittee on Oversight.

Chairman Bill Clay has agreed to assist me in this hearing in view of the fact that our chairwoman, Mrs. Hall, is in litigation.

Chairman Clay.

Mr. CLAY. Thank you, Mr. Chairman.

In behalf of Chairperson Katie Hall and the Subcommittee on Census of the Post Office and Civil Service Committee, it gives me great pleasure to welcome you and your subcommittee of the Ways and Means Committee to this joint hearing concerning the census and designation of poverty and income.

The recent initiatives by the Reagan administration and the Bureau of the Census have brought into sharp focus the national debate over how income and poverty should be measured.

While congressional actions have significantly altered the array of factors considered in defining income for tax purposes, the basic concepts underlying the official poverty level have not changed or seriously been considered for change since their development almost two decades ago.

Statistics show that the number of poor people in this country is on the rise. According to the Census Bureau, more than 34.4 million Americans are now living in poverty, an increase of 8.3 million persons over the number of people living in poverty when President Reagan took office.

We knew that the Reagan administration entered office committed to reducing the size of Government, with particular emphasis on what it considered excess spending on key social programs. By August of 1983, it had succeeded in reducing spending in fiscal years 1982 to 1985 by a total of $110 billion.

CETA, the public service job program, was terminated. There were big cuts in medicare, food stamps, and education benefits. There were cuts in Social Security. Changes in welfare aid took hundreds of thousands of families with children off the rolls entirely and reduced benefits for many others. Many of these families also lost eligibility for medicaid.

Analyzing poverty and the impact of poverty programs on the disadvantaged is more than a theoretical exercise engaged in by economists and others. It goes to the heart of new policy decisions that could emerge after this year's Presidential election.

The reduction of poverty should be a national priority, accomplished through sound policies and programs which raise the standard of living for poor families. Modifying the definition of poverty to include noncash benefits solely to statistically reduce the poverty rate is reprehensible. It diverts attention away from the real issues to be addressed—the factors which cause poverty and the dire needs of poor people.

We hope that this hearing will help us review the broad policy implications involved in defining poverty and income and provide information on questions such as the relationship of the poverty definition and eligibility for public assistance programs and other programs such as revenue sharing and a number of block grant programs.

We also hope that it will deal with the process, methodology, and goals of efforts to value noncash benefits in relation to the definition of poverty and what role, if any, should the Congress play in defining poverty and income.

Thank you, Mr. Chairman.

Mr. RANGEL. Thank you, Mr. Clay.

For those people who wonder why this hearing is being held jointly, it is because there is no question that many people have entered the poverty category because of domestic program reductions and tax policies.

The Ways and Means Committee as well as other committees of the House have jurisdiction over certain means tested programs that were reduced significantly as a result of budget reductions.

The Census Bureau traditionally has been held to the highest professional standards and certainly has done a great job for the country no matter what administration has been in power. Its data is used by Congress to determine how we can assist the poorest of the poor.

By having closed meetings or having the perception that the formula is being politically manipulated, puts the Census Bureau in a position of denying the poor the benefits of legislation which to give assistance, by making it appear as though the poor are not poor. This is what happens when you have closed meetings. Certainly those of us in the Congress have been subjected to a lot of criticism for doing the same thing.

So that is why I appreciate the fact that this committee has allowed those of us in the Ways and Means Committee to share in this hearing. We can hear from the interested witnesses how to obtain a fair and accurate description of the poor in this country, so that collectively we are in a better position to do something about it.

Congressman Matsui, who is an active member of the Ways and Means Committee, had volunteered to sit with the Oversight Committee on these hearings because of his deep-seated concern about how the formula is being changed and what input is being put in, and of course why it appears as though the Congress is being excluded. And again to demonstrate his deep interest, he is the first witness.

I want to congratulate him first on his interest, his perserverence, and the contribution that he is making, so that when we do reach a criterion, it's not going to be liberal or conservative, Republican or Democrat, but it's going to be something that people will think is fair and equitable.

Congressman, you may proceed in the manner that will make you feel most comfortable.

STATEMENT OF HON. ROBERT MATSUI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. MATSUI. Thank you very much, Mr. Chairman.

I appreciate the opportunity that both you and Mr. Clay and Representative Hall have given me and other witnesses today to testify before the respective subcommittees.

Today's hearing serves an important purpose as the questions concerning the definition of poverty too often are viewed as purely technical and best left to expert analysts.

Policymakers must respond to the need for a more comprehensive framework for understanding what constitutes poverty and how to mitigate it. Members of Congress and other decisionmakers must acknowledge that these technical matters have profound social, moral, and economic ramifications.

For a number of years, the method used by the Census Bureau to determine who is poor has been the subject of growing debate. Many critics argue that the poverty thresholds are based upon outmoded data, which only estimate minimum food requirements for a family's survival. Such needs as clothing, shelter, and medical care are not directly assessed.

Others contend that in-kind benefits, such as food stamps and medical benefits, should be counted as income available to the poor, and many believe that the poverty threshhold should be based on after-tax income.

Leaving aside what the right ingredients are for calculating the number of poor people, we must ask a series of more fundamental questions:

Do our current standards go far enough in portraying true need?

Should we employ more relative measures, enabling us to appreciate better the differences in lifestyles among families on the continuum of low and high income?

How can poverty and the statistics which describe it be better understood so that Government can target its resources more effectively to combat it?

These questions are not new. Nearly 20 years have passed since President Johnson committed this Nation to eliminating want by declaring a war on poverty. While we are still committed to this goal, the fact that 15 percent of all Americans continue to live below that poverty line is a commentary that in fact we have not won that war on poverty.

Rather than trying to solve this problem through vigorous efforts to strengthen the social safety net, this administration has indicated its desire to devise new statistical measures to hide the undiminished needs of the poor.

David Stockman told the Ways and Means Committee, chaired by Chairman Rangel last November, that "we are marching forward as a society to reduce the degree of poverty if we measure it correctly."

This tendency was illustrated again during a recent Oversight Subcommittee hearing. The Census Bureau announced that it had chosen a panel of eight expert economists to review the Bureau's work on poverty measurement and to make technical recommendations on how to calculate noncash benefits in determining the poverty rate. This group was selected at the request of the Office of Management and Budget.

While the Government must receive the benefit of expert advice, the proposed operations of this panel provoked much concern and skepticism.

Only one meeting of these eight experts was planned for the group to complete its work. The Census Bureau asked this group to review only those types of measures, such as in-kind benefits, which statistically decreased the number of the poor. No thought was given to evaluating alternative poverty measures, like using after-tax income or increasing the poverty threshhold, which could reveal an increase in the number of poor Americans.

More importantly, this session was closed to the public, and no outside input by Congress or interested parties was to be permitted. This was in apparent violation of the Federal Advisory Committee Act.

It was only after I wrote to the Census Bureau urging them to open the meeting, arranged for nearly 60 of our colleagues to sign subsequent letters, and joined in a lawsuit asking the court to direct the Bureau to open the meeting, that this session was finally scrubbed. The contracts of the economists were also canceled.

It is my view that the questions concerning poverty, income, and how to measure it are too important to take place outside of the public's view. Such discussions must occur in an open forum with adequate opportunity for all interested parties to comment and provide their perspectives on this issue.

To assure that the Congress possesses sufficient information to conduct a searching and substantive debate on the best ways to measure poverty, it seems clear that an impartial assessment must be compiled. It seems clear that an impartial asessment must be compiled for the purpose of obtaining this information so that Congress will be able to make the appropriate decision.

I believe it is time for Congress to establish a high-level, independent committee for the purpose of defining what the poverty rate should be. This panel should be composed of experts in and outside the poverty field, whose views represent a wide philosophic spectrum.

The group should conduct a series of in-depth public meetings over the next year to 18 months as a means to establish a comprehensive body of evidence.

I intend to introduce a resolution in the near future proposing the creation of such a panel.

Until such time as Congress can receive this advice and study more definitive data, I feel that neither the administration nor the Census Bureau should make any changes in the official way that poverty is measured.

It also seems clear that the Census Bureau, in its annual technical papers on valuing in-kind benefits, should examine alternative approaches to defining poverty such as using after-tax income.

Despite past problems from their government, many of the poor have slipped through the social safety net. We certainly cannot allow more Americans to be injured by statistical holes in the net, but, more importantly, we must resume our national crusade to eliminate poverty through effective and humane measures and not just by changing numbers.

Mr. Chairman, I would like to commend you and Mr. Clay and Representative Hall for the leadership effort that you have taken in attempting to bring this matter to a head and bringing it forward.

I recall just last month when you chaired the Oversight Subcommittee hearing and had representatives from the Census Bureau present, how you advised them that they should open the meeting and, second, how they should consider income after taxes as part of their study. Unfortunately, they disregarded your recommendation and advice and were going to proceed with the meeting anyway.

They subsequently, as I indicated, did cancel that meeting. I'm afraid, however, that they may resume it again, perhaps at a time when we are in recess. That's why I think this hearing is so vitally important to make sure that we in Congress know exactly what they intend to do, so that we can protect the interest of the poor, since very few other people are concerned about them.

Mr. RANGEL. Mr. Clay will inquire. Also, if your schedule permits, you are invited to join us, and perhaps we can get some of the answers to those questions you posed.

Mr. MATSUI. Thank you.

Mr. CLAY. Thank you, Mr. Chairman.

Congressman Matsui, you were the one who initially pointed out the shortcomings of the Census Bureau's approach in studying noncash benefits. Are you now pleased with the Bureau's plans to open up the meeting at a later date, and, if not, what are your concerns about the new proposal for final action?

Mr. MATSUI. Well, Mr. Clay, I'm pleased that they canceled the hearings, and I am also pleased that they have indicated that any subsequent meeting, they will at least open it up.

However, I really think that for the Census Bureau to hold a hearing at this time is somewhat premature—even to hold a meeting at this time is somewhat premature. The reason I feel this way is that I'm afraid we may end up defining what poor people make in one way and defining what wage-earners make in another way.

For example, let's take a wage-earner with the United Autoworkers Union. Very few people, when they consider what that person makes, consider insurance premiums, pension benefits, and other types of noncash fringe benefits that they receive in calculating their full salary. Members of Congress are another example.

Our salaries are public—we make $72,000 a year—but the Government pays for part of our health insurance package, we have a pension program, we have other benefits as well, but when we speak about what we make, we talk about $72,000 a year, not $100,000, or whatever that figure would be if you count fringe or noncash benefits.

But it appears to me what the Census Bureau is doing is setting the stage so Dave Stockman in the Office of Management and Budget could include noncash benefits in determining the poverty rate. A poor person then would have to include food stamps, a value for their health insurance benefits, the shelter subsidies that perhaps they are getting, and, all of a sudden, you can see them making $15,000 to $18,000 a year. I think that would be unfortunate—that we would base their income levels on one standard and the levels of wage-earners on another, because I think there's a political problem, a misperception problem then.

When I go back to California, somebody can say, "Well, gee, these poor people get $18,000 a year. How unfair that is. I only get $18,000 a year. Why should we subsidize them?" But they are not including, when they make that statement, their noncash or fringe benefits, which are not taxed.

Mr. RANGEL. Someone told me—if the gentleman would yield—that it is possible for a medicaid patient that is terminally ill to live a life of poverty and die a rich person, if you just include the hospital expenses.

Mr. CLAY. No further questions.

Mr. RANGEL. Would you join us, Mr. Matsui?

Mr. MATSUI. Yes, I would like to. Thank you very much.

Mr. RANGEL. The committee is indeed fortunate that we have available Ms. Mollie Orshansky, who has taken time out to share her views with us. I ask her to come forward.

As most of us know, the country is indebted to her for the expertise that she has given to this area. She has created the present standard as to what criteria determine whether a person is poor.

On behalf of Chairwoman Katie Hall, we thank you for making yourself available.

STATEMENT OF MOLLIE ORSHANSKY

Ms. ORSHANSKY. Thank you. I'm not sure I can thank you for making me make myself available.

It is now some 20 years since the development of the Social Security Administration Crude Index of Poverty, which eventually became the official U.S. statistical definition of poverty we now use.

It's hard to believe that it's 20 years ago. It's even harder when you do, as I did in the last few days, go back and read and review some of the things that we said and did, and I must tell you—and I'm going to illustrate it—that if you took away the date, with only a little tuck here and there, you would think we were talking today.

"Can poverty be measured?" I asked. How do we know? By what standard do we determine just how many and who are the poor who tug at the nation's conscience.

The number who are poor can be varied almost at will, because there's no agreement about the way to count them, even on money income alone. This is part of our success story.

By the levels of living prevailing elsewhere, some of the poor in this country might be well to do, but no one here would settle for mere subsistence, even for his neighbor. Even our poorest may claim more than bread.

It is perhaps more difficult—this was written in 1965—to set a standard for poverty as a public issue, because, in the final analysis, such a procedure implies how much of our public funds and energies we wish to commit, and I digress here from what I wrote then because every now and then since I have said to decide who was poor was a matter of prayer rather than evaluation, and so I decided to see what theology might tell me.

I'm not familiar with all the religions of the world—I'm sure they would agree—but way back in the ancient Hebrew, which helps form the history of our Judeo-Christian creed, the word for charity defined as "giving to the poor" means the same as the word for justice, and if you come farther along—not much—"Unto whomsoever much hath been given, from him much shall be required."

Neither the present circumstances nor the reasons for them, we said in 1965, are alike for all our impoverished millions, and the measures that can help reduce their number must likewise be many and varied. No single program emphasizing needs of one special group alone will succeed. Any conflicts of programs that does not allow for the diversity of the many groups among the poor will to that degree leave the task undone.

The poor have been counted many times. It remains now to count the ways by which to help them gain a new identity, and then—I feel very wistful as I read this—I said, "If we can think bold solutions and dream big dreams, we may be able to solve the problem of poverty, even if we cannot yet agree on how to measure it." That's a sentence I don't think I would write today.

So what did we do then to measure poverty? Or, as I said, if we couldn't agree how much was enough, could we at least say how much was too little? And there is the rub.

It's not only that there is difficulty in deciding what, for a society like ours, should be a social minimum above subsistence. If you really are concerned about illustrating the plight, the lack of well-being, or the degree of well-being among various segments of our population, you have to have something to apply your measure to.

So, despite all the discussion as to why we didn't do this and did do that, the fact remains that, like good homemakers and I hope good economists, we tailored what we needed to what was available.

The only element of family living for which there was anything like consensus on levels of adequacy American style was food, and food costs, and I would say it is still true today, and acknowledging that the only reliable regular series that could tell us about family economic status was the census annual report, the CPS, distributing for a sample of American families, by money income before taxes, a whole array of information by characteristics of the family.

We could, we did, develop a series of criteria from analysis of family income and food expenditure studies for units of different composition; we would say family size and whether they were children or adults.

Thus we could develop a method of classifying families, and by their income and relevant characteristics, the age, the number of children, their work status, and relate that to their presumed means or the poverty line.

You probably know now—we have all said—that that involved taking the economy food plan of the U.S. Department of Agriculture, determining—or, rather, estimating—it was not easy—how many dollars would be required on the average for families for given size and composition, and assessing, or guessing, if you will, or hoping, the total amount of income that one might assume would be required to make it possible for families to obtain that food without—on the average—without having to give up another necessity.

To be sure, the very process of counting the poor—that is, stating the relative vulnerability of different population groups—itself resulted in enlarging the data base. We developed larger samples, which made it possible to have more accurate representation of some population groups, more detailed questions, and more sophisticated data analysis.

The uses stretched the data to their limits, and, some would say, beyond.

A byproduct was that measuring poverty, counting the poor, or discounting them sometimes, was now a major occupation—and I interpose here, because it will come up, the reason that income—money income before taxes is the base with which our poverty criteria were applied is because that was and remains the only regular, reliable, large, government, statistical series that exists or existed. I don't know what we would have done if there were other things, but there weren't, and there aren't.

By 1978, as we continued to debate, attention seemed to drift from what we might do about the poor to how many there were to do something about, including the large issue of why money income alone was counted.

Had anything really changed? Listen. I'm quoting from the debate we had in 1978. "The same situation exists today." That meant as had existed in 1964 and 1965. "We have not come even close to consensus on the amount of money needed for items other than food. Therefore, we resort to the same surrogate procedure—the 1963 costs of the U.S. Department of Agriculture economy food plan originally developed with an eye to 1955 family food choices—and that remains the core of the official poverty lines adjusted only for year-to-year price changes as measured by the Bureau of Labor Statistics Consumer Price Index."

Since 1969 these poverty counts, which have sort of grown, have been designated by the Office of Management and Budget as the official statistics on poverty.

We could, by shifting to a modernized, better—to me that means higher poverty matrix—with the uneven income distribution among U.S. households, raise the number called poor, but we would also change the composition of the group by residence, age, race, or sex of the family head, or delineate an even greater number by moving to a totally relative income measure, such as half the national median income.

And again I write, "We could change the number of poor by expanding the definition of income to include benefits such as food stamps, housing subsidies, healthcare services not now included in census income"—this was 1978—"but we are not even close to agreement on how to put cash values on these things."

My problem is that counting people richer when they are ill but only if their care is financed from public funds and not from employer-funded insurance means we may be misled into thinking problems of the poor need no further consideration.

For myself, I do not believe it is enough that the poor should die the richest in the cemetery.

I want to find this. I feel very prescient. "If it is any consolation"—this is 1978—"I might say, some 13 years after the original poverty line was developed, that all its inherent limitations were acknowledged by us at the start. Unfortunately, we have as yet no solutions. Perhaps the greatest progress is in the urgency with which the deficiencies are now addressed."

Now I want to say explicitly what has been implicit in my discussion, and that is my concern that we are overly concerned about numbers. We seem preoccupied with exits from poverty and comparatively unworried about the entrances into it.

One of the great debates in the land is whether we do really still, as so many poor among us, with or without the dubious valuation of noncash benefits, and whatever version of the poverty census statistics we use, the count suggests we have come a long way in the last 17 years—make it 20 or 25—or so in decreasing poverty as we measure it.

Then why, after transfers even in money terms alone, especially with add-ons for all the nonmoney goods and services, are we still having sessions on poverty today?

Definitional niceties aside, there remain many hurdles before we can sound the proud clarion of success. However we count them, we have lifted a great number out of poverty, but is the index of success based solely on providing exits with no thoughts to blocking the entrances? Have we no care about who falls into poverty in the first place and why?

Granted, a compassionate society will see that those with too little money of their own will not drop below some level of decent living. Ought not an enlightened society be worried, too, about lessening the need for such a system in the first place?

Poverty was never a random affliction, and today it is even less so. It should be a major concern that the burden of poverty continues to weigh heavily on women who, in growing numbers, bear major responsibility for raising children alone and face their old age alone as well.

The risk of poverty for a woman and her family today is over four times as high as for a man and his. Today was 1978, but it could be right now.

We should not continue to look away while blacks, American Indians, Spanish Americans, and other minority groups know poverty at a rate three or four times that afflicting other ethnic groups.

It is sobering to find today, no less than when the war on poverty began, that many children are born to be poor and with a manifest destiny predictable by where they live, the race and occupation of their parents, and even the numbers of brothers and sisters that have arrived before them.

And so I don't know whether we are measuring poverty right, and I don't know what the best way is to count the poor today, but I wish we could concentrate more on causes and remedies than on numbers.

And I feel constrained to add for today one thing. What bothers me, what should bother us, about the work we have seen on including noncash income. We can discuss—and I hope we will—the irrelevance, to me, the inaccuracies, statistically and conceptually, for applying a money-plus-noncash-income concept on to a poverty line which was derived from money income alone.

We should talk more about changing the income distribution to be more complete all through the line, not just for the poor but for those of us from whom much shall be required. But most important of all, I think the tone, the interpretation of these figures, even if we could accept them as they are, is cruel.

I don't think, even if the numbers are right, they tell us that the number of people we counted poor are not poor. What they are telling us, that some programs, some of which we have control over on the Federal basis and some not—some programs designed to help people with not enough money to get along have succeeded, are succeeding, in alleviating the distress for the poverty gap for some of those we call poor. That doesn't mean they weren't poor.

I think in our society, to have to depend upon public programs is a form of poverty which we don't want to perpetuate from generation to generation, but more important than this, if we really are doing so well, why do we have any left?

What about the large number of poor households—and it is large—who get nothing at all? Food stamps. You can argue about counting them—how to count them. Food stamps, a program specifically designed to help the poor, and yet 42 percent of the households we define as poor on a money income basis did not get food stamps at all.

The same kind of information can be shown for the other programs that are counted.

Some of the difficulty is because the definitions we use on the one hand to collect income and the definitions that are used for the program—I mean the noncash benefit program—differ, but that isn't the whole difference, and if we are to use these things, we should not only use them properly, but we should really see what they imply for what is still to be done.

And if I may have my last word, one of the things that was disturbing to me, and to many of us, was the assumption by people in other countries or even by people in this country that because we had poverty lines, automatically we had in place programs of assistance for those who fall below those lines.

It of course was never true, and one day in exasperation, when one of my colleagues asked me, "But Mollie, what do you get if you are poor?" I thought about it and said, "You get counted." And now I have to say bitterly, "You're real lucky. In 1984, if you are poor, there's probably a one in two chance you won't even make the list."

Mr. RANGEL. Well, we certainly hope that you continue to work with us as we not only wrestle with the problem, but also in just trying to define the problem.

Tell me, when you worked toward the definition of poverty, did you use income before taxes—the same criteria that is used today?

Ms. ORSHANSKY. Yes, and I think I should explain again. You know, after the fact, people are always very wise, and they know all the reasons we did things.

There was not, and there is not, an after-tax money income series which you can use. It is true that at the time we—I have to say "I;" when the poverty line is in question, nobody wants to join me.

When I was working on this, for most families with the level of money income we were talking about, except the one-person families and the very large ones, the poverty lines would be below the amount of income at which ordinarily Federal income tax would begin. That's sort of a rationalization.

The real fact was, I feel you have to tailor what you do to what you have available that you can have confidence in, and the only income series that I knew then and the only income series that I know now that I feel is regular enough and large enough that you can have confidence in because the census does it, is the series on money income before taxes, and in doing this, as in choosing the lowest food plan that the Agriculture Department had, it's not subsistence but it's low, as in choosing the so-called multiplier that I did and that I got approved, I thought—and I'm not sure it was right—I thought that the important thing to do was not to oversell, that it was better to maybe understate the need; it was better to come out with fewer people in poverty than you might really think were there, so that those who were looking at the figures and figuring out what to do could be certain that if there were some out there that they had not been made aware of, at least the ones you were asked to focus on were what I called the undoubted poor.

It was a concerted effort to be—I don't know whether to use the word "conservative" or not, but to be as reasonable and correct as possible, and so we had no other choice, and I don't think we have one now, unless the Census Bureau or someone else adds questions to the interviews so that you can determine family-by-family what some other form of income is.

I'm afraid I don't always agree that some of the statistical manipulations we make and the fancy things we get off of computers necessarily give us usable answers to apply to individual units.

Mr. RANGEL. Well, be patient with me because I am not being critical. I am just really trying to find out what factors entered your decision, and of course, we all want to find out how we can improve upon your work.

I accept the rationalization and can understand it that there were not that many poor people paying taxes and so it was easier

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to use the census criteria, but when you ended up—and even prior to that, you said that this was the best data you had—pretax. Then you ended up saying that all census has to do is rephrase the question.

Would not post-tax income be a better criteria?

Ms. ORSHANSKY. Yes, and I didn't mean to be impatient with you, Representative; I'm just impatient with some of the criticisms that other people make.

I think that the best way for many things and for income and expenditures in particular to find out what a family has or does is to ask the family.

Now you sometimes ask a question directly: How much taxes did you pay? You may also say, instead of asking that, because somebody will be afraid they won't answer—you could ask, have you had any specially high medical expenses? Did you—I can't go through the list of deductions, but did you spend extra money for your child's education or day care—to give you some way of going up or down from the average amount of tax you might expect a family of a particular size and composition to pay.

I think that wouldn't take as much effort and maybe even as much money as the simulation and matching projects that we have to depend on now in the absence of such data.

Mr. RANGEL. When you did your work, you were with the Social Security Administration.

My question to you now is, since Congress has the responsibility of trying to meet the needs of the poor, do you think that the definition of the poor should be given to the executive branch or the Congress to respond to that; or, should the legislative branch have the responsibility of analyzing the economic levels of Americans and then attempting on their own to respond to their needs?

Ms. ORSHANSKY. I certainly think the legislative branch should and has exercised—it should do it more—some concern over what I regard as one of the most pressing issues. I don't know how to, shall I say, insulate the work that needs to be done against political pressures or even fashions in research. I just don't know.

We never have had—I shouldn't say "never"—certainly since I've been working on this, since 1964, there has not really been an agency which had as its assigned role the definition of the poverty line or even the analysis of it.

The Census Bureau collects statistics, and they were designated as the reporter of the statistics, based on the statistical definition of poverty. The Social Security Administration, I'm proud to say, let the work on poverty go on, not because it was going to be the work on poverty but because they regarded it, I learned, as part of their general research mandate.

So I would not like to see the legislative branch not involved. I really am not wise enough to know what the best way is.

It may be that—well, I sometimes think—and I don't know whether this makes sense—that maybe what you have to do with something like this is not to be fussing with it every single year but to keep a system in place for a while to give you some opportunity to see how you are doing and then, at some point, make changes.

I think the legislative process could be invoked to see to it that the poverty line, like the minimum wage, like the income tax, like Social Security benefits, gets a look every now and then, or the Consumer Price Index, that at certain intervals some evaluation is made.

I kind of wish—but maybe this is because I was not around when the Social Security law and the attendant things were passed—I sometimes wish we could have another committee on economic security, like the one I heard about and heard Ms. Perkins talk about, which would review the status of our people and what kinds of things they might suggest need attention, but I'm afraid I don't know enough about how the legislative process works to be able to really give you an answer.

Mr. RANGEL. Thank you, Ms. Orshansky.

Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

Is there any evidence available on how consumption patterns have changed in the last 10 years?

Ms. ORSHANSKY. Yes.

Mr. CLAY. Can you tell us some of those?

Ms. ORSHANSKY. I won't say exactly 10 years, but the Bureau of Labor Statistics does income expenditure studies approximately every 10 years in connection with the revision of the price index.

The Department of Agriculture—and it's not coordinated in time—has been doing family food income and expenditure studies roughly every 10 years.

The last food expenditure study that the Department of Agriculture did was in 1978. I think, if one looks at those numbers, it is clear that food consumption patterns have changed since the 1965 study, which didn't put into the poverty line, and the 1955 study which we had.

As one example, the proportion of money income dedicated to food expenditures—I mean money—is now somewhat lower, which means, although it sounds contradictory, that you would get a higher poverty line because you would need not $3 for every $1 in order to be able to buy a dollar's worth of food, you'd need $3.4 or $3.5.

The same kind of pattern shows up in the Bureau of Labor Statistics' study where the expenditure patterns have changed. As families have more income, they spend a somewhat smaller fraction of their income—this is on the whole, not for every single family—on food; housing may be different.

I think there have been changes, and it may well be that—well, there have certainly been changes—excuse me for interrupting myself—in the spending for medical care, because health insurance—whether it's medicare, or medicaid, if you want to call it that—or employment-related insurance, has grown.

So that it might well be that if one looked at the data now, I don't think we'd ever leave out food as a component of a poverty budget, but we might well want to add something else in. There are more things that are available now, and there are more things that could be made available if we decided we wanted to do them.

Mr. CLAY. The poverty line currently is derived by multiplying the economy food plan by three; is that correct?

Ms. ORSHANSKY. It was derived by multiplying for families of three or more—it's different for one or two—the economy food plan cost estimates as they were in the food plan that existed in 1964, which was based on a 1955 survey.

So that for people to say now that the economy—that the poverty line expresses three times food costs is no longer true. After all, we took the dollars for food—say, $100; I don't know what it was; it never was $100, but let's say it was $100 a month for some family. We said, "Sure. They need $300 of income at least in order to buy that food."

We now have adjusted the $300 to conform to the change in the Consumer Price Index, but nobody can say now—I can't—with the relative changes, say, in food prices, housing costs, medical care costs, whether, if you priced up the food component of that index, it would still be whatever the price—you know, the total CPI is, and if you were following more recent consumption patterns, you'd have to say if it cost today $100, I would have to say they needed not $300 for that—to be able to buy that $300 comfortably—they might need $350 or perhaps $400.

We are using a very old measure.

Mr. CLAY. So you don't really have a figure, but you know it should be higher than the three; is that correct?

Ms. ORSHANSKY. I did have, when the 1965 survey—the food survey which the Department of Agriculture carried out then—was out, and they had a new food plan, which they called the thrifty food plan. I did back in about 1974, I think it was, in connection with a committee that was reviewing, of all things, the measurement of poverty and noncash income.

We did then devise an updated set, the Orshansky Update, based on the fact that it looked as though you would need to spend—you'd need to multiply the food cost not by 3 but by 3.4 for the average family, and the food plan itself was a little bit higher at 1974 prices—which I think was the base year I used—than the economy plan moved up to that dollars would be, and we did then come forth with a whole series of figures showing what the impact on the poverty numbers would be.

I don't want to take the time to look for them now, but we did have a whole series of numbers, and the number of families and individuals in poverty rose considerably, if you used, may I call it a more realistic version, and it's not all that realistic, but it was at least 10 years better, you know, than the earlier one.

But there seems to be a long lag—I don't know why, aside from the poverty line—in the analysis of family income studies. We are doing better than we did, but I want you to know that the Consumer Price Index, which you now use and we use to adjust the poverty line and everything else, which was issued in 1978, I believe the revision was made, and that was based on 1972-73 studies.

So that we are always, it seems to me, at least a decade behind, and for the poor we seem to feel we have to be two decades behind; I don't know why.

Mr. CLAY. Thank you, Mr. Chairman.

Mr. RANGEL. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Ms. Orshansky, everybody that I have talked to that's involved in this issue says, "You have to talk to Mollie Orshansky;" I mean you are the one. I appreciate your testimony here.

I'd like to follow up on a question posed by Chairman Rangel.

In your testimony, you indicated that one important ingredient of all the statistical information is that there has to be certainty in the process—is this correct?—in terms of income, in terms of these kinds of things. Is that correct? You used the word "certainty," I believe.

One of the problems that I see now with the definition that you have, and one of the areas that the Census Bureau just refuses to look into, in spite of the fact they are looking into all these other noncash benefits, is the whole issue of taxes that Mr. Rangel raised.

When you first devised your formula, you did not deal with taxes because individuals at that level were paying virtually no taxes.

Ms. ORSHANSKY. Yes.

Mr. MATSUI. In 1978, a family of four, at the poverty level, would end up paying 4 percent of their income in the form of payroll or income taxes.

Since the Reagan administration has been in office, and after the 1981 tax bill that was supposed to help people so much, now that same family of four at the poverty level pays $1,076 in the form of taxes or 10.1 percent of their income as taxes.

Now, I can assure everybody, including you, that that 10.1 percent will remain, so there is an element of certainty in the fact that that's going to be deducted by the form of payroll taxes or income taxes out of the approximately $10,000 or so that that family of four earns in the form of income.

Don't you think that in defining the poverty level we should take into consideration that 10 percent of that family's income goes into payroll taxes or income taxes? I mean that's certain to happen. Nothing is going to change that; certainly this administration is not going to change that.

Ms. ORSHANSKY. I can't argue about the 10 percent, so I'll have to take your word for it.

Mr. MATSUI. Yes.

Ms. ORSHANSKY. But I think that the point you make is an excellent one, and I'd like to go even farther than that. The poverty line developed, like the income statistics from the census, did not come from God, it came from me, and one of the things that has seemed ironic to me is what man hath wrought, or what woman hath wrought, even woman can't tear asunder.

We had in the Social Security Administration an opportunity—we took it—to try to change the poverty line back in 1969, not for taxes; we wanted to raise it because the 1965 survey in the food plans looked like it ought to be raised, and it's one of the few mistakes I think my head of the group I was working with, Mrs. Marion, made; maybe she had to do it; I don't know.

Instead of us just doing it, we went to the Office of Management and Budget and the Council of Economic Advisers, and they said, "You can't change it; it's no longer yours." That's what they tell me now when I say, "Don't add nonmoney income in; I didn't put it there." They say, "'You've got nothing to do with it now." It's a thing in itself.

So the compromise was, we changed to the Consumer Price Index method of adjusting the index each year.

That's what I meant when I said I don't know why, hard enough as it is to do these things, we then have to assume that we are stuck with them forever.

I think it would be wrong to change them every—to change the concept every single year; that's what I don't like in a sense about the relative measure; you never can tell where you are going—an absolutely relative measure—but there isn't any reason that I know of why something like this has to be stuck for 20 years in one place, and if I was changing things, I would do a lot of things; I'd not just want to add in the taxes; I think I'd want to do something which I have stated in what I've written but I didn't read it today, which I really didn't think about at the time that I was working on this.

I was concerned—the first thing I did on this was about families with children, particularly those with no father in the home, because all the poor children in the world belong to me, and what I was trying to show was the difference, the negative difference, between what they could look forward to and what more fortunate kids could.

It was really the differential in opportunity because so many women who are heads of families, particularly with children, weren't working, and if they did, they weren't earning very much. It didn't occur to me to struggle with a very important differential which really fits in with the taxes too.

I think one of the difficulties with the poverty line is, you don't have one poverty line per family size; you have several, depending on how many of the people are children under 18, but you don't have any way of distinguishing what is assumed, as a self-concerned and generous nation, we have to provide as justice for those who are either unable to work or limited in their workability, and what we expect a family that is working to be able to have.

I don't believe in an egalitarian society. I think it's a goal. You want to improve things, but you don't expect everybody to have the same, and if you work, you are supposed to get more than if you don't work, and so our poverty line should be differentiated.

What we have now really was on the theory, you know, the aged women, who are my children too, and the young families with children. They were basically, you know, dependents, and the poverty line, I thought, was serving them.

I think that we have to do something to maintain the differential, and it really is true that in the worst case a family of four that was on aid to families with dependent children and got x dollars, compared with a family of four headed by, let's say, a working man, who got just about that same amount of money from his job, would end up differently.

The noncash income isn't what I'm thinking about, but the family of four that gets its money from AFDC wouldn't pay taxes on it. The family of four where it was being earned would pay income taxes and Social Security taxes, which for low-paid workers are a very big share of their income.

I think that, to be fair, we should be thinking about those things. And the other thing, again, since I don't have the responsibility for the income series, which the census does, naturally I can tell them what they ought to do. I think the income series we now have, which goes back to 1947, has itself become seriously deficient, not just because of the taxes—that we could correct—but we now have—and it's one of the reasons that poverty declined, not because we did something; it was because they, the families, did something. We now have more and more families where there has to be more than one person working. If it's a married couple, the husband and the wife are working.

Those dollars don't, when you add them up for the two people—don't really go as far, and shouldn't be expected to count the same—you know what I mean—to go as far as when only one person works, and I have to say my poverty lines, like me, are very old fashioned.

It says that if you are a woman and you want to have children, it's better you should get married, or at least you should have a meaningful relationship, and being very modern, they say, "If you really want to stay out of poverty, you should go to work."

Well, I think those adjustments in money income, which will make it easier to take care of the different problems of people are, frankly—I don't know whether they are easier to do, but we are much better able to do them at this point than to diddle around with whether I count medicare one way and medicaid another.

Mr. MATSUI. May I just ask one more question?

Mr. RANGEL. Sure.

Mr. MATSUI. Have you had a chance to read the testimony of David Stockman, the Director of the Office of Management and Budget, about 1983 in which he talked about redefining the poverty rate by including in-kind benefits?

Ms. ORSHANSKY. I haven't read it recently, I'm sorry.

Mr. MATSUI. Perhaps the staff could send you a copy, and I'd like your thoughts on his report, or his testimony, if at all possible. Mr. Chairman, would it be appropriate that Ms. Orshansky's comments be placed in the record in terms of her analysis of Mr. Stockman's testimony of last year?

Mr. RANGEL. If she is willing to do it, we will have it put in the record.

Ms. ORSHANSKY. Yes, I am.

I'd just like to say in advance, I think one of the difficulties we all have, and I suppose I was just as guilty as anybody else—is we think of the war on poverty as something you can win, and by winning we mean no more poor.

I don't know that that can ever happen with the changes that are taking place in demography and work opportunity for our population, even under the present definition, but I know that if it ever did, in that moment, if we had any sense—and there are always some people around—we would extend the war because we would continue to be looking for ways to help those that are at the lower end get closer to the middle.

We are not talking about subsistence, we are talking about what you ought to have in this wonderful country and feel that you have a right to because you are an American, and that has changed, and if I may digress for a moment, in 1935-36, after the Depression, and when some of the ladies on whom we really depended so much carried out the first big income expenditure study, a lady named Margaret Stecker came up with a budget for a family—I think it was supposed to be for a dependent family—and when I first studied that, I was furious, because she said (a) they were not allowing for a radio because the electric current for keeping it in place they would not allow on the charge, and she said she didn't allow for a newspaper because if you wanted a newspaper, you could walk to the library and get it. Today, how would you look for a job?

OK. In 1948, when the Bureau of Labor Statistics, led by Dorothy Brady, came out with their monumental modest but adequate budget for a working family, not for a dependent family, they did not include a television set. Why? Because nobody knew how much it would cost to repair.

Today—and I don't know whether they had a telephone—today we worry that people won't have access to a telephone. We want them to have a radio and a television set, so, if nothing else, we can tell them about a tornado or civil defense.

So, although the poor may be invisible to us in this country, we have the most informed poor in America, and as the rest of us get better off, we have to, whether it's out of magnanimity or social justice or just plain self defense, see to it that some of this extra—this improvement in standard of living is allocated to the poor also.

If you are going to do that, you know, I don't know when you can claim that the war has ended; maybe on Judgment Day; but it's a process; it's not something that you say, "When I get rid of the $36 million"—I should live so long—"then I have no more problem."

I think in that sense maybe the chairman had a point. Maybe the legislative branch is the one that would designate where and when such assessments of what really should be or has become the relevant social minimum for the country—you can call it the poverty line; you can call it something else—should be at a given time.

Mr. RANGEL. Mr. Martin.

Mr. MARTIN. No questions, Mr. Chairman.

Mr. RANGEL. Ms. Orshansky, you are truly a remarkable person, and we thank you, not only for the work that you have done but your willingness to continue to work with us.

Ms. ORSHANSKY. Thank you.

Mr. RANGEL. Your testimony has not only been informative but a pleasure for us to listen to. Thank you very much.

The Deputy Director of the Bureau of the Census, Louis Kincannon.

Mr. MARTIN. Mr. Chairman, if I may be recognized while they are coming to the table, I want to submit for the hearing record a statement by our colleague, Jim Courter of New Jersey, a member of the Subcommittee on Census and Population.

Mr. RANGEL. Without objection.

[The statement of Mr. Courter follows:]

PREPARED STATEMENT OF HON. JIM COURTER

Mr. Chairman: I would like to take this opportunity to commend the gentleman for holding this hearing today on a topic of importance to us all.

The question of whether or not to include noncash benefits income in judging whether an individual is poor is not only controversial but complicated.

Noncash benefits have grown dramatically in this country in the last 20 or 25 years. A major question we face today: Are the noncash benefits meeting the needs of the poor? In my opinion the Census Bureau's attempt to value in-kind benefits represent an important step forward in analyzing techniques which would resolve the controversy of non-cash benefits. We should also research and consider the approach for valuing fringe benefits received by middle and upper income households, such as employers contributions for pensions and health plans. I feel the research now being conducted which was mandated by Congress in budget language in 1980 will enable us to truly focus on the issues and the deficiencies of our current estimation techniques.

The current system and procedures used for measuring poverty in the United States raises many questions and continues to come under growing criticism.

Our existing definition of the poverty threshold was developed in the 1960's. Many analysts feel that the estimate of income distribution and poverty are distorted because of the failure to count noncash benefits.

I am of the opinion that we should continue to research the issue of noncash income and all practical techniques as we proceed in developing the most equitable and responsible approach in valuing noncash benefits.

Mr. RANGEL. Mr. Kincannon, you can read your statement, or you can highlight it.

STATEMENT OF LOUIS KINCANNON, DEPUTY DIRECTOR, BUREAU OF THE CENSUS, ACCOMPANIED BY GORDON GREEN, ASSISTANT DIVISION CHIEF, POPULATION DIVISION

Mr. KINCANNON. Thank you, Chairman Rangel.

The statement is not lengthy, so I will read it, if you please.

I'd like to introduce Dr. Gordon Green, who is Assistant Division Chief in our Population Division and is in charge of our technical work on income.

Mr. RANGEL. Welcome to the committee.

Dr. GREEN. Good morning.

Mr. KINCANNON. In response to the committee's request, this testimony covers work at the Census Bureau on collecting and valuing data on noncash benefits, underreporting of income, and after-tax income. We will also discuss the role of the Bureau's new Survey of Income and Program Participation on these topics.

The Census Bureau has been the source of the official estimates of income distribution since 1947, and of poverty since 1969. The official estimates are based solely on money income and do not include noncash benefits of any kind.

In recent years, noncash benefits have grown dramatically for persons all along the income distribution. It has been argued that the Bureau's official estimates of income distribution give an incomplete picture of economic well-being because of the failure to count noncash benefits.

The Bureau began the collection of data on noncash benefits in the March 1980, Current Population Survey. We collected information on the characteristics of persons receiving various noncash benefits, including food stamps, free or reduced price school lunches, public housing, medicaid, medicare, and employer contributions for pension and health programs.

The Census Bureau has continued to collect information on the recipiency of these benefits in the March CPS, and we have issued annual reports on this subject. We have not attempted to collect information from CPS respondents on the value of benefits, with the exception of the face value of food stamps.

In September 1980, the U.S. Congress requested the Secretary of Commerce to expand efforts to collect data on noncash benefits, to develop procedures to value these benefits, and to show their effect on poverty estimates in published reports.

Prof. Timothy Smeeding, a professor of economics, was appointed as a Census-American Statistical Association research fellow at the Census Bureau to develop the initial methodology to value noncash benefits.

Professor Smeeding worked full time at the Census Bureau from September 1980, to September 1981, and then continued as a part-time employee until March 1982. He worked closely in conjunction with Census Bureau staff on this project, and their efforts resulted in Technical Paper No. 50, issued in March 1982. This paper examined several different methods of valuing noncash benefits and showed their effect on poverty estimates for 1979.

Following the issuance of this paper, Census Bureau statisticians worked on ways to refine the methodological procedures developed by Professor Smeeding and to place them in an operational framework.

In February 1984, the Census Bureau issued Technical Paper No. 51, which updated estimates of the value of noncash benefits and their effect on poverty estimates for the period 1979 to 1982.

The valuation procedures used in Technical Paper No. 51 are essentially the same as those developed by Professor Smeeding. Both reports included three separate ways of valuing noncash benefits for three separate groups of food, housing, and medical benefits.

The Census Bureau will be conducting extensive work in the future on the valuation of noncash benefits. In August 1984, the Census Bureau will issue another technical paper showing the value of noncash benefits and their effect on poverty estimates for 1983. Our plan is to issue this report at the same time as our advance report showing the official estimate of poverty for 1983 based on money income alone.

The Bureau has expanded the collection of data on recipiency of noncash benefits in its new survey of income and program participation, or SIPP, which started in October 1983.

The first report from SIPP, which will contain data for the third quarter of 1983, will be issued in early September. The SIPP will eventually provide much more detailed data on noncash benefits for all areas of the income distribution than currently available from the current population survey.

We have a number of experts on income at the Census Bureau. Even so, collecting data on noncash benefits and assigning dollar values to them is a considerable methodological and conceptual challenge. We have sought advice and guidance in a number of ways to augment our expertise.

We have also brought our work forward in appropriate public forums to ensure critical review by independent peers, as is essential in a scientific endeavor. This began in September 1980, with the hiring of Professor Smeeding, and specific activities are planned through August 1985, when we anticipate a session of papers at the American Statistical Association meetings.

As one of these steps, we had planned to hire eight expert consultants to review our work and make recommendations for future work. The consultants were to have met at a 1-day meeting on May 18 to discuss various technical issues, and their written report was to be made public.

We have cancelled this meeting. Individuals and organizations outside the Census Bureau had characterized the purpose of this meeting as being to provide advice on changing the definition of poverty. This is not correct. The definition of poverty is the statutory responsibility of the Office of Management and Budget.

Rather, the Census Bureau was requesting technical guidance on issues regarding the measurement of income and the valuation of noncash benefits.

The charge given to the consultants was to address three distinct technical issues:

One, what types of cash receipts and noncash benefits should be included in the Bureau's definition of income? It was not confined simply to Government benefit programs.

Two, what are the most preferable methodologies for valuing various noncash benefits?

Three, is it appropriate to compare income including noncash benefits against the official poverty thresholds, which are based on money income alone?

Cancellation of the meeting does not eliminate the need for an indepth technical review of the issues that have been raised. As a result, we are examining alternative ways to obtain this technical advice.

We will continue to obtain advice from our census advisory committees, which meet in the spring and fall of each year. We hope to arrange a session on this topic at the American Economic Association meetings in December 1984.

We also are considering a special session on noncash benefits at an upcoming Census Bureau annual research conference, to be held in March 1985. We may commission a series of papers on this topic by independent experts.

Another alternative under consideration is to hold a special invited conference to discuss methodological and conceptual issues. We will keep the committee informed and apprised of developments in this area as our plans become more certain.

Concerning your question about the underreporting of income, it is well known that income data collected in household surveys are often underreported. Underreporting can arise either from intentional concealment, honest oversight, or lack of knowledge. Underreporting results in a false impression of the level of aggregate income and can lead to incorrect inferences about the relative wellbeing of different groups.

There is evidence that income underreporting problems are most serious in the upper and lower portions of the income distribution. As a result, the proportion of the population in upper income brackets is understated and the number of people in lower brackets is overstated.

Although the problem of income underreporting results in an understatement of income for certain population groups, it may not seriously affect the analysis of year-to-year changes in income levels. As long as the bias from underreporting is fairly constant from year to year, the survey data are likely to provide an accurate picture of the changes experienced by different groups.

The most recent data available on the extent of underreported income are from the March 1980 CPS. Comparisons of the 1980 CPS estimates with estimates derived from independent administrative data reveal that overall income in the survey, after imputation, is underreported by about 11 percent. However, wide variations are found in the amount of underreporting by source of income.

Underreporting ranges from only about 3 percent for wage and salary income to as much as 58 percent for interest income. Both reported and imputed proportions of CPS aggregate incomes are shown in attachment 2 to my testimony.

We are optimistic that our new survey of income and program participation will substantially reduce the level of underreporting from that experienced in the CPS. The SIPP is an income survey that is specifically designed to reduce underreporting by asking detailed questions on money and nonmoney income received during each month of a 4-month period.

Data comparisons between the CPS and the 1979 Income Survey Development Program, which was the precursor for SIPP, show that underreporting is much less serious when questions are asked in the manner used in SIPP.

If underreporting of income is still a significant problem in SIPP, the Bureau will explore alternative adjustment techniques, such as linkage of survey and administrative data and the use of statistical models.

In the meantime, we will monitor the level of underreporting of income in all of our household surveys and publish the results in recurring reports.

The Census Bureau testified before the Subcommittee on Oversight of the Committee on Ways and Means on April 12 concerning the payment of taxes by low income persons. The Bureau very recently began work on estimating after-tax income for households.

Even though we do not have information collected directly from our annual March income survey on taxes paid, we have developed procedures to simulate the taxes paid by households using survey and administrative data sources.

The types of taxes that we have simulated include Federal individual income taxes, State income taxes, Social Security taxes, and property taxes on owned properties.

We have published estimates of after-tax income for 1974, 1980, and 1981 in recurring reports issued by the Bureau, and, incidentally, the results in those reports are also shown for persons below the poverty level.

We plan to issue 1982 estimates in July. These 1982 estimates will reflect the 10 percent reduction in tax rates for 1982 and other changes in the tax law as of that time.

Recent data show an increase in the percent of poor households paying Federal individual income taxes and a slight decrease in the average amount paid. The percent of households below the poverty level paying Federal income taxes increased from 4 percent in 1980 to 6.5 percent in 1981.

Changes in the relationship between the income tax thresholds and the poverty thresholds appear to have played a major role in the increase. In 1981, the poverty threshold for a family of four exceeded the minimum taxable income for the first time since 1974.

Also contributing to this increase was the recession occurring in 1981, a situation that caused an increase in the working poor, a group more likely to pay these types of taxes. The average amount of Federal income taxes paid by households below the poverty level declined slightly from $195 in 1980 to $180 in 1981.

A more significant tax for the poverty population is the Social Security payroll tax. We also found that the proportion of households below the poverty level paying this tax increased slightly from 41 to 42 percent between 1980 and 1981. In addition, the average amount of Social Security payroll taxes paid by poor households increased from $250 in 1980 to $290 in 1981.

The official estimates of poverty are based on before-tax money income rather than after-tax income. Based on the official before-tax concept, 13.3 percent of all households were below the poverty level in 1980. Using income after the payment of Federal and State income taxes, we have estimated the poverty rate to have been only 0.2 percent higher.

If Social Security payroll taxes are also deducted, the poverty rate for households in 1980 rises to 14.1 percent. However, this tax carries with it entitlements in the form of future income, which historically have disproportionately benefited low-income recipients.

It also should be noted that the official poverty definition is based on the percent of income spent on food after the payment of Federal and State individual income taxes, not on Social Security payroll taxes.

I would like to mention that the new survey of income and program participation will collect information on taxes paid and will provide our first estimates of data in this area based directly on survey questions.

The first collection of tax information on this new survey will cover tax year 1984. I would like to not[illegible]ever, that our House Appropriations Subcommittee last wee[illegible]IPP funding for 1985 by $1 million. We are still assessing ho[illegible]will affect the timing and quality of this survey.

In closing, I would like to observe, in response to several remarks that, so far as we know, no protagonist on any side of the question of valuing noncash income has suggested that health benefits be counted in a way so that the sicker one is, the richer one is.

The general approach is to use an insurance premium-based approach. There are still plenty of problems remaining in valuing that and other kinds of noncash income without going down that false trail.

This concludes our presentation today, and we would be happy to provide the committees with any additional information they may require.

Thank you, Mr. Chairman.

[The attachments to the prepared statement follow:]

Appropriations Language

H.R. 7584, 96th Congress, Second Session, September 1980

BUREAU OF THE CENSUS

SALARIES AND EXPENSES

For expenses necessary for collecting, compiling, analyzing, preparing, and publishing statistics, provided for by law, ~~$54,600,000~~ *$55,600,000*: Provided, That the Secretary of Commerce is directed to expedite the program of collecting through appropriate surveys, data on benefits received and data on participation in Federally funded, in-kind benefit programs. Programs on which data are to be reported include, but are not necessarily limited to food stamps, medicaid, medicare, and subsidies in areas such as housing, nutrition, child care and transportation. The Secretary of Commerce is further directed to continue research and testing of techniques for assigning monetary values to in-kind benefits, and for calculating the impact of such benefits on income and poverty estimates. The Secretary of Commerce is also directed to include in survey reports beginning no later than October 1, 1981, appropriate summaries of data on in-kind benefits and estimates of the effect of in-kind benefits on the number of families and individuals below the poverty level.

Table A. Comparison of CPS Aggregate Money Income Money Income Adjusted to CPS Money Income Allocated CPS Amounts

(For meaning of symbols, see text)

Source of income	Independent sources		CPS			
			Total		Reported	
	Billions of dollars	Percent distribution	Billions of dollars	Percent distribution	Billions of dollars	Percent distribution
Total income	(NA)	(X)	1,573.2	(X)	1,275.8	(X)
Total income, indep. est.	1,740.4	100.0	1,549.4	100.0	1,257.1	100.0
SOURCES WITH INDEPENDENT ESTIMATES						
Wages or salary	1,215.3	69.8	1,183.7	76.4	981.7	78.1
Nonfarm self-employment	104.2	6.0	93.9	6.1	65.7	5.2
Farm self-employment	25.9	1.5	15.7	1.0	11.8	0.9
Social Security/railroad ret.	99.7	5.7	89.7	5.8	74.0	5.9
Supplemental Security income	7.2	0.4	5.0	0.3	4.2	0.3
Aid to families with dependent children	12.3	0.7	9.5	0.6	8.1	0.6
Interest	127.1	7.3	52.8	3.4	35.6	2.8
Dividends	43.5	2.5	19.1	1.2	12.6	1.0
Net rent and royalties	15.6	0.9	12.1	0.8	9.5	0.8
Veterans' payments	12.1	0.7	9.1	0.6	7.4	0.6
Unemployment compensation	10.3	0.6	7.1	0.5	5.8	0.5
Workers' compensation	9.7	0.6	4.1	0.3	3.4	0.3
Private pensions and annuities	26.3	1.5	19.6	1.3	15.2	1.2
Federal gov't. and military retirement	21.5	1.2	19.8	1.3	15.6	1.2
State and local gov't. employee retirement	10.7	0.6	8.3	0.5	6.7	0.5
SOURCES WITHOUT INDEPENDENT ESTIMATES						
Estates and trusts	(NA)	(X)	5.8	(X)	4.4	(X)
Alimony and child support	(NA)	(X)	5.7	(X)	5.0	(X)
Contributions from persons not living in household	(NA)	(X)	3.3	(X)	2.7	(X)
All other money income	(NA)	(X)	8.9	(X)	6.6	(X)

in 1979 With Independent Estimates of Aggregate Concepts, by Type of Income and Reported and

Allocated		CPS reported and allocated as a percent of CPS total			CPS as a percent of independent sources		
Billions of dollars	Percent distribution	Total	Reported	Allocated	Total	Reported	Allocated
297.3	(X)	100.0	81.1	18.9	(X)	(X)	(X)
292.3	100.0	100.0	81.1	18.9	89.0	72.2	16.8
202.0	69.1	100.0	82.9	17.1	97.4	80.8	16.6
28.2	9.7	100.0	70.0	30.0	90.1	63.1	27.1
3.9	1.3	100.0	75.2	24.8	60.6	45.6	15.1
15.7	5.4	100.0	82.5	17.5	90.9	75.0	15.9
0.8	0.3	100.0	84.6	15.4	69.4	58.3	11.1
1.4	0.5	100.0	85.6	14.4	77.2	65.9	11.4
17.2	5.9	100.0	67.3	32.7	41.5	28.0	13.5
6.6	2.2	100.0	65.7	34.3	44.1	29.0	15.2
2.6	0.9	100.0	78.2	21.8	77.6	60.9	16.7
1.6	0.6	100.0	82.1	17.9	74.7	61.2	13.[illegible]
1.3	0.4	100.0	81.9	18.0	68.7	56.3	12.[illegible]
0.7	0.2	100.0	83.1	16.9	42.3	35.1	7.2
4.4	1.5	100.0	77.6	22.4	74.5	57.8	16.7
4.3	1.5	100.0	78.5	21.5	[illegible].0	72.6	20.0
1.7	0.6	100.0	79.9	20.0	77.6	62.6	15.9
1.4	(X)	100.0	76.3	23.7	(X)	(X)	(X)
0.7	(X)	100.0	87.9	12.1	(X)	(X)	(X)
0.6	(X)	100.0	82.4	17.6	(X)	(X)	(X)
2.4	(X)	100.0	73.5	26.5	(X)	(X)	(X)

Table 1. PERCENT DISTRIBUTION OF POVERTY HOUSEHOLDS, AND PERCENT OF POVERTY HOUSEHOLDS PAYING FEDERAL INCOME AND SOCIAL SECURITY PAYROLL TAXES: 1974 AND 1981

Characteristic	1974			1981		
	Percent of total	Percent paying Federal taxes	Percent paying Social Security taxes	Percent of total	Percent paying Federal taxes	Percent paying Social Security taxes
Total	100.0	5.8	40.9	100.0	6.5	42.0
Race and Spanish Origin of Householder:						
White	72.9	6.0	39.9	71.7	6.9	42.9
Black	25.8	5.1	42.7	25.8	5.2	39.1
Spanish origin	7.7	9.4	51.1	8.4	9.8	50.6
Type of Household:						
Family households	59.5	7.1	54.4	60.3	7.3	55.5
Married-couple families:						
With no related children under 18	11.4	5.8	39.5	10.7	5.7	37.9

With related children under 18	19.4	12.0	77.6	19.8	12.5	77.9
Female householder, no husband present, with related children under 18.	25.3	3.6	44.7	24.8	3.3	46.3
Nonfamily households	40.5	3.8	21.1	39.7	5.3	21.5
Age of Householder:						
15 to 24 years	13.4	8.4	63.4	10.6	8.4	62.0
25 to 34 years	17.2	8.2	55.7	21.6	8.2	59.7
35 to 44 years	13.7	9.9	64.6	15.0	10.0	64.3
45 to 54 years	12.4	8.0	54.4	11.3	10.2	55.5
55 to 64 years	14.3	6.8	37.8	13.4	7.9	34.5
65 years and over	31.0	0.3	10.0	28.2	0.4	7.3
Number of Earners:						
No earners	52.0	0.3	-	53.1	0.6	-
1 earner	34.8	10.7	81.0	33.7	11.7	86.8
2 earners	10.3	15.2	96.7	10.5	16.2	96.2
3 earners or more	2.9	12.9	100.0	2.7	19.5	99.0
Size of Households:						
One person	39.7	3.7	20.4	38.2	5.1	20.0
Two persons	19.6	5.0	38.2	20.8	4.1	41.3
Three persons	11.5	6.0	55.3	13.2	2.7	53.5
Four persons	9.9	5.8	57.2	11.7	8.2	63.0
Five persons or more	19.3	10.7	69.1	16.1	14.8	70.4

Figure 1. Percent of Households Below the Poverty Level Paying Federal Income Taxes

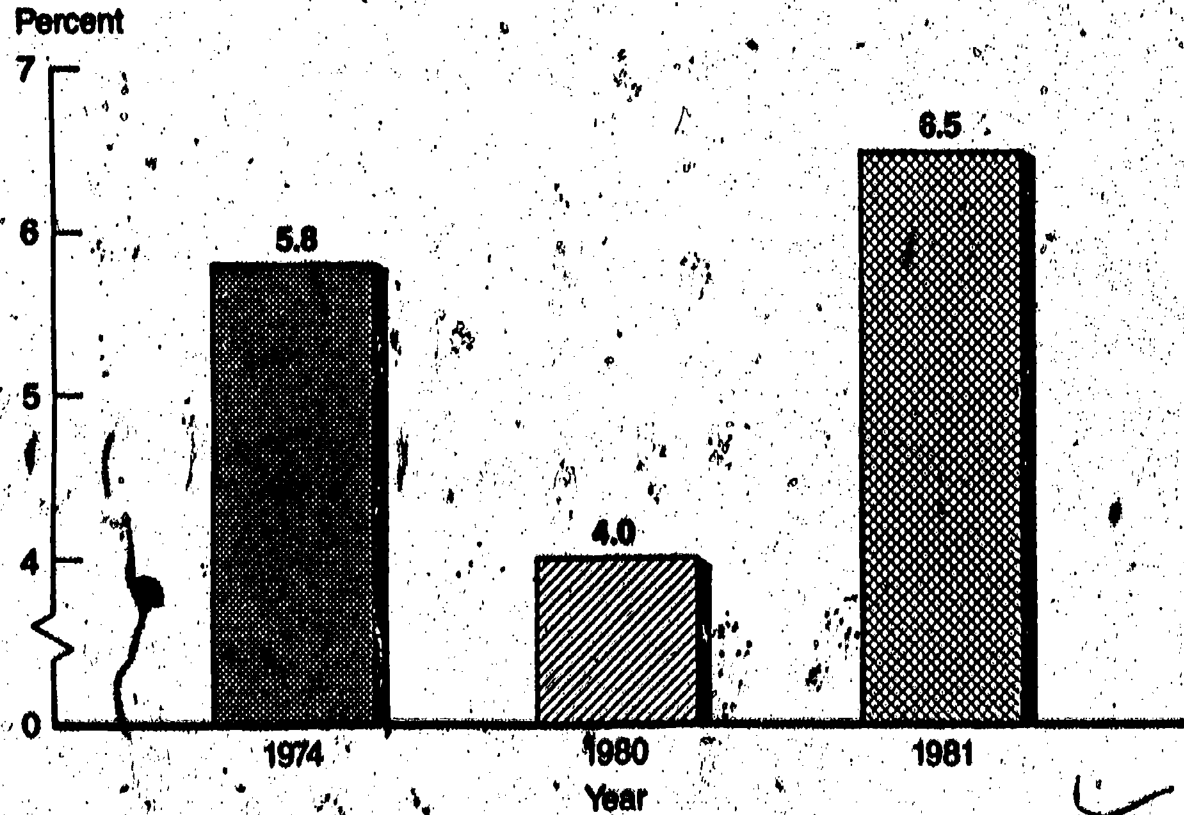

Figure 2. Percent of Households Below the Poverty Level Paying Social Security Payroll Taxes

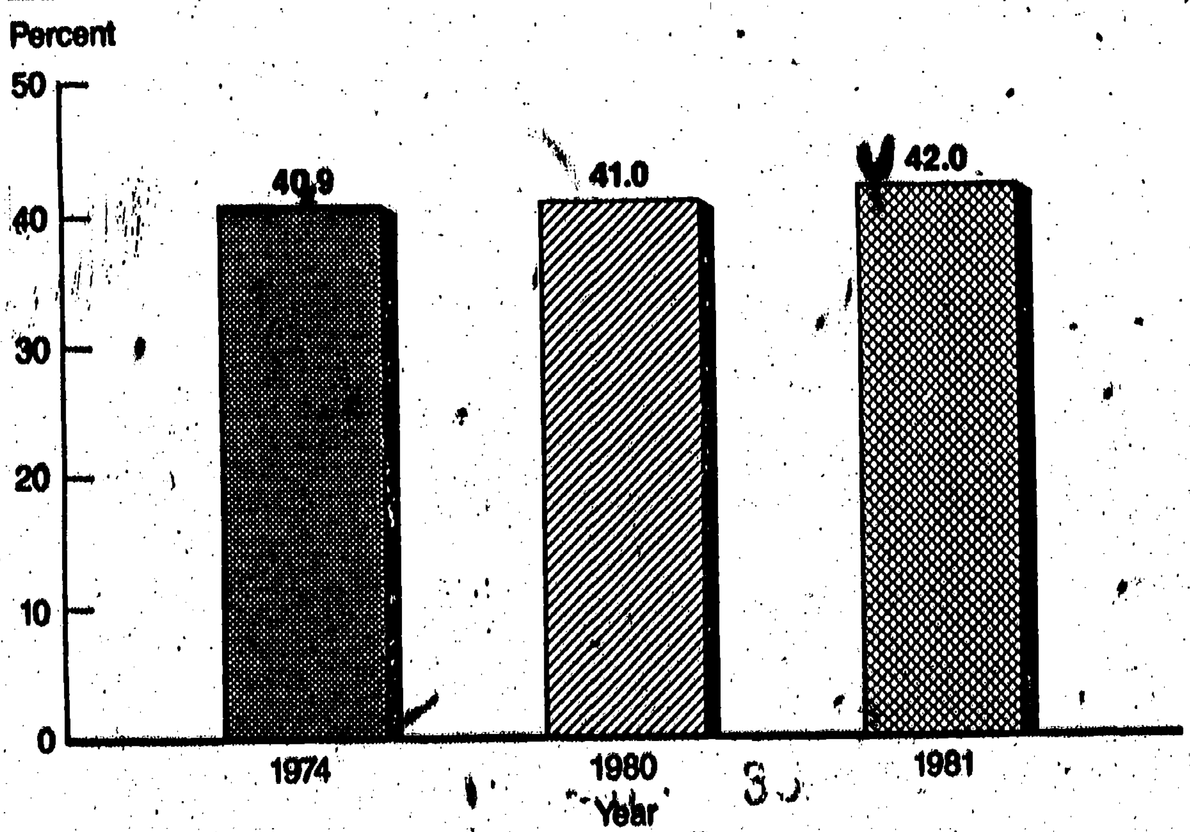

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Figure 3. Mean Amount of Federal Income Taxes Paid by Households Below the Poverty Level

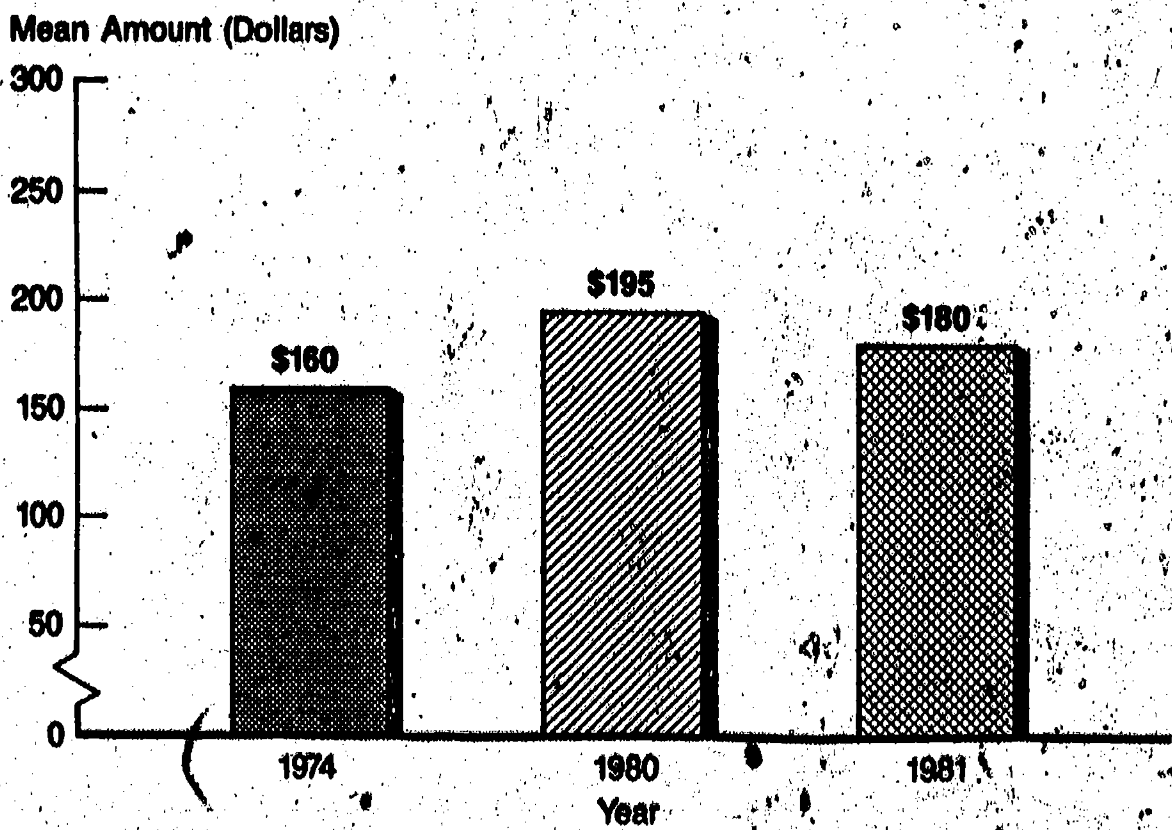

Figure 4. Mean Amount of Social Security Payroll Taxes Paid by Households Below the Poverty Level

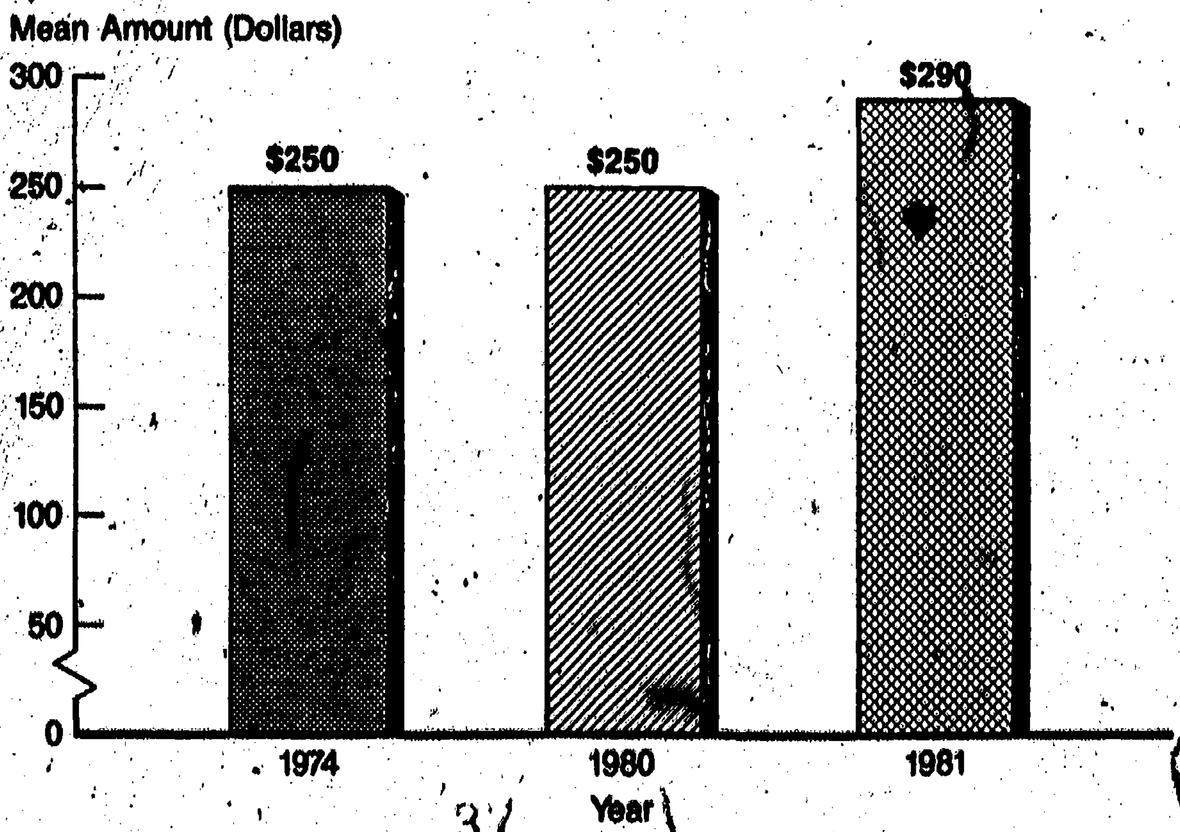

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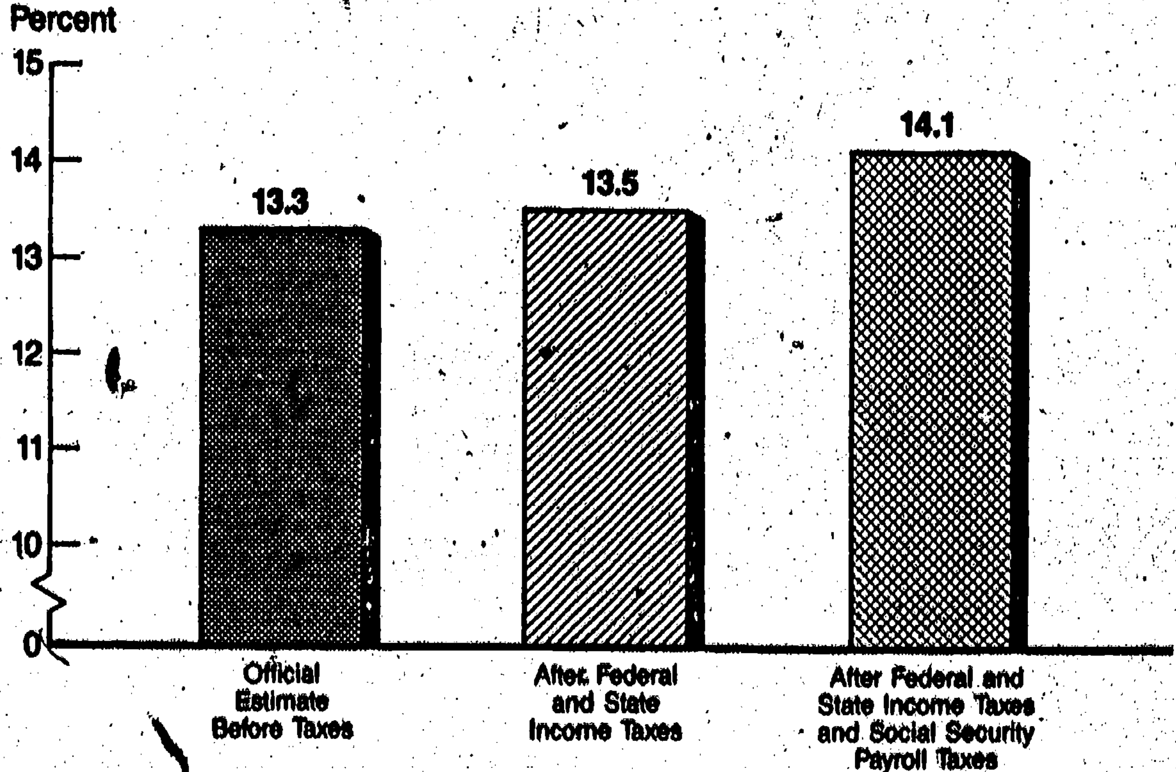
Figure 5. Percent of Households Below the Poverty Level Before and After Accounting for Specified Taxes: 1980



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Mr. RANGEL. Thank you, Mr. Kincannon.

Your statement, on page 4, says that the definition of poverty is the statutory responsibility of the Office of Management and Budget.

Mr. KINCANNON. Yes, sir.

Mr. RANGEL. But they reached this definition based on the data that you collect; is that not correct?

Mr. KINCANNON. Yes, I think that's correct.

Mr. RANGEL. So to a large extent, whatever final definition they make in terms of who is poor and who needs assistance, the credibility of your data—or to put it another way, their decision is only based on how good the information is that you are able to furnish them; is that correct?

Mr. KINCANNON. We hope that their decision is firmly based on high quality data, and I should observe that it is not based alone on—I mean it would not necessarily be based alone on our data; there are other sources of data that could be brought to bear on that question.

Mr. RANGEL. But do they, the OMB, tell you the criterion which they want you to go out with to collect the information?

Mr. KINCANNON. We collect income data, and they have declared that what we have collected is used as the poverty threshold.

Mr. RANGEL. But do they give you direction on how you should be doing your job as it relates to collecting data for them to make the decision as to what the definition is of poverty?

Mr. KINCANNON. They give to the Census Bureau and other statistical agencies of Government guidance generally on the kind of data needed to be collected for a whole range of Federal programs, and policies, and analysis needs, and that would include poverty.

Mr. RANGEL. To what extent are you willing to assume the responsibility of determining who is poor in America from the Bureau of the Census point of view?

Mr. KINCANNON. I don't think the job of determining who is poor in America is a job that is suitable for the Census Bureau. I do not think it is primarily, or certainly not solely, a technical question. It involves many aspects beyond the technical skills that statisticians and economists can bring to it.

Mr. RANGEL. Well, could not the political guidelines be given to you to do an effective professional job, and yet the conclusions would be a political conclusion rather than one that would be based on sound collection of data?

Mr. KINCANNON. I'm not sure I understand your question.

Mr. RANGEL. Well, who hires these economists that you will be working with?

Mr. KINCANNON. We hire the economists for the Census Bureau that we work with. I'm really not trying to dodge your question, sir.

Mr. RANGEL. No, no. I don't have any problem with the Office of Management and Budget making political decisions; they are political appointees. I do have a problem with dedicated public servants, such as yourself, being charged with making decisions that exclude a large number of people who are really poor and making it appear that they are not poor. You are saying, if I understand your testimony correctly, that you don't make that decision, you just go out and collect data, and OMB makes that decision; is that correct?

Mr. KINCANNON. No. It's a little more complicated than that. In the particular instance about collecting and valuing noncash income, we are operating, in our view, under the instruction provided in law by the Congress in September 1980, rather than any direction from OMB.

Mr. RANGEL. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Mr. Kincannon, you had eight economists that were selected by your office for a May 18 hearing that was going to be closed to the public. It was a task force discussion session. What role did OMB play in the selection of those eight economists?

Mr. KINCANNON. At a technical level in the Census Bureau, we consulted with OMB about an appropriate list of experts, qualified experts, in the topics, who could be in that group.

Mr. MATSUI. Did OMB make any independent recommendations, or did you submit—your office submit to them the list and they signed off on the list? What was the process through which the ultimate eight were selected?

Mr. KINCANNON. To my knowledge, they did not make independent suggestions, but I was not directly involved in those negotiations, so the process, as far as I understand it, was submitting a list.

Dr. Green, you may want to comment on that.

Mr. GREEN. Yes, we did put together a list of economists who we felt were experts in the particular areas that we needed to look at for the problem of valuing noncash benefits, and then we conferred with the Office of Management and Budget on the selection.

But it was really a Census Bureau selection, a Census Bureau group of what we felt were the leading experts in the country that could give us a serious technical review of the three issues that we wanted them to look at.

Mr. MATSUI. Did you submit 8 names to them, or 16 names to them, and then they signed off on them, or what was—what actually happened?

Mr. GREEN. Well, as the discussions were going on, there were more than eight originally, as we talked about people who would be good selections, but we came up with a list of eight who we felt were preeminent.

Mr. MATSUI. I understand that was your final conclusion; you got eight; but how was that list derived? I mean, how many did you have, and then did you submit 16 names to OMB and then OMB—what happened?

Mr. GREEN. I also was not involved in all the deliberations, Congressman.

Mr. MATSUI. Was there anything in writing—in other words, did you submit a letter of transmittal along with the names.

Mr. GREEN. We did put together a list of the eight people and their affiliations and discussed why we thought they would be good choices.

Mr. MATSUI. Why was a list submitted to the OMB office in the first place?

Mr. GREEN. Well, the Office of Statistical Policy at OMB oversees statistical work, so it seemed entirely appropriate, but I will note that we were dealing with career people there, not political people.

Mr. KINCANNON. Let me say that it's not at all unprecedented for us at the Census Bureau, over a period of many years, to have consulted with the Statistical Policy Office, whatever its name has been, in OMB, or when it has been lodged elsewhere, about particular experts to hire on particular projects having to do with improvement of statistical series. That's simply not unprecedented.

Mr. MATSUI. You were aware of Mr. Stockman's testimony of last year, however, when you did submit the list of the eight economists to OMB—is this correct—the testimony in which he discussed noncash benefits as being part of income?

Mr. KINCANNON. I was not particularly aware of that separate piece of testimony. I'm not surprised at that theme in his testimony, and that same theme—same point may have been made in other testimony as well.

Mr. GREEN. I can also say, to my knowledge, that the contents of his testimony were never brought up in selecting the individuals.

Mr. MATSUI. Do you plan to reconvene a group of economists any time this year to discuss this issue to any degree at this time, or are you still formulating your——

Mr. KINCANNON. Well, we are still deciding the best way to get advice. We want to have advice from economists of that stature, the people who have worked in appropriate fields, to give us their technical views on what we are doing. We think that would be valuable to us.

I think we have shown by our cancellation of this meeting that we do not think we can afford to have that action misunderstood, and we have to find a way that we can do that and not mislead people about something going on in that meeting that should not go on.

Mr. MATSUI. If the Congress should ask the Census Bureau to do something by way of legislative language or report language that you people feel is inappropriate, you would advise the Congress of that—is this correct—so that they could rethink the situation.

Mr. KINCANNON. Yes, sir.

Mr. MATSUI. You heard Mrs. Orshansky's testimony before yours where, when she devised the definition of poverty in the 1960's, she indicated that she did not take into consideration and would not expect anybody to take into consideration in that definition noncash benefits; is this correct? You heard that testimony?

Mr. KINCANNON. Yes, I did hear that testimony.

Mr. MATSUI. But, nevertheless, in your dealings with the issue of poverty, you are now seeking to at least come up with a definition of these noncash benefits in terms of how it would affect the poverty rate; is this correct?

Mr. KINCANNON. Well, yes, we are doing that as directed by the Congress.

Mr. MATSUI. Exactly, but——

Mr. KINCANNON. In fairness, we are interested in measuring noncash income of all kinds, whatever we are technically able to do, and are moving to do so.

Mr. MATSUI. But you did hear her testimony where she indicated that it certainly would be inappropriate, and she was the author of this language; I mean, she was the author of this formula; so she is saying, basically, you shouldn't even be including these noncash benefits as part of the income level for the definition of poverty.

Mr. KINCANNON. Well, I'm not sure that that point of view can be accepted without careful examination.

Let's just sort of turn it another way. If, for example, the Congress terminated the Food Stamp Program and we continued measuring income the way the Census Bureau measures it in the CPS now, it would not show that anyone was worse off.

Now, if you look at it from that point of view, I don't think we want to fail to examine other ways of measuring income.

Mr. MATSUI. Well, there was a reduction in food stamps; there has been a reduction in some housing programs, section 8, 202; there has been a reduction in medicare benefits; but I haven't heard the Census Bureau come out and say, "Well, gee, that means the poverty rate has gone up."

Have you come up with any report——

Mr. KINCANNON. Well, I think, as a matter of fact, in our testimony, either in April or before Chairman Rangel last October, that we did say that changes in some programs may have been a cause in the increase in poverty in 1980-82.

The reason we can't be very certain about that is that, again, we are relying on the current population survey, which is conducted once a year and deals with a calendar year income, and most of these programs have eligibility periods that are shorter than a year, so it is very difficult to really tell what components of that sort go into causing a change.

That weakness on the part of the CPS is one of the reasons for beginning the new survey of income and program participation. It gets monthly data with a 4-month recall period, interviews every person in the household rather than just one representative member of the household, and it is designed to obtain information about participation in Federal programs like food stamps, and so on.

Mr. MATSUI. Well, you know, it's my hope—and you have indicated to me personally—that you certainly want to work with the Congress to make sure that there is no misunderstanding of what you are doing and what your Bureau is doing.

At the same time, you know, I reiterate my caution to you that I hope you can understand why a number of groups on the outside and why a number of Members of Congress are concerned about what you are doing now.

Mr. Stockman, late last year, comes up with what he considers a revolutionary, scholarly report on redefining poverty to reduce it from 15 to 11 percent. Some months later, you come up with a panel of eight that is selected in conjunction with the Office of Management and Budget. You then call a closed, secret hearing on May 18, and one day you are supposed to come up with a valuation of four different categories of inkind benefits.

I hope you understand that by all of those actions, independently, you have created a credibility problem for your Bureau, which I consider, along with Mr. Rangel, to have been in the past a very professional Bureau that business, labor, and everybody else has to depend upon for statistical information. I certainly hope that before you reconvene this meeting, that you consult with the appropriate Members of Congress that are involved, because we are three branches; we are the third, and I think it's extremely important that you, in fact, work closely with us on this particular matter.

With that, I'd like to thank you. And I understand you are a professional in the Census Bureau, and you certainly do not want to get involved in political matters, but I'm just afraid that, because of some actions that have been taken, you have put yourself in the middle of a political situation. It's regrettable, but, at the same time, I hope that this lesson will not go unnoticed so that in the future this will not happen.

Mr. KINCANNON. I'm pleased to be able to say, although some occasional pain occurs as a consequence, that we are not terribly politically sophisticated at the Census Bureau.

I can certainly understand how information on the part of some people about given events seen in a certain relationship could be misunderstood and how we would have been better off had we placed any actions we were taking in the context of all the actions we were taking.

Mr. MATSUI. And let me say, Mr. Kincannon, that this isn't entirely your fault or the fault of the outside groups. This administration has a tendency—and you don't have to acknowledge this—but has a tendency to redefine things in order to come up with the wrong conclusions, and I think that's why there is an additional suspicion that many of us have had. The unemployment rate has been redefined, and a number of things have been redefined.

I know you don't have to respond to that; I certainly don't want you to; but that's part of the problem that we have faced as a result of the situation.

Mr. KINCANNON. Thank you, sir.

Mr. RANGEL. Mr. Kincannon, you had the opportunity to listen to Mrs. Orshansky, who thought that these standards that we are using could be updated; do you agree?

Mr. KINCANNON. I don't think that I would come necessarily to the conclusion that because something is 20 years old, it should, per se, be updated.

Mr. RANGEL. I did not think her testimony was because it was 20 years old. She said because things have changed and that we should take another look at it. She thought that we could find more effective criteria; not just because it is old.

Or, to put it another way, do you think the data that you are now using—the standards that you are using to determine the poor, are the best?

Mr. KINCANNON. Do I think the current threshold for poverty is the best? I simply cannot answer that.

Mr. RANGEL. OK. Well, maybe the Congress can help you answer by requiring some type of an update, so that we can feel more secure that we are using the best available data to determine the economic status of Americans out there.

Maybe Mr. Matsui and I can get together and talk about a commission. I'd like to see what our Bureau of Census can do in a nonpolitical way to evaluate standards and report to the Congress, and that way we'all will have an opportunity to participate in this process.

Thank you very much for your testimony.

Mr. KINCANNON. Thank you, Mr. Chairman.

Mr. GREEN. Thank you, sir.

Mr. RANGEL. Our last witness is Eric Hanushek, Deputy Director of the Congressional Budget Office.

Mr. Hanushek, your full statement will be entered into the record, without objection, and you may highlight your testimony or proceed as you feel most comfortable. Thank you for appearing before us today.

STATEMENT OF ERIC A. HANUSHEK, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY JANICE PESKIN

Mr. HANUSHEK. Thank you, Mr. Chairman.

I'd like to introduce Janice Peskin from the CBO staff, who has joined me today also.

Mr. RANGEL. Welcome to the committee.

Ms. PESKIN. Thank you.

Mr. HANUSHEK. Mr. Chairman, the measurement of poverty is inherently subjective, and any estimate of the number of poor persons will be imprecise. Nonetheless, the attempt is worthwhile. It enables the Nation to assess how well it is doing in alleviating need, and it can also help in directing limited Government resources to assist those people who are most lacking.

The current method for measuring poverty has a number of shortcomings, however. One concern is that an important part of Federal assistance to low-income people—programs that provide benefits in kind rather than in cash—is not counted when considering how well off they are.

As a result, some of those who are counted as poor may, in fact, be better off than others who have more cash income but benefit from fewer inkind programs. Other shortcomings have the opposite effect, however—understating the needs among the low-income population.

My remarks today will cover three topics: First, how poverty is measured, second, criticisms of the current measure and options for altering it, and third, possible effects of changing the poverty measure.

Since we have spent a lot of time this morning already discussing the nature of the current poverty index, I'll skip over that section of my testimony and go to page 3, which starts with criticisms of the current measure.

A number of difficulties exist with the current method of measuring poverty, including how the minimum thresholds are set, the treatment of taxes, and the exclusion of inkind benefits from income.

While most recent attention has focused on the treatment of inkind benefits, the other problems may be equally important.

ESTABLISHMENT OF POVERTY THRESHOLDS

The poverty thresholds themselves have been criticized because they are based on a direct estimate only of food requirements. Minimum needs for shelter, clothing, medical care, and other goods and services are not assessed directly.

A related problem is that the current poverty thresholds are out of date. For one thing, the proportion of income spent on food by the average family has changed since 1955.

If the 1977-78 food consumption survey was to set the poverty thresholds in the same way as the earlier one was, the poverty lines would be fixed at 3.7 times the minimum food costs—about 23 percent above the current levels.

Other updates might have the opposite effect, however. For example, if the present version of the Consumer Price Index—which measures housing costs more accurately than earlier ones—had been used since the late 1960's to update the poverty thresholds, the poverty line for a family of four would be about 9 percent lower than it is now.

Another concern is that the poverty thresholds do not recognize cost-of-living differences among different parts of the country. Geographically specific poverty thresholds might provide a more refined picture of need, but, unfortunately, adequate data are not now available to estimate those with any precision.

Cost-of-living differentials could, however, be great. For example, in 1982, the recently discontinued Bureau of Labor Statistics "lower living standard" budget for a four-person family—a concept that differs significantly from the market basket used for poverty standards—ranged between about $13,700 and $17,100 within the continental United States.

TREATMENT OF TAXES

The current treatment of taxes presents another problem, because it is inconsistent. While the poverty thresholds are based on an estimate of minimally adequate after-tax income, the determination of whether a particular person or family is poor is made in terms of pretax income—ignoring the fact that money paid in taxes is not available for private spending.

Although persons with incomes near the poverty line generally pay little in Federal income taxes, 6.7 percent of their earnings go for payroll taxes.

The treatment of taxes could be made consistent either by considering a person's or family's after-tax income in judging poverty status, or by raising the poverty thresholds to make them measures of minimally adequate levels of before-tax income. Either approach would increase the count of poor persons.

EXCLUSION OF IN-KIND BENEFITS

A final issue concerns the exclusion of the value of in-kind benefits from income in measuring poverty. While such benefits were probably a relatively small part of income when the poverty thresholds were first established, they have been a major component of our efforts to alleviate poverty and have grown appreciably in recent years.

For example, in constant 1982 dollars, spending on the major means-tested noncash benefit programs increased from $5.3 billion in 1965 to $46.9 billion in 1982.

In a pair of recent reports, the Census Bureau used three different techniques to estimate the value of federally provided in-kind benefits.

The first technique—the market-value approach—estimates what it would take to purchase the in-kind benefits in the private market.

Valuing noncash benefits at their market prices tends to overstate their contribution to reducing poverty, since the Government may be providing amounts of one good or service well in excess of what the individual would have purchased privately, while leaving other needs unsatisfied.

The second valuation method attempts to measure the cash equivalent value to the recipient of inkind benefits—that is, the amount of cash that a recipient would be willing to give up to obtain them.

Census researchers approximate this concept by estimating the normal expenditure on the item by consumers with incomes and other characteristics similar to the program beneficiaries but who did not receive the inkind benefits.

The third approach—the so-called poverty-budget-share value—is like the cash equivalent value, except that the "normal" expenditure is what unassisted consumers with cash incomes at the poverty line pay for the good or service.

Analysts tend to prefer the cash equivalent concept as being the best approximation of the value of the benefit to the recipient, though estimates may be difficult to develop.

Estimation problems are least severe when the good is provided at a level that is not likely to exceed greatly what a low-income person would otherwise purchase, as in the case of food stamps. Estimation problems are greatest when the opposite is true, as with medical benefits.

FOOD STAMPS

Food stamps are the easiest of the noncash benefits to value, with the three valuation techniques yielding similar results. Since the stamps are directly redeemable for food, their market value is equal to their face value.

Also, since the amount of stamps a person receives generally does not exceed the amount that a low-income person would otherwise spend for food, the stamps' cash equivalent and poverty-budget-share values are both close to their market value.

HOUSING ASSISTANCE

Valuing housing subsidies presents a greater problem. Under most housing assistance programs, the Government pays a share of the housing costs for many low-income renters living in publicly or privately owned projects.

Estimating the market value of the subsidy thus requires estimating what each subsidized dwelling would have rented for in the private market. This is a difficult task, particularly in the case of publicly owned projects and in the cases where few equivalent unsubsidized units exist in the same market. Estimating the cash equivalent or poverty budget share compounds this problem by also requiring estimates of typical housing expenditures for unsubsidized tenants. Applying these techniques, the Census Bureau estimates that the average value of housing assistance in 1982 was about $1,530 per household under the market-value technique, $1,140 under the cash equivalent approach, and $1,060 under the poverty-value method.

HEALTH CARE

Medicare and medicaid are perhaps the most difficult in-kind benefits to value, and the results are especially sensitive to the technique used. In all cases, these benefits are valued as an insurance policy rather than as the actual claims paid on behalf of a particular individual. This avoids counting as better off those persons who are ill in a given year and thus have large medical bills paid by the Government.

Valuing benefits at their market value could, nonetheless, produce misleading estimates of poverty, because the market value far exceeds what low-income persons would otherwise spend on medical care.

For a single person aged 65 or over with cash income below the poverty line, for example, the market value of medicare and medicaid together averaged more than $2,500 in 1982. Because the current poverty threshhold for such a person was about $4,600 in that year, using the market value approach would go far toward defining away poverty for this group.

By contrast, the Census Bureau estimates of the cash equivalent and poverty-budget-share values of medicare and medicaid were much lower—about $460 and $500, respectively.

However, for technical reasons, these themselves may be too low. For example, the household expenditure surveys used to develop these estimates are quite old, from a time when the proportion of expenditures going for medical care was much lower.

These difficulties in valuation make health benefits the least attractive candidate for inclusion in measures of income.

IMPLICATIONS FOR THE POVERTY THRESHOLD

However they are valued, including noncash benefits other than food stamps as income would necessitate a reconsideration of the poverty threshholds in order to maintain consistency.

The consumer expenditure survey that established the poverty level at three times the cost of the minimum adequate diet compared food expenditures to cash income only. Thus, consistency suggests that a new, larger multiplier would have to be developed to reflect the inclusion of all in-kind benefits—including private ones such as employer contributions to health benefit plans and charity health care—in the expanded definition of income.

EFFECTS OF CHANGING THE POVERTY MEASURE

If the Census Bureau altered its procedures for measuring poverty, the count of poor persons would necessarily change, but the impact on Federal programs would depend upon the specific alteration.

Poverty counts

Any change in the procedure of measuring poverty would alter estimates of the number of poor, but the magnitude and even the direction of change would depend on the specific revisions made.

The Census Bureau estimates that if the value of all major in-kind benefits was included in income, but the poverty threshholds were left unchanged, the poverty rate for 1982 would drop from 15 percent to somewhere between 10 and 13 percent, depending upon the valuation technique used.

If the poverty threshholds were also changed—or if other aspects of the present procedures such as the treatment of taxes were changed—poverty estimates would decline by a smaller amount or might even increase.

Program effects

Changing how poverty is measured could affect the operation of both entitlement programs and grants to States and localities, but the impacts would be greatest if the programs' enabling legislation were also changed to make use of the amended measure to target aid or set benefit levels.

Entitlement assistance programs

Of the major Federal entitlement programs, only the Food Stamp Program and certain of the child nutrition programs include statutory references to the poverty guidelines. In both cases, eligibility is limited to persons from households with cash incomes no greater than the specific multiples of the Office of Management and Budget poverty guidelines.

Thus, even in these programs, including the value of in-kind benefits as income for the purpose of estimating the size of the poverty population would not automatically change the number of persons qualifying for assistance.

If, however, the poverty threshholds were also changed, or other modifications were made, the number of persons, and thus the total program costs, would be affected.

If authorizing statutes for the benefit programs were also amended to reflect changes in the definition of poverty, the effects on assistance to the poor could be widespread. If, for example, the value of one in-kind benefit were counted as income in determining eligibility for other assistance, fewer persons would be eligible and those qualifying would receive less.

Any such move, however, would require careful specification of a hierarchy of noncash benefits so that, for example, food stamps were not counted as income in setting housing assistance payments at the same time that housing subsidies were counted in determining food stamp benefits.

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Grants to States and localities

Federal poverty guidelines are also used to target assistance in programs that provide grants to States and localities to finance specific public services. Here, altering the definition of poverty would not affect program costs, which are controlled through annual appropriations, but they might affect who benefits from these programs.

In some cases—such as Head Start and the Maternal and Child Health Care Services Program—States and localities are required to target the use of Federal funds on poor persons or on persons with incomes below some multiple of the poverty threshhold. In these instances, a change in the procedures for judging whether persons are poor would affect eligibility if it were carried over to program operating rules.

In other instances—such as Community Development Block Grants and Urban Development Action Grants—the number of poor persons in a city or State is used as one factor in determining whether a jurisdiction is eligible for assistance or in setting each jurisdiction's share of available funds.

In these cases, changing census poverty estimates could affect the allocation of Federal aid, but only to the extent that the distribution of poor persons under the new definition differed from the distribution of the poverty population under the present definition.

Furthermore, in some cases, reliable State- and city-level estimates of the poverty population under an amended definition would take some time and expense to develop.

For example, if the value of in-kind benefits were counted as income, poverty counts for cities would not be available until the next decennial census, and then only if the census were greatly expanded to include questions on the recipiency of in-kind benefits.

Conclusion

In conclusion, numerous questions have been raised regarding current procedures for measuring the extent of poverty. In some cases, such as the exclusion from income of those Federal benefits that are closest to cash—and here I really am talking about the Food Stamp Program—immediate changes could be made.

In other cases—such as where to set poverty threshholds, how to correct for the current inconsistent treatment of taxes, and how to treat more difficult-to-value in-kind benefits, such as medical payments—additional research may be called for.

In any event, because of the importance of poverty measures, the Government may wish to delay any immediate shift in current practices and, instead, consider the entire range of possible changes together as part of a broad reassessment of how to define need.

[The statement of Mr. Hanushek follows:]

TESTIMONY OF ERIC A. HANUSHEK, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

The measurement of poverty is inherently subjective, and any estimate of the number of poor persons will be imprecise. Nonetheless, the attempt is worthwhile. It enables the nation to assess how well it is doing in alleviating need, and it can also help in directing limited government resources to assist those persons who are most lacking.

The current method for measuring poverty has a number of shortcomings, however. One concern is that an important part of federal assistance to low-income persons—programs that provide benefits in kind, rather than in cash—is not counted when considering how well off they are. As a result, some of those who are counted as poor may, in fact, be better off than others who have more cash income but who benefit from fewer in-kind programs. Other shortcomings may have the opposite effect, however—understating need among the low-income population.

My remarks today will cover three topics: how poverty is now measured; criticisms of the current measure and options for altering it; and possible effects of changing the poverty measure.

THE MEASUREMENT OF POVERTY

The current federal poverty measure was developed in the 1960s as a standard of what is needed to get by, rather than as a measure of how well off any person is compared to the average. It is based on the cost of the Department of Agriculture's 1961 economy food plan, designed to meet recommended dietary allowances at the time. Since comparable standards for the cost of minimally adequate amounts of housing, clothing, or medical care were not available, the poverty line was determined by multiplying the cost of the food plan by three. This factor was derived from a 1955 household food consumption survey which showed that the typical family of three or more spent one-third of its after-tax income on food. The poverty threhold varies with the age of the household head and with family size. Initially, the thresholds were updated using estimates of the increase in food costs. Since 1969, however, they have been updated annually by the Consumer Price Index (CPI).[1] In 1982—the latest year for which income data are available—the poverty line for a family of four was $9,862.

Each year, the Census Bureau publishes estimates of the number of poor persons in the nation as a whole, using income data taken from the Current Population Survey.[2] This procedure measures total cash income, before taxes, for families and unrelated individuals. Cash assistance payments from government programs, such as Social Security and Aid to Families with Dependent Children, are included, but noncash benefits such as food stamps, housing assistance, Medicare, and Medicaid are not considered income when judging an individual's or family's poverty status. Using this method, the Census Bureau estimates that 15 percent of the population was poor in 1982.

CRITICISMS OF THE CURRENT MEASURE

A number of difficulties exist with the current method of measuring poverty, including how the minimum thresholds are set, the treatment of taxes, and the exclusion of in-kind benefits from income.[3] While most recent attention has focused on the treatment of in-kind benefits, the other problems may be equally important.

Establishment of poverty thresholds

The poverty thresholds themselves have been criticized because they are based on a direct estimate only of food requirements. Minimum needs for shelter, clothing, medical care, and other goods and services are not assessed directly. A related problem is that the current proverty thresholds are out of date. For one thing, the proportion of income spent on food by the average family has changed since 1955. If the 1977–1978 food consumption survey was used to set the poverty thresholds in the same way the earlier one was, the poverty lines would be fixed at 3.7 times minimum food costs—about 23 percent above present levels. Other updates might have the opposite effect, however. For example, if the present version of the CPI—which measures housing costs more accurately than earlier ones—had been used since the

[1] At present, the federal government uses two slightly different definitions of poverty. The Census Bureau definition, also referred to as the statistical definition, is used to count the number of poor persons and is employed in formulas that allocate federal dollars among states and localities. The Office of Management and Budget definition, often referred to as the administrative definition, is used to judge income eligibility in programs. The OMB poverty thresholds must be forecast forward from the Census levels to obtain values for the current program year.

[2] The decennial Census is used to estimate poverty rates for states and cities.

[3] Not considered here is the problem of underreporting of income in the Current Population Survey, particularly from such nonwage sources as interest, dividends, rents collected, and some transfer payments, such as Aid to Families with Dependent Children. While this underreporting may cause the poverty rate to be overestimated, it has to do with inaccuracies in the data and is not a conceptual issue regarding the measurement of poverty, which is the focus of my statement.

late 1960s to update the poverty thresholds, the poverty line for a family of four would be about 9 percent lower than it is now.[4]

Another concern is that the poverty thresholds do not recognize cost-of-living differences among different parts of the country.[5] Geographically specific poverty thresholds might provide a more refined picture of need, but, unfortunately, adequate data are not now available to estimate those with any precision. Cost-of-living differentials could, however, be great. For example, in 1982 the recently discontinued Bureau of Labor Statistics "lower living standard" budget for a 4-person family—a concept that differs significantly from the market basket used in poverty standards—ranged between about $13,700 and $17,100 within the continental United States.

Treatment of taxes

The current treatment of taxes presents another problem, because it is inconsistent. While the poverty thresholds are based on an estimate of minimally adequate after-tax income, the determination of whether a particular person or family is poor is made in terms of pre-tax income—ignoring the fact that money paid in taxes is not available for private spending. Although persons with incomes near the poverty line generally pay little in federal income taxes, 6.7 percent of their earnings go for payroll taxes.

The treatment of taxes could be made consistent either by considering a person's or family's after-tax income in judging poverty status, or by raising the poverty thresholds to make them measures of minimally adequate levels of before-tax income. Either approach would increase the count of poor persons. The latter change might be more difficult to implement, however, because it would require setting numerous different thresholds, depending on what share of income was from taxable sources.

Exclusion of in-kind benefits

A final issue concerns the exclusion of the value of in-kind benefits from income in measuring poverty. While such benefits were probably a relatively small part of income when the poverty thresholds were first established, they have been a major component of our efforts to alleviate poverty, and have grown appreciably in recent years. For example, in constant 1982 dollars, spending on the major means-tested noncash benefit programs increased from $5.3 billion in 1965 to $46.9 billion in 1982.[6]

In a pair of recent reports, the Census Bureau used three different techniques to estimate the value of federally provided in-kind benefits.[7] The first technique—the market-value approach—estimates what it would take to purchase the in-kind benefits in the private market. Valuing noncash benefits at their market prices tends to overstate their contribution to reducing poverty, however, since the government may be providing amounts of one good or service well in excess of what the individual would have purchased privately, while leaving other needs unsatisfied. The second valuation method attempts to measure the cash-equivalent value to the recipient of in-kind benefits—that is, the amount of cash that a recipient would be willing to give up to obtain them. Census researchers approximate this concept by estimating the "normal" expenditure on the item by consumers with incomes and other characteristics similar to the program beneficiaries but who do not receive the in-kind benefits. The third approach—the so-called poverty-budget-share value—is like the cash-equivalent value, except that the "normal" expenditure is what unassisted consumers with cash incomes at the poverty line pay for the good or service.[8]

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[4] See: Background Material on Poverty, a committee print of the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives (WMCP:98-15, October 17, 1983).

[5] Until 1981, lower thresholds were used for farm families to reflect household production of food.

[6] These figures include spending for food stamps, school lunches, housing assistance, and Medicaid. Other federal in-kind benefits not counted in these figures include Medicare, veterans' health care, and educational assistance for postsecondary students. In-kind benefits provided by state and local governments—other than state spending for Medicaid—are also excluded.

[7] U.S. Department of Commerce, Bureau of the Census, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," Technical Paper 50, March 1982; and "Estimates of Poverty Including the Value of Noncash Benefits: 1979 to 1982," Technical Paper 51, February 1984.

[8] For programs that serve, on average, persons with incomes above the poverty line, such as Medicare, the average cash-equivalent value will exceed the average poverty-budget-share value. Where beneficiaries' incomes, on average, fall below the poverty line, the opposite will be true.

Analysts tend to prefer the cash-equivalent concept as being the best approximation of the value of the benefit to the recipient, though estimates may be difficult to develop. Estimation problems are least severe when the good is provided at a level that is not likely to greatly exceed what a low-income person would otherwise purchase, as in the case of food stamps. Estimation problems are greatest when the opposite is true, as with medical benefits.

Food Stamps. Food stamps are the easiest of the noncash benefits to value, with the three valuation techniques yielding similar results. Since the stamps are directly redeemable for food, their market value is equal to their face value. Also, since the amount of stamps a person receives generally does not exceed the amount that a low-income person would otherwise spend for food, the stamps' cash-equivalent and poverty-budget-share values are both close to their market value.

Housing Assistance. Valuing housing subsidies presents greater problems. Under most housing assistance programs, the government pays a share of the housing costs for many lower-income renters living in publicly or privately owned projects. Estimating the market value of the subsidy thus requires estimating what each subsidized dwelling would have rented for in the private market. This is a difficult task, particularly in the case of publicly owned projects and in cases where few equivalent unsubsidized housing units exist in the same type of market. Estimating the cash-equivalent or poverty-budget-share value compounds this problem by also requiring estimates of typical housing expenditures for unsubsidized tenants. Applying these techniques, the Census Bureau estimates that the average value of housing assistance in 1982 was about $1,530 per household under the market-value technique, $1,140 under the cash-equivalent approach, and $1,060 under the poverty-value method.[9]

Health Care. Medicare and Medicaid are perhaps the most difficult in-kind benefits to value, and the results are especially sensitive to the technique used. In all cases, these benefits are valued as an insurance policy rather than as the actual claims paid on behalf of a particular individual. This avoids counting as better off those persons who are ill in a given year and thus have large medical bills paid by the government.

Valuing benefits at their market value could, nonetheless, produce misleading estimates of poverty, because the market value far exceeds what low-income persons would otherwise spend on medical care. For a single person aged 65 or over with cash income below the poverty line, for example, the market value of Medicare and Medicaid together averaged more than $2,500 in 1982. Because the poverty threshold for such a person was about $4,600 in that year, using the market-value approach would go far towards defining away poverty for this group. By contrast, Census Bureau estimates of the cash-equivalent and poverty-budget-shares values of Medicare and Medicaid were much lower—about $460 and $500, respectively. However, for technical reasons these may be too low. For example, the household expenditure surveys used to develop these estimates are quite old—from a time when the proportion of expenditures going for medical care was much lower. These difficulties in valuation make health benefits the least attractive candidates for inclusion in measure of income.

Implications for the Poverty Thresholds. However they were valued, including noncash benefits other than food stamps as income would necessitate a reconsideration of the poverty thresholds in order to maintain consistency. The consumer expenditure survey that established the poverty level at three times the cost of the minimum adequate diet compared food expenditures to cash income only. Thus, consistency suggests that a new, larger multiplier would have to be developed to reflect the inclusion of all in-kind benefits—including private ones such as employer contributions to health benefit plans and charity health care—in the expanded definition of income.

EFFECTS OF CHANGING THE POVERTY MEASURE

If the Census Bureau altered its procedures for measuring poverty, the count of poor persons would necessarily change, but the impact on federal programs would depend on the specific alteration.

[9] The way these estimates are developed means that the value attributed to housing subsidies will vary among regions and types of markets. This results in housing assistance recipients who live in more costly markets being judged better off than their counterparts who reside in places with less expensive housing—and, perhaps, with lower prices for other goods and services as well.

Poverty counts

Any change in the procedures for measuring poverty would alter estimates of the number of poor, but the magnitude—and even the direction—of change would depend on the specific revisions made. The Census Bureau estimates that if the value of all major in-kind benefits was included as income, but the poverty thresholds were left unchanged, the poverty rate for 1982 would drop from 15 percent to between 10 percent and about 13 percent, depending on the valuation technique used. If the poverty thresholds were also changed—or if other aspects of present procedures such as the treatment of taxes were also changed—poverty estimates would decline by a smaller amount, and might even increase.

Program effects

Changing how poverty is measured could affect the operation of both entitlement programs and grants to states and localities, but impacts would be greatest if the programs' enabling legislation were also changed to make use of the amended measure to target aid or set benefit levels.

Entitlement Assistance Programs. Of the major federal entitlement programs, only the Food Stamp program and certain of the child nutrition programs include statutory references to the poverty guidelines. In both cases, eligibility is limited to persons from households with *cash* incomes no greater than specific multiples of the Office of Management and Budget poverty guidelines. Thus, even in these programs, including the value of inkind benefits as income for the purpose of estimating the size of the poverty population would not automatically change the number of persons qualifying for assistance. If, however, the poverty thresholds were also changed, or other modifications were made, the number of persons—and thus total program costs—would be affected.

If authorizing statutes for the benefit programs were also amended to reflect changes in the definition of poverty, the effects on assistance to the poor could be widespread. If, for example, the value of one in-kind benefit was counted as income in determining eligibility for other assistance, fewer persons would be eligible and those qualifying would receive less. Any such move, however, would require careful specification of a hierarchy of noncash benefits so that, for example, food stamps were not counted as income in setting housing assistance payments at the same time that housing subsidies were counted in determining food stamp benefits.[10]

Grants to States and Localities. Federal poverty guidelines are also used to target assistance in programs that provide grants to states and localities to finance specific public services. Here, altering the definition of poverty would not affect program costs, which are controlled through annual appropriations, but might affect who benefits from these programs.

In some cases—such as Head Start and the Maternal and Child Health Care Services program—states and localities are required to target the use of federal funds on poor persons, or on persons with incomes below some multiple of the poverty threshold. In these instances, a change in the procedures for judging whether persons are poor would affect eligibility if it were carried over to program operating rules.

In other instances—such as Community Development Block Grants and Urban Development Action Grants—the number of poor persons in a city or state is used as one factor in determining whether a jurisdiction is eligible for assistance, or in setting each jurisdiction's share of available funds. In these cases, changing Census poverty estimates could affect the allocation of federal aid but only to the extent that the distribution of poor persons under the new definition differed from the distribution of the poverty population under the present definition. Furthermore, in some cases, reliable state- or city-level estimates of the poverty population under an amended definition would take some time and expense to develop. For example, if the value of in-kind benefits were counted as income, poverty counts for cities would not be available until the next decennial Census, and then only if the Census were greatly expanded to include questions on the recipiency of in-kind benefits.

[10] Even such a hierarchy would not eliminate all problems. While in-kind benefits have a cash-equivalent value, they cannot be used to purchase other types of goods and services. For example, if the face value of food stamps was considered as income for tenants in federally subsidized housing, their rent payments would be set at 30 percent of the total of cash income plus food stamps, rather than cash alone, as is now the case. However, because tenants would not be allowed to pay their rent with food stamps, a household with very little cash income and, thus, a large food stamp entitlement, might have to apply virtually all of its cash income toward rent, leaving it unable to purchase anything other than shelter and food.

CONCLUSION

In conclusion, numerous questions have been raised regarding current procedures for measuring the extent of poverty. In some cases—such as the exclusion from income of those federal benefits that are closest to cash—immediate changes could be made. In other cases—such as where to set poverty thresholds, how to correct the current inconsistent treatment of taxes, and how to treat more difficult-to-value in-kind benefits—additional research may be called for. In any event, because of the importance of poverty measures, the government may wish to delay any immediate shift in current practices and, instead, consider the entire range of possible changes together as part of a broad reassessment of how to define need.

Mr. PICKLE [presiding]. We thank you, Mr. Hanushek. I appreciate your lengthy statement and the questions you have raised.

In behalf of the committee, I want to ask two or three questions, and you can either respond to them now or you can submit additional data.

Should any effort being made to redefine income also include an examination of the definition of poverty? Did you express yourself whether we should specifically——

Mr. HANUSHEK. Yes, I think it's clear that at the same time that we redefine income, we should also consider how we define the thresholds and the correct methodology.

Mr. PICKLE. All right. Now, who has the authority to make changes in the definition of income when measuring poverty?

Mr. HANUSHEK. It is our understanding that the Office of Management and Budget has the authority.

Mr. PICKLE. Now, who has the authority to make changes in—the whole broad definition of poverty?

Mr. HANUSHEK. I believe that OMB currently has the authority.

Mr. PICKLE. Then I take it from your statement that you are saying, in effect, that we ought not to redefine the definition, or we ought not to get into this question at this point, except perhaps in limited instances such as something that is clearly measurable, such as food stamps; otherwise, delay the consideration. Is that generally OMB's statement?

Mr. HANUSHEK. I'm not sure if that's OMB's statement. I would be hesitant to speak for them.

Mr. PICKLE. Who are you speaking for?

Mr. HANUSHEK. I'm speaking for the Congressional Budget Office.

Mr. PICKLE. Oh, I see. But you are speaking for the CBO and not OMB, of course.

Mr. HANUSHEK. Yes. And in our view, there are a number of serious questions to resolve. There are some things that we can do immediately, but others—which are probably just as important to consider changing—will take time. I think that those should all be considered as a package most likely to avoid annually changing the definitions.

Mr. PICKLE. Let me ask you then, since you are CBO, if in-kind benefits are included in defining income, is it then true that those States that make the greatest effort to provide noncash assistance, such as liberalized medicaid programs—would that count as fewer of their citizens in poverty? Would that result in fewer of their citizens being in poverty?

Mr. HANUSHEK. Yes, as it's currently done now. And if I might add, it's important to distinguish two factors. One is, if States provide a better package of benefits, that in fact makes their citizens better off; in some way, that should be taken into consideration. The second factor is: to the extent that States pay more just because providing some services is more expensive in certain parts of the country than elsewhere; I think we ought not count that as lifting people out of poverty.

Mr. PICKLE. I want to depart a bit from the focus of this hearing. Have you got any particular position with respect to the cap—the medicaid cap that's pending before the Congress at this point—the proposal to put a cap on medicaid reimbursements for a State?

Mr. HANUSHEK. No, we don't have a position on that.

Mr. PICKLE. All right. Mr. Matsui, do you have any comments or questions?

Mr. MATSUI. Yes, thank you, Mr. Chairman.

First of all, Mr. Hanushek, I want to tell you that I think your testimony was excellent, and I appreciate it very much. I think it was very helpful to this dialog that we are having at this particular time.

Looking at your conclusion, it seems to me that you are suggesting that perhaps we look at a new way to—I don't want to use the word defining poverty, but I think the way you have put it is to define need, because obviously the formula by which we define poverty really is for the decisionmakers, the politicians, one so that we can try to come up and provide benefits to those people that are below a certain threshold; and, second, to maintain a standard—and this is where your aspect of consistency, and I believe some other people that testified—consistency is very important, because then it provides a standard by which people can judge, those people that have to make those decisions.

So, if you have a 15-percent poverty rate in 1983, if it goes down in 1984 to 11 percent, if you use a constant formula, then you can show improvement and that we are making progress, but if you change formulas left and right or every year, then you really can't hold people accountable.

I have suggested in my testimony that perhaps we set up a nonpartisan or independent commission to look at the whole area of poverty and its definition and the level of need. That might be very ambitious.

Would CBO be in a position to lend assistance, perhaps set up a methodology for the Congress to follow, so that eventually we could come up with a criteria?

Mr. HANUSHEK. We certainly can lend assistance, though an overall redefinition may be beyond our current staff. But we would certainly be willing to work with you and your staff on developing procedures to improve our measures of need.

Mr. MATSUI. I think one of the statements you made in your testimony is that in 1965, I guess, we based the definition on one-third food—one-third of a person's income goes to food purchase. Of course now it's 3.7 percent, which you said was over 20 percent more.

That alone should create a situation today that means the definition is really out of whack, along with the in-kind benefits perhaps, and along with the fact that they are paying out 10 percent of their income in the form of taxes and payroll taxes.

So I certainly would like to work with you, and I know Mr. Rangel and others on this subcommittee have expressed interest, so I thank you very much.

Mr. PICKLE. Any other questions that members wish to ask?

I thank you, Mr. Hanushek, for your testimony. I think the committee will be in touch with you if you have additional recommendations. I also think you had a good statement here.

This question obviously is going to be an ongoing and a very serious question for the Congress to consider.

If there is no other statement, then the committee will stand adjourned.

[Whereupon, at 11:55 a.m., the subcommittees were adjourned.]

[The following information was received for the record.]

National Governors' Association

James R. Thompson
Governor of Illinois
Chairman

Raymond C. Scheppach
Executive Director

June 11, 1984

Ms. Katie Hall
Chairwoman
Subcommittee on Census and Population
Committee on Post Office and Civil Service
U.S. House of Representatives
603 House Office Building, Annex 1
Washington, D.C. 20515

Dear Chairwoman Hall:

I appreciate the opportunity to provide the Subcommittee on Census and Population with a statement in reference to your hearing on "Poverty and Income".

As you and other members of the Subcommittee know, the issues associated with including non-cash benefits in measuring income are complex. Careful analysis must be undertaken before any changes are made in the definition of per capita income and/or poverty that is used to determine federal funding allocations or program eligibility.

As indicated in my statement, the data on poverty published earlier this year by the Bureau of the Census, which included the value of food stamps, housing and medical services, provides only the beginning of a complete set of data on income and poverty. I recommend that data series be developed that reflect the value of other public in-kind benefits, private in-kind benefits, and tax expenditures. Furthermore, poverty statistics based on after tax income should also be considered.

In much the same way as the U.S. Department of Labor publishes multiple data series on unemployment, additional data on income and poverty should be published as they become available. Until more complete information on the value of in-kind benefits has been developed, I strongly urge your Subcommittee to resist any change in the official definition of poverty and/or per capita income used in federal allocation formula and eligibility criteria.

Sincerely,

Raymond C. Scheppach

Statement of Raymond C. Scheppach

Executive Director of the

National Governors' Association

Those of us who have been able to travel to different regions of this country know that the Fahrenheit and Celsius temperature scales only give us part of the weather picture. Differences in the amont of humidity in the air and the velocity of the wind, for example, can make for entirely different weather conditions in states, even among those who are experiencing identical temperatures. Still, we look to the thermomotor to give us an initial understanding of current weather conditions.

Similarly, the measure of poverty that has been provided over the last 15 years by the U.S. Bureau of the Census has given us a consistent way of examining the living conditions of the least fortunate members of our society. It has been one measure used by governors to examine the results of their education, training and general economic development policies.

Of course, a count of how many people fall below a specified income level cannot tell the full story of economic well-being. The official estimates of poverty, which are based on cash or money income alone, do not indicate the value of non-cash benefits supplied by public (and private) sources nor the net income of individuals and families after taxes.

A more complete picture of our national economic well-being would be yielded by knowing the number of people remaining in poverty after in-kind benefits and taxes were taken into account. Further, poverty data, to be most useful, should be presented in both absolute and relative terms in order for the most informed policy choices to be made. In order to make meaningful comparisons across income groups, all in-kind benefits should be included, many of which accrue to the non-poor as well as the poor. Some of the better known examples of public in-kind benefits that are primarily targeted on the non-poor include: higher education subsidies, loan programs for veterans and corporations, farm price supports, and various tax expenditures (e.g. interest on home mortgages and investment credits). Private in-kind benefits include employer subsidized health care benefits, life insurance benefits, parking, etc. Developing comprehensive income data will not be easy but that does not mean that we should act on partial information, as it becomes available on an ad hoc basis.

Ad hoc changes in the definition of poverty or per capita income could have any number of intended and unintended consequences. For example, changing the definition of poverty by including some in-kind benefits could affect the distribution of federal anti-poverty funds across states. The table provided below compares the incidence of poverty across regions under the current definition and under alternative definitions.

As can be seen, changing the definition of poverty by including food stamps, housing and medical benefits, could cause a shift in funds for anti poverty programs such as compensatory education away from the Northeast toward one or more regions of the country. On the other hand, a revised definition of per capita income that included food stamps would reduce federal matching funds for Medicaid and Aid to Families with Dependent Children to states in the South.

Geographic
Distribution of Poverty

Geographic Region	Current Poverty Definition	Market Value Concept	Recipient Value Concept	Poverty Budget Share Concept
North East	18.5%	15.6%	17.6%	17.3%
North Central	22.6	22.7	23.1	23.0
South	40.6	41.9	40.7	41.3
West	18.3	19.3	18.6	18.4
	100.0%	100.0%	100.0%	100.0%

Source: U.S. Bureau of the Census, valuing food, housing and all medical benefits. (February, 1984)

In much the same way that the U.S. Weather Service still provides temperature readings, as well as other measures such as the wind/chill factor, the humidity level, and the air quality index, I recommend the U.S. Census Bureau continue to publish the current poverty estimates, along with other income data as they becomes available. While other data should be developed to enhance our understandings of the relative economic well being of our citizens, it is important to use the most basic information on poverty--the cash or money income available to Americans at the lowest level--both in establishing the eligibility of citizens for public programs and in the allocation of federal funds aimed at reducing poverty across states.

NINETY-EIGHTH CONGRESS

KATIE HALL, IND., CHAIRWOMAN

MICKEY LELAND, TEX. — JAMES A. COURTER, N.J.
MARY ROSE OAKAR, OHIO — WILLIAM E. DANNEMEYER, CALIF.
CHARLES E. SCHUMER, N.Y.

U.S. House of Representatives
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEE ON CENSUS AND POPULATION
603 HOB ANNEX I
Washington, D.C. 20515

TELEPHONE (202) 226-7523

June 15, 1984

Mr. David Stockman
Director
Office of Management and Budget
Old Executive Office Building
17th and Pennsylvania Ave., N.W.
Washington, D.C. 20503

Dear Mr. Stockman:

The Subcommittee on Census and Population of the House Committee on Post Office and Civil Service and the Subcommittee on Oversight of the House Committee on Ways and Means held a joint hearing on May 15, 1984, concerning "Census and the Designation of Poverty and Income".

The Subcommittees had hoped that you would testify at that hearing, but received a letter from your office stating that you were unable to fulfill our request, because OMB has no changes or plans to make changes to official measures of poverty under consideration.

Subsequent to the hearing on May 15th, Subcommittee members have expressed a continuing interest in ascertaining the position of OMB on various issues pertaining to the definition of poverty. Enclosed are questions that we would like answered for the hearing record. We request that you submit your response to these questions by July 16, 1984.

Sincerely,

Katie Hall

KATIE HALL,
Chairwoman,
Subcommittee on Census
and Population

Charles B. Rangel

CHARLES B. RANGEL,
Chairman,
Subcommittee on Oversight,
Committee on Ways and Means

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUL 16 1984

Honorable Katie Hall
Chairwoman, Subcommittee on Census
and Population
Committee on Post Office and Civil Service
U.S. House of Representatives
Washington, D.C. 20515

Dear Ms. Chairwoman:

David Stockman has asked me to respond to your letter of June 15, 1984, requesting OMB's position on issues pertaining to the definition of poverty. Accordingly, attached please find our responses to the questions contained in your letter.

Sincerely,

Frederick S. Upton
Deputy Assistant Director for
Legislative Affairs

Attachment

Attachment

Questions 1, 2 and 3

Some witnesses at the May 15th hearing on poverty and income testified that the original definition of poverty should be retained, because that allows for continuity in assessing the extent to which progress is being made in the elimination of poverty. However, these witnesses proposed modifications in the way poverty thresholds are determined. In particular, they felt that instead of multiplying the Department of Agriculture's 1961 economy food plan by three, that the latest household consumption survey suggests a multiplier of 3.7 for a family of four. Thus, duplicating the original poverty measurement methodology would imply substantially larger thresholds. Please state your position regarding the retention of the original definition of poverty and modifications, if any, that you would propose in that methodology.

In your testimony last fall before the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, you stated that "the original poverty count based on money income substantially overstates the rate of poverty because it ignores $107 billion in in-kind medical, housing, food and other aid that tangibly raises the living standard of many low income families." Please comment on whether you feel the definition of poverty should take into account noncash benefits received by poor people. If you endorse such a change, kindly elaborate on modifications this would require in the methodology for calculating poverty thresholds.

If noncash benefits received by poor people are taken into account in defining poverty, wouldn't this require that noncash benefits received by middle and upper income households also be factored into the equation in order to measure the relative well-being of poor people vis-a-vis other income groups? What data is available to OMB on noncash benefits received by the non-poor, for example, employer contributions to employee health plans?

Answer

Your first three questions all deal with possible modifications to the official definition of poverty. Whether or not the definition should be changed and, if so, how are questions involving complex conceptual and technical issues. Moreover, consideration of these issues frequently is an iterative process. For example, implementation of a conceptually attractive notion may not be technically feasible; conversely, solutions to long-standing technical problems may broaden conceptual horizons.

As indicated to the Subcommittees earlier, OMB has no plans to change the poverty definition, and so has not been considering the relevant technical and conceptual issues within the framework of making such a change. Thus, it is not possible to respond to the questions you raise because we cannot do so as thoughtfully as the seriousness of their subject matter demands.

Question 4

How does OMB perceive its role in designating the methodology used in defining poverty?

Answer

By virtue of both our budget and statistical policy responsibilities, OMB strives to ensure the validity, reliability, utility and accessibility of statistics generated by the Executive Branch. These statistics, of course, include those related to income and other indicators of individuals' well-being, of which the poverty level is one. The Administration currently has a number of activities underway which will provide the basis for improving income and other statistics in the future. Among these activities are the development and implementation of the Survey of Income and Program Participation. This survey is intended not only to be a rich source of information per se but to provide data that will be useful in evaluating, upgrading and interpreting a wide variety of information collected from other sources.

NINETY-EIGHTH CONGRESS

KATIE HALL, IND., CHAIRWOMAN

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U.S. House of Representatives
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEE ON CENSUS AND POPULATION
603 HOB ANNEX I
Washington, D.C. 20515

TELEPHONE (202) 226-7523

June 7, 1984

Mr. C. Louis Kincannon
Deputy Director
Bureau of the Census
Suitland, Maryland 20233

Dear Mr. Kincannon:

On behalf of the Subcommittee on Census and Population of the House Committee on Post Office and Civil Service and the Subcommittee on Oversight of the House Committee on Ways and Means, we thank you for your informative testimony at the joint hearing on "Census and the Designation of Poverty and Income".

In reviewing testimony for that hearing, Subcommittee members have expressed interest in getting statistical data on what the measure of poverty would be if revisions were made in the poverty thresholds. Specifically, various witnesses testified that establishing the poverty threshold by multiplying the cost of food, using the Department of Agriculture's 1961 economy food plan, by three does not accurately reflect changes in the proportion of income now spent on food by the average family.

We understand that the latest household consumption survey suggests a multiplier of 3.7 for a family of four. Thus, duplicating the original poverty measurement methodology would imply substantially larger thresholds.

The Subcommittees request that you submit for the hearing record a determination of what the poverty thresholds would be using the latest available consumption data for the years 1979 to 1982. With these new thresholds, please provide the number of individuals below poverty and the poverty rate for each of the years 1979 to 1982. This information should be provided for the same population subgroups as shown in the table on page 2 of the Census report P-60, No. 144. In addition, any data which you may have on changing consumption patterns for families and the percentage of income which now is expended on shelter, clothing, medical care and other goods and services, would assist Subcommittee Members in assessing the extent of poverty in this country.

39-815 O - 84 -- 5

Again, we thank you for your testimony on May 15th, and ask that you submit responses to the questions contained herein by July 16, 1984.

Sincerely,

Katie Hall

KATIE HALL
Chairwoman,
Subcommittee on Census
and Population

Charles B. Rangel

CHARLES B. RANGEL
Chairman
Subcommittee on Oversight,
Committee on Ways and Means

UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
Washington, D.C. 20233

OFFICE OF THE DIRECTOR

JUL 1 9 1984

JUL 1 7 1984

Honorable Katie Hall
Chairwoman, Subcommittee on
Census and Population
Committee on Post Office and
Civil Service
House of Representatives
Washington, D.C. 20515

Dear Mrs. Hall:

Thank you for your cosigned letter requesting a special tabulation of the number of persons below the poverty level using thresholds based on more recent food plans and expenditure data.

We will not be able to produce this tabulation for you because of a shortage of resources. During the coming months, we are committed to produce several reports on income, poverty, the value of noncash benefits, after-tax income, and our new Survey of Income and Program Participation. Our specialists in the income and poverty area are fully occupied in the preparation of these reports.

We have a suggestion that will enable you to obtain data similar to those you have requested. Ms. Carol Fendler and Ms. Mollie Orshansky have written a paper that shows the effect on the estimated number of poor when using poverty thresholds based on 1965 food expenditure data and the 1975 Thrifty Food Plan (a copy of the paper is enclosed). Their research shows that use of more recent data increased the poverty thresholds by about 20 percent for a family of four; the increase was slightly higher for families of other sizes. Therefore, you may want to use data based on 125 percent of the poverty line as a proxy for using updated poverty thresholds. These data are contained in regular reports issued by the Bureau. For example, in the report you referenced (Current Population Reports, Series P-60, No. 144), data on the number below 125 percent of the poverty line are shown for persons in Table 2, for families in Table 39, and for unrelated individuals in Table 40.

You also may wish to contact other organizations about the possibility of having a special tabulation prepared. For example, the Congressional Budget Office and Congressional Research Service have copies of public use tapes from the March Current Population Survey. These tapes contain the information on income and poverty needed for the tabulation you requested.

The Bureau of Labor Statistics (BLS) is responsible for the publication of data on consumer expenditures. The BLS has published reports from the diary portion of their 1980-81 Consumer Expenditure Survey showing expenditure patterns by urban U.S. consumers on frequently purchased items such as food at home, food away from home, personal care products, and so forth. Data also are available from surveys taken in 1960-61 and 1972-73 that can be used to assess changes in expenditure patterns over time. The data can be obtained by contacting Mrs. Eva Jacobs, Chief, Division of Consumer Expenditure Survey, Bureau of Labor Statistics, on 272-5156.

If you have any questions, please have your staff contact Mr. Gordon Green, Population Division, on 763-7444.

Sincerely,

C. L. Kincannon for

JOHN G. KEANE
Director
Bureau of the Census

Enclosure

INSTITUTE FOR RESEARCH ON POVERTY

THE UNIVERSITY OF WISCONSIN

262-6358 AREA CODE 608

SOCIAL SCIENCE BUILDING
1180 OBSERVATORY DRIVE
MADISON, WISCONSIN 53706

April 30, 1984

Mr. Steve Pruitt
c/o Katie Hall, Chairwoman
Subcommittee on Census and
Population
603 HOB Annex 1
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Pruitt:

I have attached a paper by Maurice MacDonald that focuses on households that receive multiple income transfers. I hope it is of use for your May 15 hearing.

Sincerely,

Sheldon Danziger

Sheldon Danziger

SD:jd

Attachment

Multiple Benefits and the Safety Net
in Distributional Impacts of Public Policies
edited by Sheldon Danziger and Kent Portney
for the Policy Studies Organization
Kennikat Press, 1984

Maurice MacDonald
Institute for Research on Poverty
1180 Observatory Drive
Madison, Wisconsin 53706
608-262-6358

December 1983

Acknowledgements: The data for this study was prepared under contract with the Food and Nutrition Service, USDA. The interpretations here represent only the author's views. Food and Nutrition Service members who contributed substantially to the development of the data include Christine Schmidt, Abigail Nichols, Julie Kresge, and Judi Reitman. Julie Kresge prepared the graph summarizing the main results. The author would also like to thank Elizabeth Uhr, Sheldon Danziger, and an anonymous referee for helpful suggestions.

Multiple Benefits and the Safety Net

I. INTRODUCTION

The Reagan Administration has defended its cuts in social welfare expenditures as an attempt to target benefits on the truly needy by maintaining a safety net to guarantee a minimum income for all households, while simultaneously reducing the income limits for transfer program eligibility. In addition to the generic argument that the federal budget must be controlled, this policy was also motivated as a first step toward reforming the welfare system. The particulars of this step are based on the idea that the current system allows pyramiding of multiple benefits by some households such that they receive more transfer income than is either necessary to meet true need or efficient in terms of associated disincentives for work, saving, and maintaining stable families.

Historically, the U.S. approach to social welfare policy has been to develop many transfer programs, each tailored to meet specific needs. Because the members of any given household may qualify for more than one program it has long been understood that there are many multiple benefit households. Thus one of the common themes of all previous major welfare reform proposals has been to reduce administrative costs by somehow combining programs.

However, the extent to which the existence of multiple benefits actually generated transfer payments beyond that which is necessary to meet whatever standard of need might be posited was not known at the time of the Reagan budget cuts. The evidence then was based on selective samples (e.g., Joint Economic Committee, 1974) or on hypothetical examples about which the population frequencies were unknown. Still the available data was persuasive in that it suggested there were substantial disparities in total incomes between demographically similar households with different combinations of benefits. For this and whatever other reasons, in 1981 Congress endorsed substantial reductions in income limits for the AFDC and food stamp programs, as well as the elimination of federal grants supporting many smaller social service programs.

While the Reagan Administration was enacting these changes, the Bureau of the Census was busy processing the responses to the 1979 Income Survey Development Program Research Panel Survey (ISDP). The ISDP was the prototype for the New Survey of Income and Program Participation (Ycas and Lininger, 1981), which provides extensive data on household incomes and program participation for a representative national sample. This paper uses the ISDP data to evaluate what the safety net was like before the Reagan budget cuts and thus to offer some insights about the impacts of those cuts and the validity of their rationale.

Most of the analysis of the 1979 ISDP data presented here was originally conducted for USDA to help improve that agency's understanding of the food stamp program (MacDonald, 1983). Specifically, it was organized to provide comparisons between food stamp recipients and food stamp eligible nonrecipients. Whether or not the goal is to learn more about the food stamp program, the focus on households eligible for the stamps has a number of advantages for investigating multiple benefit issues:

1. The food stamp program is the only income maintenance program available to all household types.
2. Thus its regulations provide a concrete consensus about what the safety net is, and about who the truly needy are.
3. Because all eligible households do not receive food stamps, the participation rate in the food stamp program serves as an important indicator of the extent to which the government reaches the truly needy.

Despite these facts an attractive alternative to focusing on eligibility for any single program is to compare how various demographic groups fare with respect to the issues of interest here. Therefore Weinberg (1983) recently used the ISDP to compare female-headed households to the aged, and to two-parent households and single persons. However as shown below the benefit combinations received by food stamp eligible households effectively accomplish these same comparisons because of the categorical restriction of most of the other important benefits to specific demographic subgroups.

The next section provides further background about how multiple benefits were analyzed and about the ISDP survey data's advantages and problems; it also characterizes 1979 households with respect to their food stamp eligibility, recipiency, and official poverty status. Section III summarizes results for the frequency and kinds of multiple benefits received by all households and then focuses on those among food stamp eligibles.

The fourth part studies the impacts of program benefits on the incidence of poverty. Because many recipient households remain poor, the fifth evaluates the extent to which recipient households obtained incomes below one-half the poverty line. For contrast and to examine the claim that some recipients were not truly needy, section VI looks at households receiving transfer payments who had incomes substantially above the poverty line. A brief conclusion comments on the relevance of the main findings for the continuing welfare policy debate.

II. STUDY BACKGROUND

The analysis centered around combinations of six major transfer programs: Food Stamps (FS); Public Assistance (PA), including Aid to Families with Dependent Children and other welfare programs; Unemployment Compensation (UI); Old Age Survivors and Disability Insurance (OASDI); and Medicaid (MED). Medicare was not analyzed separately because all recipients of OASDI are automatically covered by that program. However Medicaid coverage policies do vary from state to state. Appendix Table 1 describes the six programs in terms of their Fiscal 1979 federal cost, the numbers of households receiving them in 1979, and the percentage of households in each program with multiple benefits. OASDI was by far the largest of these programs, costing nearly $103 billion and serving over 21 million households. However only about one-sixth of OASDI households received benefits from any of the other five programs. The federal costs of UI and PA were 11 and 12 billion dollars, while SSI, FS, MED each cost about $7 billion. For each of the welfare programs (PA, SSI, FS, and

MED) at least 85 percent of recipient households also received one of the other five benefits. And one-third of UI households were multiple benefit recipients.

For the analysis of poverty reduction and income adequacy the income levels of households were first examined without counting any government transfers and then that pretransfer income was increased by sequentially adding transfer payments in the following categories:

Social Insurance: mainly OASDI and UI but also including Veteran's Benefits, Workmen's Compensation, etc.;

Cash Welfare: PA and SSI;

In-kind Assistance: Food Stamps, counted as the dollar amount of their face value.

Although these categories exhaust all cash income sources and food stamps, they exclude the value of other important in-kind benefits, such as Medicaid, Medicare, nutrition programs other than food stamps (e.g., School Lunch subsidies), and housing assistance. Therefore the results overestimate the extent to which households have inadequate resources. However as yet there is no consensus about how to value medical assistance, and there was no readily available data on the value of the nutrition and housing programs. Work in progress includes a more complete accounting for these in-kind programs.

Only the second (Spring 1979) wave of the six wave ISDP research panel was analyzed, such that the information pertains to the three months prior to the time that the sample households were interviewed for the second time. These reference period months center around April. All persons aged 16 and over were eligible respondents and parents were asked questions about the incomes and assets of children below age 16. In the event of a change in household composition or residence all household members were followed to administer later interviews. By the end of the second wave 7200 households had provided data for this paper.

Like most surveys the limitations of the ISDP include underreporting of income and assets. However, the severity of this was restricted with an imputation procedure which corrected for underreporting where the respondent reported an income source or asset but either did not indicate the amount or else reported an amount for only one or two of the three months. The restriction to a three-month period means that more households are counted below the poverty line than on an annual basis, because over a year some households' incomes rise sufficiently to offset part-year periods in poverty. Finally, while the Spring 1979 interviews were going on the Food Stamp program was in transition to a new set of rules. The purchase requirement had been eliminated and eligibility regulations concerning allowable deduction from gross income were being tightened.

These limitations are more than offset by advantages of the ISDP for assessing the issues for this study. More and better income and program participation reporting was made possible by the extensive nature of the survey. In addition, the ISDP asked detailed questions about all assets and about specific expenditures that permit a careful determination of which households were eligible for food stamps. Hence for the first time it was possible to obtain accurate information about the relationship between food stamp eligibility and participation and the number of households at various incomes vis a vis the official poverty line.

The food stamp regulations in 1979 allowed households to deduct 20 percent of all earnings, a $65 standard deduction, and up to $80 in countable shelter cost and dependent care expenses from gross income to determine a net income figure that was compared to the official OMB poverty lines by household size for income eligibility. (If a four person household's income came entirely from earnings and they had the maximum shelter deduction the annual gross income limit for eligibility was $10,300, substantially above the appropriate 1979 poverty line of $7450.) Households whose liquid assets exceeded $1750 (or $3000 for an elderly household) were not eligible in 1979.

Figure 1 categorizes all Spring 1979 households by food stamp eligibility and recipiency as well as their official poverty status. Of the 12.4 million households found to be eligible for food stamps, 4.8 million actually received them during the three-month reference period. One and a half million food stamp recipient households had cash incomes above the official poverty line. This is the result of the allowable deductions from gross income. The assets test also had an important impact. Among households that were ineligible for the program, 3.8 million had incomes below the poverty line and thus were income eligible but had assets exceeding the program limits.

III. MULTIPLE BENEFIT RECIPIENCY PATTERNS

For the general population, multiple benefits are relatively rare. Nearly three-quarters of all U.S. households that reported at least one of the six benefits reported only one, and about two-thirds with any of the six received only OASDI (see Appendix Table 2). Figure 2 shows that

Figure 1

Categories of Households (in millions)
for Multiple Benefits Analysis
Spring, 1979

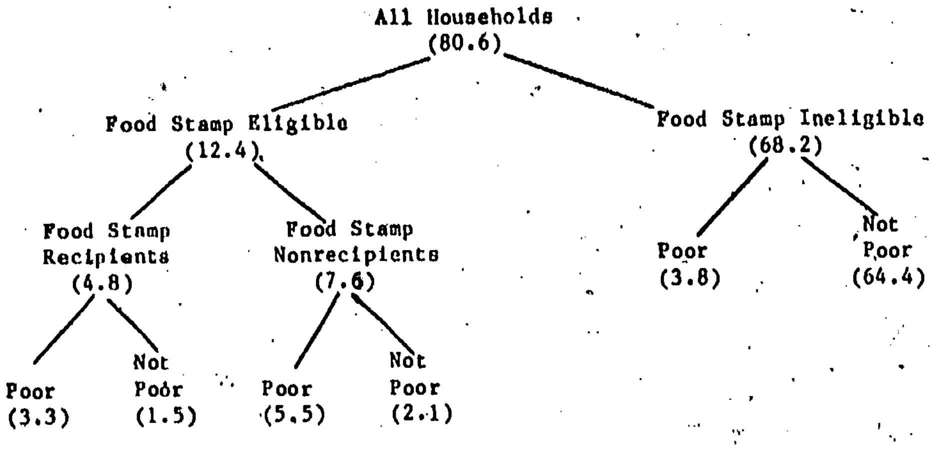
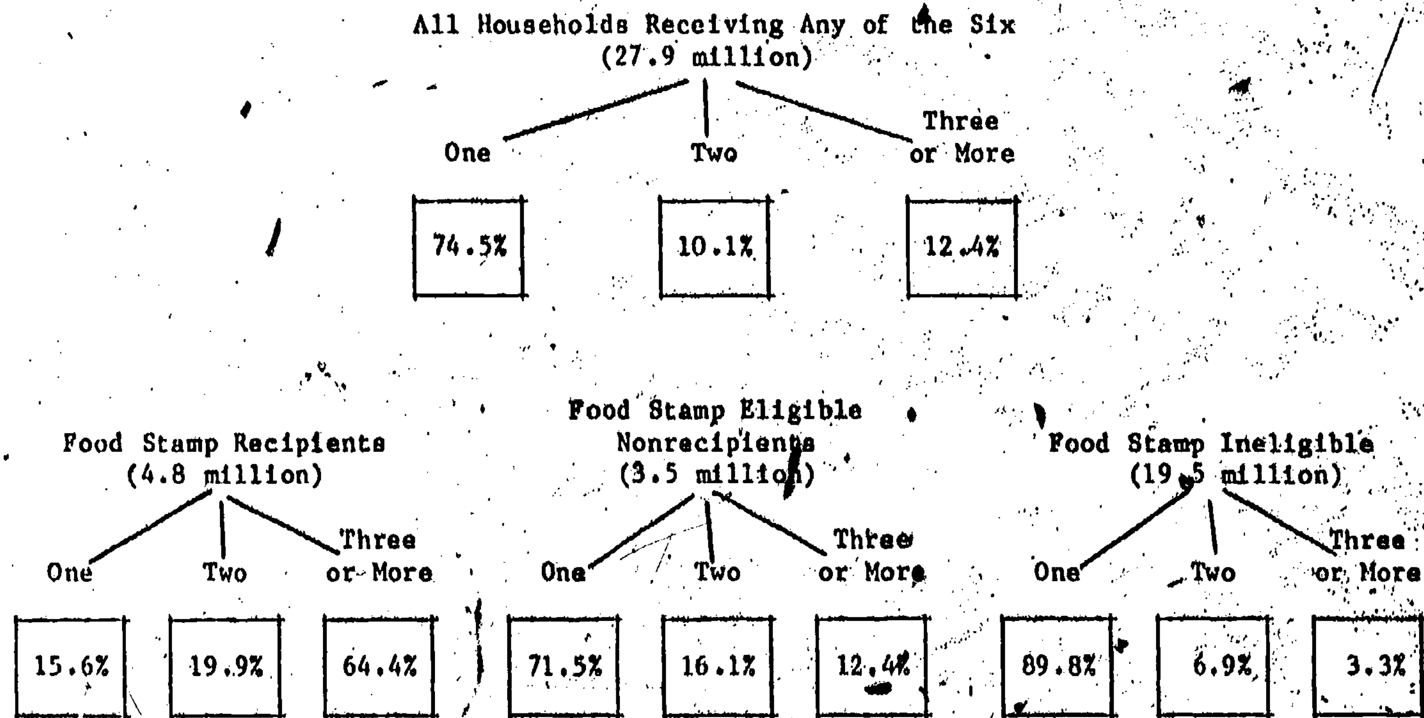


Figure 2

Percentages of Households Receiving One, Two, or Three or More of Six Major Programs in Spring, 1979



large majorities of both food stamp ineligibles (90 percent) and food stamp eligibles who did not receive food stamps (72 percent) received only one of the six program benefits. However nearly 85 percent of food stamp recipient households received more than one and 64 percent of them received three or more benefits.

Table 1 presents the 15 most frequent benefit types for all food stamp eligible households who received any of the six benefits. The two most prevalent types are OASDI only, and then a combination of three programs (FS/PA/MED) received by female headed families. The most frequent combination of more than three programs was FS/SSI/MED/OASDI; alone, each of these serves low-income elderly households.

Food stamp recipients were further classified on the basis of the largest benefit they received (among OASDI, SSI, PA, UI, and FS) in order to get a coherent picture of the types of people who receive multiple benefits. They tend to fall in one of the following categories:

1. Aged, disabled, and survivors. These households reported their largest benefit was either OASDI or SSI. They were 41 percent of all Food stamp recipients. The most important single benefit combination for this group was Food Stamps/OASDI/SSI/Medicaid.
2. Public Assistance households. Nearly 30 percent of food stamp recipients reported PA was their largest benefit. These are chiefly female-headed households on AFDC who also receive Medicaid and Food Stamps.
3. Food Stamps. This group consists of the 24 percent of food stamp households in which the stamps provide the largest benefit.

Table 1

Rank Ordering of the 15 Largest Benefit Types for Food Stamp Eligible Households

	Households (in 000's)	Percent of Eligible Households Reporting Any Benefit (%)
OASDI Only	2,299	27.3
FS/PA/MED	1,347	16.0
FS Only	763	9.1
FS/SSI/MED/OASDI	586	6.9
FS/OASDI	428	5.1
FS/SSI/MED	396	4.7
SSI/MED/OASDI	372	4.4
SSI/MED	218	2.6
FS/PA	169	2.0
FS/PA/MED/UI	138	1.6
FS/MED/OASDI	138	1.6
FS/SSI	131	1.5
FS/MED	127	1.5
FS/UI	117	1.4
FS/PA/MED/OASDI	109	1.3
All 15	7,338	87.0

39-815 O--84--6

4. Households of the unemployed receiving Unemployment Insurance and Food Stamps.

These four types run the gamut among those we classify as needy. They include those expected to work and those not expected to work; indeed, they include some who are employed full-time as well as those temporarily out of work and those with the most tenuous attachment to the labor force. Some fit into distinct demographic categories, the aged for example. They could perhaps be served by fewer programs. Since they are not expected to work, their Food Stamps could be cashed out and added to their SSI benefits without any adverse behavioral consequences. Or they could be incorporated in the Social Security system.[1] Others defy classification.

IV. MULTIPLE BENEFITS AND POVERTY REDUCTION

Counts of households below the official poverty line were obtained before and after social insurance, cash welfare, and food stamps were successively added to pre-transfer income. There were 22.3 million pre-transfer poor households in Spring 1979.

The impact of social insurance (mostly OASDI and UI) on pre-transfer income poverty was quite dramatic--8.8 million households, or 40 percent of all pre-transfer poor, were removed from poverty. Cash welfare (PA and SSI) removed another 875,000 households, or 6 percent of those who remained poor after social insurance was added. Food stamps brought 241,000 households out of poverty, which was 2 percent of those remaining poor after counting all money income, including cash welfare. However, over 50 percent of the pre-transfer poor remained poor.

Because poverty is concentrated among food stamp eligibles, further assessment of income adequacy was conducted for these households. Over three-quarters of food stamp recipients and 85 percent of food stamp eligible nonrecipients remained poor after adding all of their cash and food stamp benefits to pre-transfer income.

The fact that such a large percentage of food stamp recipients remained poor despite multiple benefits raises an important issue about the safety net. If there is one, it is strung below the official poverty line. Indeed, even together the income assistance programs are not sufficient to end poverty. The major social insurance programs are funded by contributions from insured workers at all income levels and pay most of their benefits to households whose incomes would be above the poverty line without these benefits. Food stamps are intended to provide only the cost of a minimally adequate diet, and neither the public assistance nor SSI payments available in most states are sufficient in combination with food stamps and social insurance to eliminate poverty.

A clearer picture of the impacts of multiple benefits on poverty emerged from examining the amount these benefits reduced the poverty gap. This gap reveals not just whether a household falls below an arbitrary line, but the percentage by which the households income falls short of it. Although after all benefits were added, one-third of the original aggregate gap for all households remained, the effect of food stamps was found to be greater in reducing that gap than in reducing poverty counts. Social insurance closed over one-half of the pretransfer poverty gap, while cash welfare reduced it by another 11 percent, and the addition of food stamps reduced it by another 4 percent.

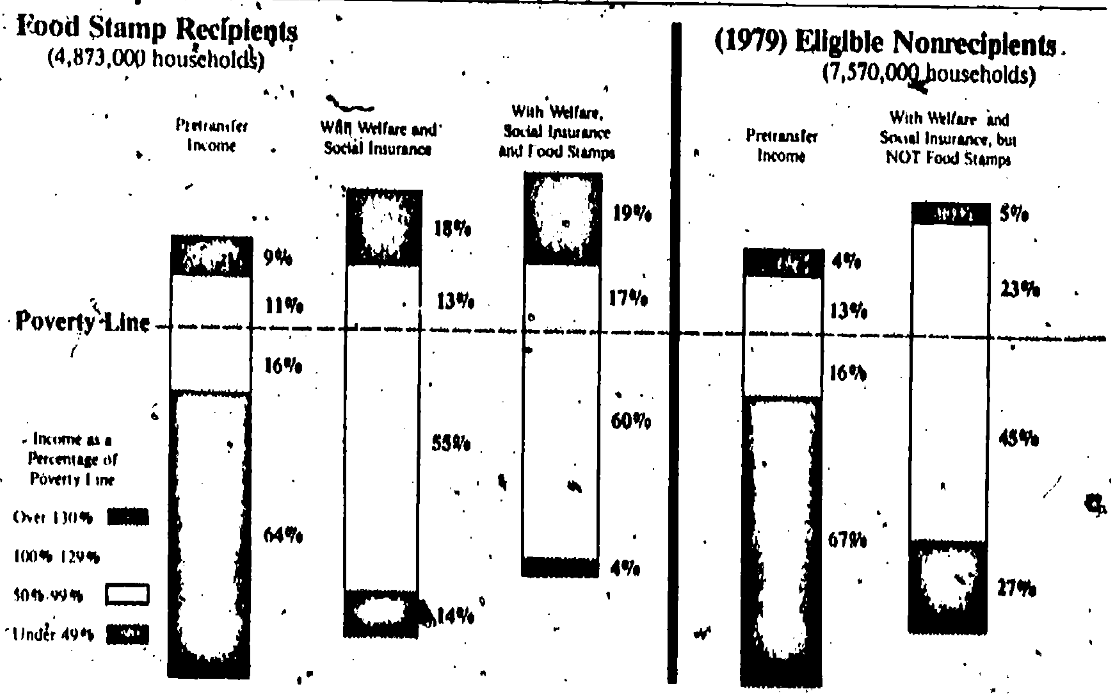
V. REACHING THE VERY POOR

Figure 3 compares effects of multiple benefits on income as a percentage of the poverty line for food stamp recipients and food stamp eligible nonrecipients. It shows how the distribution of income relative to the poverty line changes as cash benefits, and then food stamps, are added to pre-transfer income. Here we concentrate on the percentages with incomes below one-half the poverty line.

Sixty-four percent of food stamp recipients and sixty-seven percent of eligible nonrecipients had pre-transfer income that low in Spring, 1979. After counting cash benefits from welfare and social insurance these percentages dropped to 14 percent for food stamp recipients and 27 percent for eligible nonrecipients. For those eligibles who did get food stamps only 4 percent remained below one-half the poverty line after the stamps were added.

Because extreme poverty is almost entirely eliminated for those households who obtained food stamps it can be said that the safety net rests at approximately one-half the official poverty line, with two important caveats. First, for those who did not get food stamps, nearly 30 percent were below one-half the poverty line.[2] Second, the data here are only for a three-month period. When we observe them, some of the food stamp eligible nonrecipients may be in transition to becoming food stamp participants. Similarly over a longer period many of the households counted below poverty here would experience income increases or reductions in household size that would make them non-poor for that longer accounting period. Nevertheless, extreme poverty that persists

Figure 3



Effects of Multiple Benefits on Income Status as Related to National Poverty Guidelines

Source: United States Department of Agriculture Food and Nutrition Service, Office of Analysis and Evaluation, Executive Summary to "Multiple Benefits and Income Adequacy for Food Stamp Participant and Nonparticipant Households," by Maurice MacDonald, U.S. Department of Agriculture, Washington, D.C., February 1983.

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for three months may be judged excessive. Yet the three-month data also show that for households with Food Stamps and other benefits there is a fairly impermeable net for preventing extreme poverty.

VI. MULTIPLE BENEFITS AND INCOME ABOVE THE POVERTY LINE

The thrust of the Reagan welfare policy has been to maintain the benefits of the very poor while cutting those available to others. Examining the top part of Figure 3 reveals the extent to which there were households receiving government assistance who had incomes substantially above the poverty line, i.e., those for whom the cuts were intended. Here we focus on the percentage of food stamp eligibles who had incomes greater than 130 percent of the poverty line, for two reasons. First, the Omnibus Reconciliation Act of 1981 tightened food stamp eligibility regulations to eliminate households whose gross incomes exceeded 130 percent of the poverty line. Second, we have seen that food stamp recipients most often have the multiple benefits that trouble fiscal conservatives.

On a pre-transfer income basis, 9 percent of food stamp recipient households in 1979 had incomes above 130 percent of the poverty line. That figure rose to 18 percent after adding cash benefits, implying 9 percent more had relatively high incomes because of welfare and social insurance. Food stamps added another 1 percent of recipient households to the group above 130 percent of poverty. Hence roughly one-fifth of the food stamp households would have lost their food stamp benefits if the new gross income limit had been implemented in Spring 1979.

Table 2 presents more detail about the sources of the incomes of those recipient households with incomes above 130 percent of poverty. It

Table 2

Household Incomes Relative to the Poverty Line for Food Stamp Recipient and Food Stamp Eligible Nonrecipient Households (figures are percentages)

Income Relative to the Poverty Line	Pretransfer	Prewelfare	Money Income	Plus Stamps
	Food Stamp Recipients (4,873 thousand households)			
0-1.30	91.0	87.0	81.5	80.9
1.30-1.499	3.2	3.2	8.4	9.1
1.50 or more	5.8	6.8	10.1	10.0
	Food Stamp Eligible Nonrecipients (7,570 thousand households)			
0-1.30	96.4	95.2	95.1	95.0
1.30-1.499	1.8	3.0	3.0	3.0
1.50 or more	1.8	1.8	1.9	1.9

shows income/poverty line distributions for food stamp recipients and eligible nonrecipients. Cash welfare, i.e., PA and SSI, was primarily responsible for the large increase in the percentage of food stamp recipients with incomes above 130 percent of poverty.

Further tabulations available in MacDonald (1983) demonstrate that public assistance was more important than SSI. The generosity of state public assistance benefits in 1979 depended on payment standards and the rate at which the state reduced the payments as PA recipients received other income, particularly earnings. In addition to paying more benefits to households without any income the more generous states permitted larger deductions for work-related expenses. Although the Reagan AFDC cuts have not affected the states' payments standards very much, they did cap deductions for work-related expenses, and, after four months on the program AFDC is not provided to households with substantial earnings. Therefore many of the 30 percent of food stamp recipients who reported public assistance as their largest benefit also lost the opportunity to combine earnings with their food stamps and AFDC. The effect of this and the gross income eligibility limit for food stamps has been to reduce the percentages of recipient households with incomes in excess of the poverty line.

VII. CONCLUSION

In addition to establishing that multiple benefits are widespread only among food stamp recipients and that they are by no means sufficient to end income poverty, two main findings from the 1979 ISDP data are pertinent to an assessment of the Reagan administration's welfare policy agenda.

First, the President was correct when he said there is a safety net, and that his policies would not dismantle it. However the finding that this now rests at one-half the poverty line is more likely to be taken as cause for directing more federal dollars to income assistance then less.

Second, in 1979 there was a non-trivial percentage of recipients with incomes substantially above the poverty line, primarily because of relatively generous public assistance payments in some states. There may also be disagreement about the significance of this finding. As mentioned before, three-months' data reveals little about the duration of recipiency. Thus a high priority for further research will be to use the ISDP longitudinally to learn about transitions into and out of recipiency and poverty. For years, the policy debate about public assistance has been about these transitions, in terms of how to end welfare dependency as quickly as possible. The new AFDC policy is intended to speed them by forcing a choice between work and welfare. The pre-Reagan policy was to permit longer transition periods with greater work expense deductions and a substantially lower benefit reduction rate on countable earnings. Thus from the perspective of the old policy it is not surprising that there were recipients with relatively high incomes. The 1979 ISDP Survey has shown how many there were, and much about why.

Ongoing research (e.g., Danziger, 1982, and MacDonald, forthcoming) will provide answers to key questions about how the households who lost food stamp eligibility and/or the opportunity to combine AFDC with earnings responded. Did they leave welfare altogether, or get caught in the safety net?

NOTES

[1]See Alicia H. Munnell and Laura E. Stiglin, "Women and a Two-Tier Social Security System," in Richard V. Burkhauser and Karen C. Holden, eds., A Challenge to Social Security (New York: Academic Press, 1982), for a discussion of a proposed system in which social security benefits would be the sum of benefits from two so-called tiers. The first tier would consist of a means-tested benefit. The second tier would be a benefit strictly proportional to covered earnings. Such a system would do away with SSI and other benefits for the aged.

[2]The answer to why more food stamp eligibles do not obtain the stamps is not clear, but there is evidence that information problems (Coe, 1979) and stigma (MacDonald, 1977) may be important. Using the Spring 1979 data, Czajka (1981) has substantiated that there was a group of relatively needy households who failed to obtain sizeable food stamp benefits. However, the food stamp caseload also grew after the purchase requirement was eliminated in Spring, 1979.

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Table A-1

Description of Six Major Transfer Programs for Fiscal Year 1979

	Cost FY '79 (billions) (1)	Households (thousands) (2)	Percentage with Multiple Benefits[a] (3)
Social Insurance			
OASDI	$102.6	21,343	16.9%
UI	11.2	2,239	33.9
Cash Welfare			
Public Assistance (PA)[b]	12.0	3,233	85.8
SSI	6.8	3,622	94.3
Food Stamps (FS)	6.8	4,873	84.4
Medicaid Coverage (MED)[c]	6.8	5,508	97.4

[a]Percentage of households in this program reporting benefits from one or more of the other five programs.

[b]All cost figures are from the Budget of the United States. The PA cost figure includes federal AFDC and General Assistance costs, but not Emergency Assistance.

[c]Medicaid household counts are for reported Medicaid coverage. These reports are larger than the number of persons who actually received Medicaid benefits, but smaller than the total number of persons insured by Medicaid. The cost figure is the federal cost of actual services provided to Medicaid recipients.

Table A-2

Multiple Benefits from Six Major Programs, Wave II, by Food Stamp Recipiency-Eligibility Status

	All		Food Stamp Recipients		Nonrecipient Eligibles		Food Stamp Ineligibles	
	Households (in 000's)	Percent	Households (in 000's)	Percent	Households (in 000's)	Percent	Households (in 000's)	Percent
Households receiving one or more of the six types of assistance	27,901	100.0	4,876	100.0	3,530	100.0	19,495	100.0
Just one type	20,796	74.5	763	15.6	2,527	71.5	17,506	89.8
OASDI only	17,740	63.6			2,299	65.1	15,441	79.2
UI only	1,481	5.3			72	2.0	1,409	7.2
FS only	763	2.7	763	15.6				
PA only	460	1.6			71	2.0	389	2.0
SSI only	208	0.7			35	1.0	173	0.9
MED only	144	0.5			50	1.4	94	0.5
Two or more types	6,351	22.5	4,112	84.4	1,003	28.5	1,989	10.2
Only two	2,877	10.1	972	19.9	567	16.1	1,338	6.9
FS/OASDI	428	1.5	428	8.8				
OASDI/MED	495	1.7			78	2.2	417	2.1
SSI/MED	454	1.5			218	6.2	236	1.2
SSI/OASDI	310	1.0			60	1.7	250	1.3
OASDI/UI	264	0.9			99	2.8	165	0.8
PA/MED	247	0.9			93	2.6	154	0.8
FS/PA	169	0.6	169	3.5				
FS/SSI	131	0.5	131	2.7				
FS/MED	127	0.5	127	2.6				
FS/UI	117	0.4	117	2.4				
PA/OASDI	102	0.4			19	0.5	83	0.4
PA/UI	18	0.1					18	0.1
UI/MED	15	0.1					15	0.1

(table continues)

Table A-2 (cont.)

	All		Food Stamp Recipients		Nonrecipient Eligibles		Food Stamp Ineligibles	
	Households (in 000's)	Percent	Households (in 000's)	Percent	Households (in 000's)	Percent	Households (in 000's)	Percent
Three or more types	3,474	12.4	3,140	64.4	436	12.4	651	3.3
Only three	3,049	8.2	2,044	41.9	387	11.0	618	3.2
FS/PA/MED	1,347	4.8	1,347	27.6				
SSI/MED/OASDI	838	3.0			372	10.5	466	2.4
FS/SSI/MED	396	1.4	396	8.1				
FS/MED/OASDI	138	0.5	138	2.8				
PA/SSI/MED	76	0.3					76	0.4
FS/SSI/OASDI	55	0.2	55	1.1				
FS/OASDI/UI	55	0.2	55	1.1				
SSI/MED/UI	43	0.2					43	0.2
FS/PA/SSI	28	0.1	28	0.5				
FS/MED/UI	24	0.1	24	0.5				
PA/MED/OASDI	23	0.1			13	0.4	10	0.1
MED/OASDI/UI	11	0.1					11	0.1
PA/MED/UI	12	0.1					12	0.1
FS/PA/OASDI	1	0.0	1	0.0				
PA/SSI/OASDI	2	0.0			2	0.0		
Four or more types	1,179	4.2	1,097	22.4	49	1.4	33	0.2
Only four	1,061	3.8	979	20.1	49	1.4	33	0.2
FS/SSI/MED/OASDI	586	2.1	586	12.0				
FS/PA/MED/UI	138	0.5	138	2.8				
FS/PA/MED/OASDI	109	0.4	109	2.2				
FS/PA/SSI/MED	96	0.3	96	2.0				
PA/SSI/MED/OASDI	82	0.3			49	1.4	33	0.2
FS/PA/SSI/UI	49	0.2	49	1.0				
FS/PA/SSI/OASDI	1	0.0	1	0.0				
Five or more types	118	0.4	118	2.4				
Only five	118	0.4	118	.4				
FS/PA/SSI/MED/OASDI	106	0.4	106	2.2				
FS/PA/MED/OASDI/UI	8	0.0	8	0.2				
FS/PA/SSI/MED/UI	4	0.0	4	0.1				

INSTITUTE FOR RESEARCH ON POVERTY
THE UNIVERSITY OF WISCONSIN
262-6358 AREA CODE 608

SOCIAL SCIENCE BUILDING
1180 OBSERVATORY DRIVE
MADISON, WISCONSIN 53706

April 27, 1984

Mr. Steve Pruitt
c/o Katie Hall, Chairwoman
Subcommittee on Census and
Population
603 HOB Annex 1
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Pruitt:

I have attached a copy of our Focus newsletter which summarizes and expands upon testimony presented to the Ways and Means Committee in October 1983 and a paper on "The Measurement of Poverty" which was written several years ago for a hearing planned, but never held by Congressman Garcia after Technical Paper # 50 was released.

I hope this is useful for your May 15 hearings.

Sincerely,

Sheldon Danziger

Sheldon Danziger
Professor and Director

SD:jd

Attachment

University of Wisconsin-Madison
Institute for Research on Poverty

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Poverty in the United States: Where do we stand now?

Two years ago a special issue of Focus *titled "Poverty in the United States: Where Do We Stand?" (5:2, Winter 1981–82) recounted trends in poverty and the growth of income support programs since 1965. In October 1983 the rising number of poor in America prompted the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation of the Ways and Means Committee of the U.S. House of Representatives to hold hearings on the reasons for steady increases in poverty rates since 1978. Among the questions they invited witnesses to address were the relative importance of recession, demographic change, budget reductions, and a ten-year decline in the real level of public assistance benefits in causing increased poverty. This issue of* Focus *summarizes parts of the testimony presented to Congress to assess where we stand now, twenty years after the nation declared its intent to launch a full-scale effort on behalf of the poor.*

The problem of poverty

Before one can discuss probable causes and possible cures, it is first necessary to address the basic questions concerning poverty: How much poverty is there? Who are the poor? How poor are they and how long do they remain in poverty?

How much poverty?

Poverty has been on the increase in recent years. The Bureau of the Census reports that 15 percent of the population were below the poverty line in 1982, compared to 11.7 percent in 1979, which means that the number of poor persons had increased by more than eight million. The official poverty rate was as high in 1982 as it was in 1966. Do as great a percentage of all persons live in poverty now as when the War on Poverty started? Or are the official numbers misleading?

According to David Stockman, Director of the Office of Management and Budget, and others who testified before Congress, the Census Bureau's measurement procedures do not provide a complete picture: "The total exclusion of any value of noncash assistance when measuring the incidence of poverty is a key reason why measured poverty has not declined during the last decade."[1] He states that in-kind means-tested benefits (such as Medicaid, Food Stamps, school lunches, and housing subsidies), which were relatively insignificant in 1959, by 1973 were providing over half of all means-tested assistance, and by 1982 more than 70 out of every 100 dollars of such assistance was noncash.[2] The census numbers have other drawbacks, noted by others who testified, such as Timothy Smeeding, of the University of Utah. The official statistics do not subtract taxes from income, though taxes affect a household's level of consumption. Further, they fail to distinguish between the private economy's antipoverty performance and the government's contribution, both in the form of social insurance and in welfare.

A better understanding of what has been happening to poverty in the United States is provided by Table I, presented to the Congressional subcommittees by Sheldon Danziger, Director of the Institute for Research on Poverty.[3] This table gives poverty rates over the period 1965–82, comparing the census measure with other measures that adjust for its deficiencies: pretransfer income, prewelfare income, and adjusted income. (For definitions of these terms and others used to define and clarify the complex concept of poverty, see box.) In every year there is a much higher poverty level under the census income measure than under the adjusted income measure. Nonetheless, all four measures reflect the same pattern over the past fifteen years. Poverty declined sharply from 1965 to the early 1970s, remained fairly stable in the mid-1970s, then in 1978 began to climb rapidly. This pattern is depicted in Figure 1. The difference between

Table I
The Trend in the Incidence of Poverty among Persons, Selected Years 1965–82

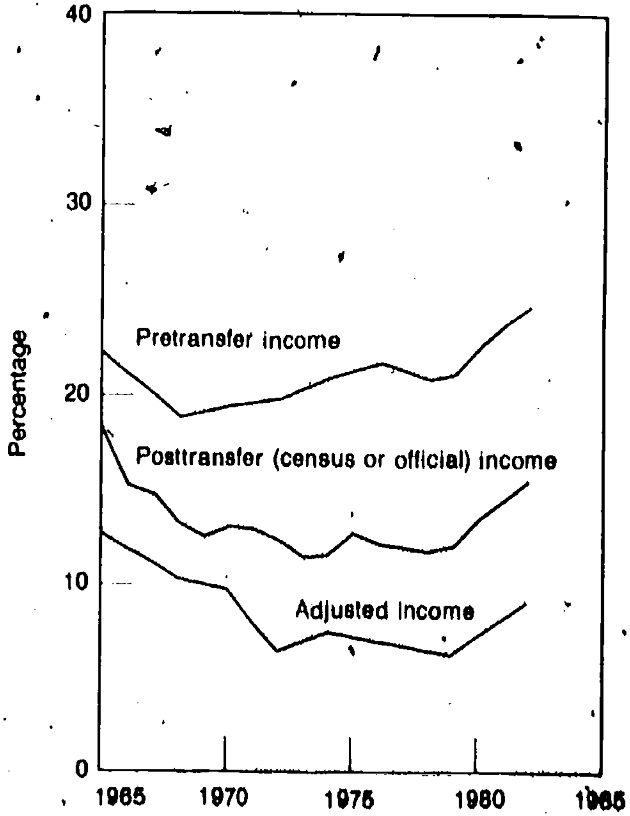

Figure 1. Trends in the Incidence of Poverty among All Persons According to Three Measures of Income

Year	Pretransfer Income (1)	Prewelfare Income (2)	Posttransfer Income (Census Income) (3)	Adjusted Income[a] (4)
1965	21.3%	16.3%	15.6%	12.1%
1968	18.2	13.6	12.8	9.9
1972	19.2	13.1	11.9	6.2
1974	20.3	13.1	11.6	7.2
1976	21.0	13.1	11.8	6.7
1978	20.2	12.6	11.4	n.a.
1979	20.5	12.9	11.7	6.1
1980	21.9	14.2	13.0	n.a.
1981	23.1	15.1	14.0	n.a.
1982	24.0	15.9	15.0	8.8[b]
% Change				
1965-1978[c]	-5.2	-22.7	-26.9	-49.6
1978-1982[c]	+18.8	+26.2	+31.6	+44.3

Source: Sheldon Danziger in Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee," IRP Discussion Paper no. 740-83, p. 6.

[a] Adjusted income data are from Timothy Smeeding, "The Antipoverty Effects of In-Kind Transfers," *Policy Studies Journal, 10* (1982), 499-521.

[b] This is an estimate from Peter Gottschalk and Danziger, "Changes in Poverty, 1967-1982: Methodological Issues and Evidence," IRP Discussion Paper no. 737-83.

[c] Percentage changes for adjusted income data are from 1965-79 and 1979-82.

n.a. = not available

Source: For pretransfer poverty, computations by Sheldon Danziger and Robert Plotnick from the Survey of Economic Opportunity for 1965 and March Current Population Surveys for other years. For posttransfer poverty, U.S. Department of Commerce (Bureau of the Census), *Current Population Reports*, Series P-60, "Consumer Income." For adjusted poverty, Timothy Smeeding, "The Antipoverty Effects of In-Kind Transfers," *Policy Studies Journal, 10* (1982), 499-521.

pretransfer and posttransfer (census) income shows how important are government cash transfers for the well-being of the population. In 1982 one-quarter of the population had incomes below the official poverty threshold on the basis of their market incomes alone. But after the receipt of cash and in-kind transfers, fewer than 10 percent remained poor.

Poverty as measured in relative terms (defined in box; not shown on table or figure) remained 10 to 15 percent above the absolute measures shown in Figure 1. Danziger calculated that pretransfer poverty for all persons, if measured relatively, declined from 21.3 to 19.7 percent between 1965 and 1968, but rose steadily from 1968 until 1982, when it reached 26.5 percent. Relative poverty after receipt of cash transfers declined very slightly from 1965 to 1978 – from 15.6 to 15.5 percent – and then rose to 17.8 percent in 1982.

Who are the poor?

Aggregate figures provide only a rough picture of the incidence and extent of poverty. A more detailed examination

Terms Used in Measuring Poverty

1. *Census income.* Used to draw the official poverty line, census (or posttransfer) income includes money wages and salaries, net income from self-employment, social security income, public assistance income, and other cash government transfers, property income (interest, rents, dividends, etc.), and private transfers, such as pensions and alimony. It does not subtract taxes paid.

2. *Pretransfer income.* Also termed market income or pre-government-transfer income, this concept is census income excluding government transfers but including private transfers such as gifts, alimony, child support, and private pensions.

3. *Prewelfare income.* Prewelfare income is census income minus only cash public assistance programs (means-tested), such as Supplemental Security Income and Aid to Families with Dependent Children. It includes social insurance benefits, such as social security, unemployment insurance, railroad retirement, veteran service-related pensions, and black lung benefits, which are not means tested.

5. *Absolute poverty threshold (line).* The official census income level below which households are classified as poor. Based on the assumption that the poor spend approximately a third of their incomes for food, the poverty line originally consisted of three times what the Department of Agriculture in 1955 ascertained to be the minimum food consumption requirement for a family of four. Adjustments are made for different-sized families, and the poverty line is adjusted each year for inflation, as measured by the percentage change in the Consumer Price Index. In 1982 the official poverty line ranged from $4901 for a single person, to $9862 for a family of four, to $19,698 for a family of nine or more.

6. *Relative poverty threshold.* This poverty threshold varies directly with changes in the national median income, adjusted for family size. Those whose incomes are below 44 percent of the median are classified as poor. This figure was chosen so that the count of absolute and relative poor persons for 1965 was equal. It incorporates the same adjustments for family size that are included in the official measure. In 1982 the relative poverty line

families headed by a woman with no husband present has increased more than 15 percent since 1978, compared to a 6 percent growth in the overall population. One of the immediate and alarming effects in the growth of this group is the large increase in poverty among all children, which increased from 16.0 percent in 1979 to 21.3 percent in 1982 (see Table 2).[6]

If single-parent families are growing fast, black single-parent families are growing even faster. And if poverty is prevalent among the white single-parent households, it is much more so among blacks. The number of poor black families headed by women doubled between 1969 and 1982. These families accounted for 71 percent of all poor black families in 1982, compared with 54 percent in 1969.[7] In 1982 the poverty rate was 35.6 percent for all black persons and 57.4 percent for those living in female-headed families.

The major cash welfare program directed at single parents and their children is Aid to Families with Dependent Children. It was created by the 1935 Social Security Act, and conceived of as a small program to aid widows not covered by social security. Though it has been amended and broadened over the years, it has—in comparison with the rest of our social welfare system—remained small. AFDC in fiscal year 1981 accounted for only 17 percent of total welfare expenditures and only 4 percent of total expenditures on income support.[8] The percentage cut in the AFDC budget in the Omnibus Budget Reconciliation Act (OBRA) of 1981

percent to 100 percent after four months of earnings, set maximum allowable deductions for work and child care expenditures, computed the third of their earned income that AFDC working recipients were allowed to keep (for four months) on the basis of their income after deductions rather than before, lowered the ceiling on assets, and counted stepparent income when calculating the benefit.[9]

Robert J. Rubin of the Department of Health and Human Services stated in his testimony that these changes have reduced welfare rolls. "In all, 408,000 families lost eligibility [for all] benefits and 299,000 lost [some] benefits as a result of the OBRA changes. The changes saved the federal and state governments about $1.1 billion in 1983."[10] And Stockman wrote:

> The dire predictions of those who opposed the gross income cap and limiting of work disregards in AFDC . . . did not come true. Contrary to assertions that wage-earning recipients would quit their jobs to stay on welfare, the number of recipients who quit work or lost jobs and returned to welfare was the same both before and after the 1981 Reconciliation Act—18 percent.[11]

But although the AFDC recipients whose benefits were reduced or terminated did not, by and large, quit work and return to welfare, they did experience significant losses in total income. Preliminary findings of studies being carried out jointly by the Institute for Research on Poverty and the Wisconsin Department of Health and Social Services sugfamilies headed by a woman with no husband present has increased more than 15 percent since 1978, compared to a 6 percent growth in the overall population. One of the immediate and alarming effects in the growth of this group is the large increase in poverty among all children, which increased from 16.0 percent in 1979 to 21.3 percent in 1982 (see Table 2).[6]

If single-parent families are growing fast, black single-parent families are growing even faster. And if poverty is prevalent among the white single-parent households, it is much more so among blacks. The number of poor black families headed by women doubled between 1969 and 1982. These families accounted for 71 percent of all poor black families in 1982, compared with 54 percent in 1969.[7] In 1982 the poverty rate was 35.6 percent for all black persons and 57.4 percent for those living in female-headed families.

The major cash welfare program directed at single parents and their children is Aid to Families with Dependent Children. It was created by the 1935 Social Security Act, and conceived of as a small program to aid widows not covered by social security. Though it has been amended and broadened over the years, it has—in comparison with the rest of our social welfare system—remained small. AFDC in fiscal year 1981 accounted for only 17 percent of total welfare expenditures and only 4 percent of total expenditures on income support.[8] The percentage cut in the AFDC budget in the Omnibus Budget Reconciliation Act (OBRA) of 1981 percent to 100 percent after four months of earnings, set maximum allowable deductions for work and child care expenditures, computed the third of their earned income that AFDC working recipients were allowed to keep (for four months) on the basis of their income after deductions rather than before, lowered the ceiling on assets, and counted stepparent income when calculating the benefit.[9]

Robert J. Rubin of the Department of Health and Human Services stated in his testimony that these changes have reduced welfare rolls. "In all, 408,000 families lost eligibility [for all] benefits and 299,000 lost [some] benefits as a result of the OBRA changes. The changes saved the federal and state governments about $1.1 billion in 1983."[10] And Stockman wrote:

> The dire predictions of those who opposed the gross income cap and limiting of work disregards in AFDC . . . did not come true. Contrary to assertions that wage-earning recipients would quit their jobs to stay on welfare, the number of recipients who quit work or lost jobs and returned to welfare was the same both before and after the 1981 Reconciliation Act—18 percent.[11]

But although the AFDC recipients whose benefits were reduced or terminated did not, by and large, quit work and return to welfare, they did experience significant losses in total income. Preliminary findings of studies being carried out jointly by the Institute for Research on Poverty and the Wisconsin Department of Health and Social Services sugwas larger than that for most other transfer programs. The Reagan administration introduced a gross income limit of 150 percent of each state's standard of need, raised the marginal benefit reduction rate on a recipient's earnings from 67

gest that less than 10 percent of the AFDC recipients in Wisconsin who were working when OBRA terminated or reduced their benefits quit a job and were back on welfare a year after the cuts went into effect.[12] And for all the women

Table 2
Selected Characteristics of Persons below the Poverty Level: 1982 and 1979
(Numbers in thousands)

Characteristic	Below Poverty Level			Poverty Rate		
	1982	1979	Percentage Difference	1982	1979	Percentage Point Difference
All persons	34,398	26,072	31.9	15.0	11.7	3.3
In families	27,349	19,964	37.0	13.6	10.2	3.4
Related children under 18 years	13,139	9,993	31.5	21.3	16.0	5.3
In families with female householder, no husband present	11,701	9,400	24.5	40.6	34.9	5.7
In all other families	15,649	10,563	48.1	9.1	6.3	2.8
Unrelated individuals	6,458	5,743	12.4	23.1	21.9	1.2
Under 65 years	30,647	22,390	36.9	15.0	11.3	3.7
65 years and over	3,751	3,682	1.9	14.6	15.2	-0.6
In metropolitan areas	21,247	16,134	31.7	13.7	10.7	3.0
In central cities	12,696	9,720	30.6	19.9	15.7	4.2
Outside central cities	8,551	6,415	33.3	9.3	7.2	2.1
In nonmetropolitan areas	13,152	9,937	32.4	17.8	13.8	4.0

Source: U.S. Department of Commerce (Bureau of the Census), "Poverty Trends and Issues," prepared for the Committee on Ways and Means, U.S. House of Representatives, October 18, 1983, Chart 4.

affected, income from earnings, AFDC, and food stamps decreased by 17 percent over this period. The OBRA changes may, however, have decreased the incentive to begin work for those women on AFDC who were not working when OBRA was implemented. A research project to address this question is just getting under way at the Institute.

Two-parent households and unrelated individuals: the working poor. Timothy Smeeding, in his testimony before the committee, stated that "the major increases in poverty experienced during the past four years have been among persons, adults but especially children, living in traditional husband-wife families." In 1979 families headed by married couples made up 34.4 percent of the poor. Today they make up 40 percent, and 60 percent of the increase in poor families last year was made up of husband-wife families.[11]

This is the working population, and their mainstay during recessions is Unemployment Insurance (UI). But since 1979 there has been a large drop in the fraction of the unemployed receiving UI.

Gary Burtless of the Brookings Institution, in his testimony, stated that in fiscal year 1976 about three-quarters of the unemployed were covered by UI, but in fiscal 1982, only 42 percent were covered. Relative to the number of newly unemployed workers, there have been between 16 and 18 percent fewer initial UI claimants in the past two years. Burtless attributes this relative drop in applications to a

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Institute for Research on Poverty
1180 Observatory Drive
3412 Social Science Building
University of Wisconsin
Madison, Wisconsin 53706

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Unsigned articles written by E. Uhr and Elizabeth Evanson; edited by E. Uhr.

number of changes that have been made both at the state level and at the federal level since the 1974–75 recession.[14] Because additional benefits (such as Extended Benefits — an extra 13 weeks of coverage) are made available only when the count of those on UI reaches a certain level, the reduced number of initial claimants started a chain reaction that cut back benefits at every stage of the recession. According to the U.S. Department of Labor, the August 1983 outlay for UI was an estimated $1.5 billion, or 34 percent lower than would have been the case if the system had compensated the unemployed in proportion to the levels paid in 1976.[15]

Though UI is not primarily an antipoverty program, Burtless demonstrated that it has been reasonably effective in aiding some of those who would be poor in the absence of the program, particularly husband and wife families. But the changes in UI have reduced its antipoverty effectiveness. "In 1975 about 34 percent of one-earner husband-wife families with pre-UI incomes below the poverty line were raised above poverty by their UI payments. In 1982 only 20 percent of these families were raised above poverty by UI payments. The relative drop in effectiveness was even larger for families suffering 26 or more weeks of unemployment."[16]

Using data from the Michigan Panel Study of Income Dynamics (PSID), Burtless found that among nonaged, poor, male-headed families, the fraction of unemployed breadwinners receiving any UI benefits at all dropped from 51 to 29 percent between 1975 and 1981; and among those receiving UI benefits, a smaller fraction below the poverty line were brought above the line by their benefits — 49 percent in 1975 vs. 37 percent in 1981.[17]

The working poor also pay taxes. And, according to Smeeding as well as data contained in the *Background Material on Poverty*, taxation in recent years has begun to adversely affect the poor. The earned-income tax credit (EITC) was enacted by Congress in 1975 to alleviate the tax burden on low-income families who had children and who supported themselves primarily by earnings. At that time, payroll taxes were lower and a family of four did not have to start paying federal income taxes until its income was 22 percent above the poverty line. In subsequent years the distance between the poverty threshold and the tax threshold narrowed considerably: inflation drove up the poverty line, but tax adjustments to offset the effects of inflation did not keep pace. Nor did the EITC. Originally set at $400, its maximum amount was raised to $500 in 1979 and has not changed since then.

According to Smeeding, in 1982 a family of four with earnings at the poverty level would have to pay $946 in federal income and payroll taxes, despite the EITC. The same family would on average qualify for food stamps in the amount of $900. The net effect of food stamps and taxation would therefore have been to reduce a poverty-level income by an additional $46. These taxes equaled 9.6 percent of income in 1982 and are projected to rise to 9.8 in 1983, and to 10.1 in 1984.[18] Thus while the general population has had tax cuts, the working poor have had increases.[19]

The one government welfare program for which all of those with low income and assets are eligible is Food Stamps. OBRA has restricted benefits and reduced eligibility for this program in a number of ways. The first month's payments have been prorated, indexation has been slowed, and a gross income limit equal to 130 percent of the poverty line has been established for all households except those containing an elderly or disabled person. A slightly larger benefit reduction rate on earnings has been imposed. New rules have tightened restrictions on boarders, aliens, and college students, and strikers have been eliminated from the rolls altogether.[20]

The aged. The aged are the success story of the period following the War on Poverty. As can be seen from Table 2, at a time when the poverty rate was rising for all other groups, the economic status of the aged continued to improve. Over 43 percent of this group have pretransfer incomes below the poverty line, but after money transfers their poverty rate falls to 14.6 percent, slightly less than the rate for all persons. If their assets and in-kind transfers (such as Medicare and food stamps) and favorable tax laws are taken into account, their economic status relative to the nonelderly increases even more (see *Focus* 6:2). Because social security and Supplemental Security Income are indexed to consumer prices, these major sources of income are not eroded by inflation, and because most of the aged are not in the work force, they are less vulnerable to the ups and downs of the business cycle. Dependent on government transfers, they can have their incomes reduced through legislative acts. However, the fact that they are a potent political force makes it unlikely that any retrenchment will adversely affect current retirees.

Though the Reagan administration sought to reduce government spending on social welfare programs, and was particularly concerned over the short-term deficits in OASDI, the 1983 amendments to the Social Security Act made only

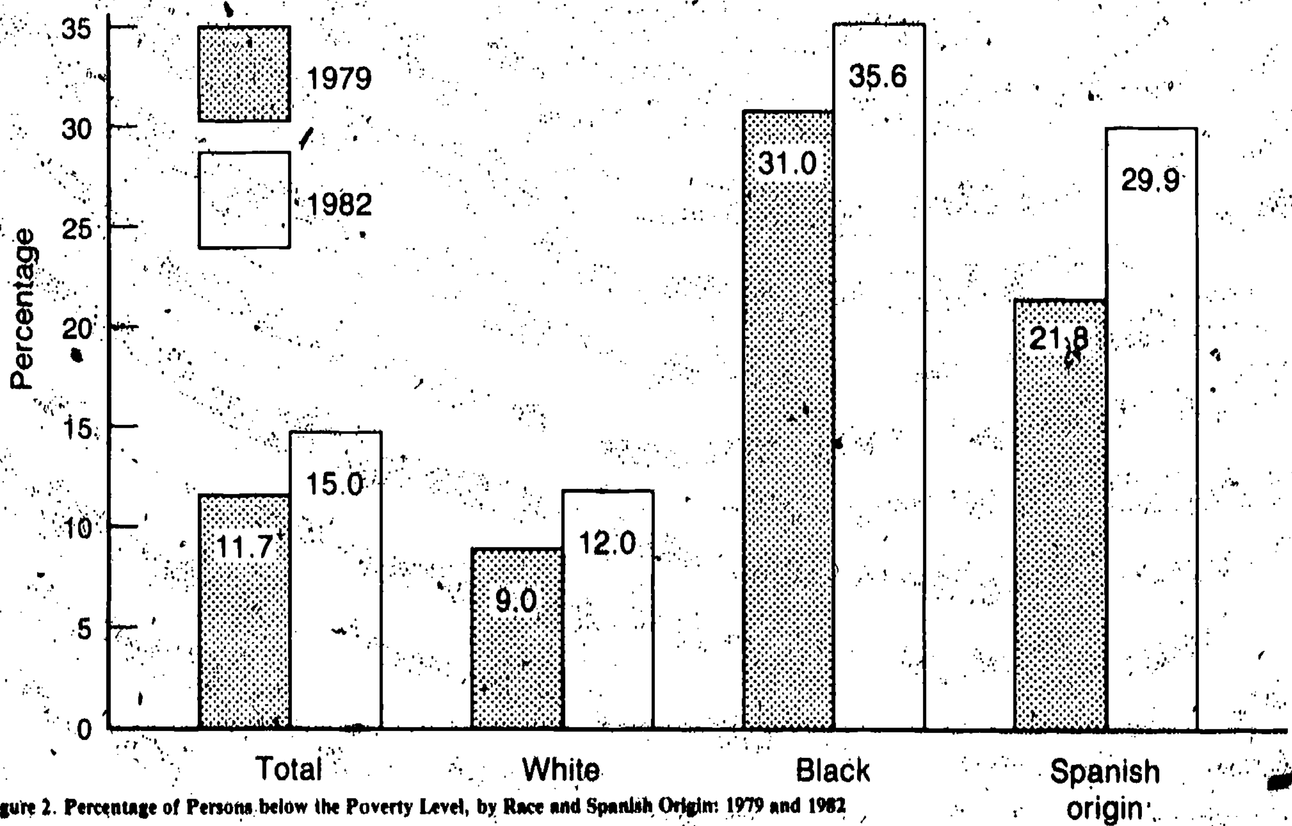

Figure 2. Percentage of Persons below the Poverty Level, by Race and Spanish Origin: 1979 and 1982

Source: "Poverty Trends and Issues," prepared by the U.S. Department of Commerce (Bureau of the Census) for the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, Chart 3.

Table 3
Poverty Deficit in Current Dollars before and after Cash Transfers, Selected Years, 1967-82

Year	Pretransfer Poverty Deficit[a] (1)	Cash Transfers Received by Pretransfer Poor Households[a] (2)	Posttransfer Poverty Deficit[a] (3)	Percentage Reduction in Poverty Deficit Due to Cash Transfers (4)	Posttransfer Poverty Deficit as a Percentage of GNP (5)
1967	$ 22.6	$ 17.5	$10.0	55.5%	1.29%
1974	45.0	57.3	15.1	66.4	1.04
1979	70.5	80.0	23.9	66.0	1.02
1980	88.9	95.9	31.4	64.6	1.22
1981	104.1	109.0	39.3	62.2	1.37
1982	114.9	118.1	45.3	60.5	1.47
% Increase in Current Dollars					
1979/1967[b]	211.9	357.1	139.0	—	—
1982/1979[c]	63.0	47.6	89.5	—	—

Source: Sheldon Danziger in Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee," IRP Discussion Paper no. 740-83, p. 10.

[a]Billions of current dollars.

[b]Between 1967 and 1979, the Consumer Price Index increased by 117 percent.

[c]Between 1979 and 1982, the Consumer Price Index increased by 33 percent.

small changes in the economic status of the aged. The changes eliminated inequities in coverage, provided for a gradual rise in the retirement age, made half of social security subject to income tax in the case of high-income beneficiaries, and delayed the annual cost-of-living adjustment from July to January.

Of the 3.8 million aged poor in 1982, blacks and women were disproportionately represented. The poverty rate among elderly blacks was 38.2 percent, compared to 12.4 percent for elderly whites. Whites who lived alone had a poverty rate of 23.5, whereas blacks who lived alone had a rate of 61.6 percent. Women, who accounted for 59.1 percent of the noninstitutionalized aged population, accounted for 70.9 percent of the aged poor.[21]

Geographic distribution. During the 1970s the poor became increasingly concentrated in metropolitan areas. In 1969 only 54 percent of the poor lived in cities, whereas in 1982, 62 percent of the poor were located in these areas. The central cities contained 37 percent of the nation's poor in 1982 (12,696,000; see Table 2), whereas they had contained 33 percent of the poor in 1969. At the same time the proportion of the total population living in central cities dropped from 32 percent to 28 percent.[22]

The proportion of the poor living in the South has lessened. Between 1969 and 1982 it dropped from 46 to 41 percent.[23] Nevertheless, the South still had the highest poverty rate in 1982 – 18.1 percent, compared to 13.0 in the Northeast, 13.3 in the North Central states, and 14.1 in the West.[24]

Race and ethnic background. Although two-thirds of the poor in 1982 were white, other races were disproportionately represented. Blacks, for example, made up 22.9 percent of the poor, though they are only 11.9 percent of the total population. People of Spanish origin accounted for 12.5 percent of the poor, though they are only 6 percent of the population.[25] Put another way, only 12 percent of all whites, but 35.6 percent of all blacks and 29.9 percent of all Hispanics were poor (see Figure 2). Race is not only related to poverty at a given time, it is also related to level of poverty and length of time in poverty.[26]

How poor are the poor?

"The proportion of poor persons with incomes at 75 percent or less of the poverty lines increased from 61 percent in 1978 to 68 percent in 1982."[27] Since 1978, in terms of census income alone, it would appear that the poor are losing ground. Just how poor were the households with incomes below the poverty line? This question can be answered in part by examining what has happened to the poverty deficit (defined in the box). Table 3 illustrates that cash transfers between 1967 and 1979 were increasingly successful in reducing the poverty deficit. They reduced the deficit by 55.5 percent in 1967 and 66.0 percent in 1979. After 1979, however, the pretransfer deficit grew faster than did cash transfers, so the posttransfer deficit grew even faster. This deficit, in current dollars, grew from $23.9 billion to $45.3 billion between 1979 and 1982 (or from $31.8 to $45.3 billion in constant 1982 dollars). The 1982 pretransfer poverty deficit of $114.9 billion means that the income of the typical poor household before transfers is about $4540

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below the poverty line; the posttransfer deficit of $45.3 billion means that those households remaining poor after receiving cash transfers were about $3200 below the poverty line.[28] Table 3 also demonstrates that the antipoverty impact of cash transfers (discussed in more detail below) has been decreasing in recent years – only about 60 percent of the gap was reduced by transfers in 1982.

Also shown in the table is the continued growth of cash transfers to the poor. In 1982 the poor received $118.1 billion in cash transfers – more than enough, in theory, to wipe out the poverty deficit. However, this could be achieved only by an income-tested program which reached all of the poor and provided each pretransfer poor household only the amount of its poverty deficit. Such a program would be impossible to administer and would have great work disincentives. Most of the antipoverty impact of existing transfers is due to social insurance programs – chiefly social security – which raise the incomes of many of the pretransfer poor who receive them far above the poverty line. These social insurance transfers remove more persons from poverty than do cash public assistance transfers, because a greater number of the pretransfer poor receive them and because the average social insurance benefit is higher.

How long are they poor?

An earlier article in *Focus* on the dynamics of poverty (5:1, a research team headed by Martha Hill at the University of Michigan followed the history of family members who left home and established their own households. The research results showed considerable economic upward mobility across generations of poor families: "Most of today's poor children are not tomorrow's poor adults."[30]

These analyses of the dynamics of poverty indicate that the best evidence we now have gives us both good and bad news. Many poor people remain so for only a short time, but those who do not soon escape poverty are likely to stay poor for many years. More optimistic is the finding that poverty is not necessarily transmitted from one generation to the next.

Table 4
The Antipoverty Effectiveness of Major Income Transfers, Selected Years, 1965–82

Years	Percentage of Pretransfer Poor Persons Removed from Poverty by: Cash Social Insurance Transfers[a]	Cash Public Assistance Transfers[b]	In-Kind Transfers[c]	All Transfers
1965	23.5	3.3	16.4	43.2
1976	37.6	6.2	28.1	71.9
1978	37.6	5.9	n.a.	n.a.
1980	35.2	8.5	n.a.	n.a.

Summer 1981) outlined changing views in the 1960s and 1970s concerning the permanent versus the transitory nature of poverty. In the 1960s many analysts perceived the poor as a separate population, imbued with its own culture, socially immobile, isolated from the rest of society. In the 1970s others began to point to large flows of people into and out of poverty, creating a churning effect around the threshold. The availability of longitudinal data has now made it possible to track the actual course in time of individuals who become poor.

Harvard researchers Mary Jo Bane and David Ellwood, using a ten-year segment of the Michigan PSID, found, as Stockman put it in his testimony, that "the same poor people are not always with us – even though the same numbers seem to be."[29] The main findings of the study, which Stockman described, are that many of those who become poor experience short periods of poverty lasting one to two years, but that a small number remain poor for a very long time and, because of their continuing presence, form the dominant part of the poverty population at any one time. These long-term poor eventually consume a large portion of welfare expenditures. They constitute the group termed by some the underclass – the hard core, those most difficult to reach.

Another recent study utilized the Michigan PSID to address the issue of whether poverty persists across generations. To find out whether motivational deficits among poor parents depressed the levels of their children's economic attainment,

1982	33.8	3.8	25.8[d]	63.3[d]

Source: Sheldon Danziger in Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee," IRP Discussion Paper no. 740–83, p. 8.

[a]Cash social insurance transfers include social security, railroad retirement, unemployment compensation, workers' compensation, government employee pensions, and veterans' pensions and compensation.

[b]Cash public assistance transfers include AFDC, SSI (OAA, APTD, and AB in 1965), and general assistance.

[c]In-kind transfers include Medicare, Medicaid, Food Stamps, and, for 1976, school lunch and public housing; this figure also adjusts for direct taxes and the underreporting of cash transfers.

[d]Based on estimate for adjusted income poverty 1982.

n.a. = not available

Causes and cures

Among those presenting testimony before the subcommittees, none disputed the actual numbers of poor people under the various measures, but there was some disagreement over the long-term causes and cures underlying those numbers. Argument continues over whether the state of the economy or government transfers has the greater effect on poverty in the United States. Some stressed economic growth as the primary factor in reducing poverty, but Institute researchers found the picture more complex. Sheldon Danziger described the varying antipoverty effectiveness of transfers over past years, and Institute affiliate Peter Gottschalk, of Bowdoin College, summarized research intended to disentangle the effects of economic change, income transfers, and long-range changes in income inequality.

Income transfers and poverty: Trends over time

One way to gauge the effect of social programs is to estimate how many people they move out of poverty. Table 4, which Danziger presented in his testimony, arrays those figures over a seventeen-year period, separating transfers into social insurance, public assistance, and in-kind transfers including adjustment for taxation and underreporting of income.[11]

As seen in the table, cash social insurance benefits remove the greatest percentage of the pretransfer poor from poverty, and cash public assistance the smallest in each year. Social insurance had an increasing effect in reducing poverty from 1965 until 1976, then steadily diminished in importance after 1978. Public assistance followed a different trajectory: its effectiveness rose till 1976, declined till 1978, rose to its highest point in 1980, and within two years after that had dropped to a point almost as low as in 1965. In-kind transfers had a growing effect from 1965 to 1976, then dropped off.

The principal conclusion to be drawn is that transfer effectiveness rose in the period 1965 to 1976 and declined steadily from that point on. Does that rise and decline account for the concomitant decline and rise in poverty, or was it economic growth and then economic recession that caused the change in poverty rates?

Economic change, transfers, and poverty

To pursue the question of how transfer effectiveness compares with the power of market income in determining poverty rates, Gottschalk and Danziger in a joint paper compared three sets of figures: (1) economic activity, shown by year-to-year changes in real (adjusted for inflation) gross national product and by yearly unemployment rates; (2) transfer efforts, shown by changes in cash as well as in-kind transfers; and (3) the poverty rates over time.[12] Table 5 displays these figures over selected years since 1950.

Using the evidence in Table 5, Gottschalk and Danziger conclude that the data are consistent with the following simple story: The period of sharp reductions in poverty in the 1960s resulted from a combination of economic growth, declining unemployment, and large increases in transfers. The stable poverty rates of the 1970s resulted from offsetting factors: growth slowed and unemployment rose; but so did both cash and in-kind transfers. After 1979, declining economic growth, rising unemployment, and lower real transfer levels all contributed to greater poverty.

Table 5

Time Series on Macroeconomic Conditions, Income Transfers and Poverty, Selected Years 1950–82

Year	Real GNP per Household[a] (1972 dollars) (1)	Unemployment Rate (2)	Real Cash Transfers per Household[a] (1972 dollars) (3)	Real In-Kind Transfers per Household[a] (1972 dollars) (4)	Official Incidence of Poverty[b] (5)	Incidence of Poverty Adjusted for In-Kind Transfers[c] (6)
1950	$10,880	5.3%	$ 365	$ 29	n.a.	n.a.
1965	15,350	4.5	816	61	17.3	12.1%
1968	16,390	3.6	911	20[illegible]	12.8	9.9
1970	16,080	4.9	1,010	242	12.6	9.3
1972	16,710	5.6	1,225	304	11.9	6.2
1974	16,720	5.6	1,263	327	11.2	7.2
1976	16,630	7.7	1,513	427	11.8	6.7
1978	17,440	6.1	1,488	464	11.4	n.a.
1979	17,580	5.8	1,419	472	11.7	6.1
1980	16,850	7.1	1,414	482	13.0	n.a.
1981	17,020	7.6	1,458	505	14.0	n.a.
1982	16,160	9.7	1,475	508	15.0	n.a.

Sources: For GNP, consumer price index, and unemployment rate, *1982 Economic Report of the President*; for cash and in-kind transfers, "Social Welfare Expenditures under Public Programs in the U.S.," *Social Security Bulletin*, December 1968, December 1972, January 1971, January 1977, November 1981; for official poverty incidence and number of households, *Current Population Reports*, Series P-60, "Consumer Income"; for adjusted poverty, Timothy Smeeding, "The Antipoverty Effects of In-Kind Transfers," *Policy Studies Journal 10* (1982), 499–521.

Note: *Cash transfers* include *social insurance* (non-income-tested: old age, disability, survivors', railroad retirement, unemployment insurance, workers' compensation, government employee pensions, veterans' pensions and compensation) and cash *public assistance* (income-tested: AFDC, SSI, and general assistance). *In-kind transfers* include cash equivalent values of Medicare, Medicaid, food stamps, public housing; figure also adjusted for direct taxes and underreporting of cash transfers.

[a]Transfers are divided by all households, not by recipient households.

[b]All persons. For families, the poverty incidence was 12.2% in 1982, 11.2% in 1981.

[c]This series also adjusts census incomes for simulated values of taxes and income underreporting.

n.a. = not available.

To further explore the relative effects of these factors, Gottschalk in his testimony described analyses separating out three elements: changes in mean market income, which reflect the state of the economy, changes in mean cash transfer income, and a residual category that captures changes in the shape of the income distribution.[11] This third category is important because fluctuations in poverty rates result from changes in the distribution of income. For example, if the real incomes of all households rise proportionately during good times, a smaller proportion of households will fall below the fixed poverty line. If, however, economic expansion does not raise the incomes of all households equally, the shape of the income distribution changes. And, if the incomes of those households at the bottom of the distribution grow slower than the average, poverty may rise despite an increase in *average* incomes. Table 6 decomposes the change in poverty rates over two time periods, the earlier one marked by declining, the more recent by rising, poverty rates.

Between 1967 and 1969, poverty went down by 2.6 percentage points. Both cash transfers and market income were important -- transfers somewhat more so -- in achieving that result. Yet over the same years growing inequality was large enough to take away half of the effect of rising mean incomes. Between 1979 and 1982, poverty rose by 3.3 percentage points. This was partly a result of depressed mean market income, which increased poverty by 0.8 percent. Far more important was the change in the shape of the income distribution: because incomes declined more sharply among those in the lower income ranges, poverty rose 2.9 percent. In other words, if all households had experienced equal decreases in market income and equal increases in transfers, poverty from 1979 to 1982 would have risen only about 0.4 percentage points, not 3.3 points.

Table 6
Decomposition of Changes in Poverty Rates

Because of the different experience among demographic groups that has been documented above, Gottschalk and Danziger separated out the relative effects for households headed by young men, older men of working age, and the elderly. Table 6 illustrates again the dramatic decline in poverty among the aged, and shows that growth in mean transfers was almost solely responsible for that decline. Among the other groups, growth in market income was more important than transfers in reducing poverty until 1979, but even in that earlier period the gains from both sources were diminished by greater income inequality. In the more recent period, market incomes again played a greater role, but in the opposite direction: despite the poverty-reducing effects of transfers, the recession drove poverty rates up, as did a continued increase in income inequality.

These figures demonstrate the power of earned or market income in raising or lowering poverty rates among those of

Household Head	Actual Percentage Point Change in Poverty (1)	Percentage Point Change in Poverty Associated with Change in Mean Market Income (2)	Mean Cash Transfer Income (3)	Shape of the Income Distribution (4)
All persons				
1967–79	− 2.6	− 2.4	− 3.1	2.9
1979–82	3.3	0.8	− 0.4	2.9
Young men (under 25)				
1967–79	− 1.9	− 2.5	− 0.6	1.2
1979–82	5.8	3.0	− 0.6	3.4
Prime-aged men (25–64)				
1967–79	− 1.7	− 3.1	− 0.8	2.2
1979–82	3.0	0.8	− 0.2	2.4
Elderly persons (over 65)				
1967–79	− 12.9	0.5	− 19.6	6.2
1979–82	· 0.6	· 0.1	− 1.8	1.3

Source: Computations from data derived in Gottschalk and Danziger, "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty," in Lee Bawden, ed., *An Assessment of Reagan's Social Welfare Policy* (Washington, D.C.: Urban Institute Press, 1984).

Note: The sum of the changes in columns 2, 3, and 4 is equal to the change shown in column 1.

working age who are not insulated, as are the elderly, from economic ups and downs. David Stockman underlined this point when he described "the critical importance of swings in the business cycle to non-elderly poverty" and concluded that "variations in poverty over the business cycle are ample evidence that the poor and near-poor benefit considerably from economic growth."[34] The evidence presented by Gottschalk and Danziger confirms this conclusion but points to the importance of recent increases in inequality in offsetting the gains to economic growth.

To estimate the magnitude of the poverty reduction which will accompany the economic recovery, Gottschalk and Danziger used projections based on (1) the economic recovery predicted in July 1983 by the Office of Management and Budget, and (2) proposed expenditures on the major transfer programs in the federal budget for fiscal year 1984. They estimated that even if the economy improved as forecast, the poverty rate would drop only from 15 percent in 1982 to 14.6 percent in 1983, and would remain at that level through 1984. This small drop in poverty is largely a result of the predicted slow decline in unemployment rates. (It is worth noting that unemployment rates in recent months have been falling somewhat faster than the July 1983 official predictions.) "It would take," concluded Gottschalk, "either a stronger than officially predicted recovery or an unexpected increase in income transfers to bring poverty as officially measured back to the 11–12 percent range of the late 1970s."[35]

Directions for the future

There is thus general agreement that declines in unemployment combined with economic growth will reduce poverty for those attached to the work force—in the short run. There is less agreement about the ability of growth to counter the secular increase in inequality.

Most students of poverty do agree that a robust economy will have the least effect on those, such as single parents with small children, whose commitment to the work force is tenuous, those who are disabled, and those who are disadvantaged by lack of training, race, or ethnic background. For these people, welfare or public employment and training programs of some sort or another seem to offer the only possibility of escape from poverty.

CBO options

In response to the request by the subcommittees that the Congressional Budget Office identify and analyze options for increased welfare expenditures that would reduce the poverty rate and/or the poverty gap, Rudolph Penner, CBO Director, began by pointing out that any increase in outlays related to welfare programs must, of course, be financed by cutting nonwelfare programs, or by raising taxes, or by increasing an already large deficit. He also noted that changes in welfare programs have a number of different goals, some of them in conflict with one another.

between one-parent and two-parent families and eliminate the incentive for men to leave home. It would cost between \$.5 and \$.7 billion, three-fifths of which would be paid by the federal government.

3. *Expand Food Stamp benefits.* This program now provides benefits to all the poor, including the working poor and childless individuals who are not eligible to participate in other programs. Because it is a federal program already in place, raising the size of the benefits would be administratively simple. An increased federal expenditure of \$.9–1 billion would raise total benefits by 8 percent. If Food Stamps were transformed into a cash program, counterfeiting and black market activities would be eliminated, but there would be no guarantee that recipients would use the money for food.

4. *Expand Medicaid eligibility to all poor families with children.* If eligibility for Medicaid were expanded to include all poor families with children, it would cost the federal government about \$6 billion and the states about \$5 billion in 1985, assuming the present cost-sharing arrangements stay the same. Such an expansion would provide access to medical care for all poor children and reduce work disincentives for AFDC families by allowing them to retain Medicaid benefits when no longer eligible for AFDC benefits.

5. *Expand the dependent care tax credit for low-income families.* This program provides a nonrefundable tax credit of 30 percent (up to \$720) of dependent care expenses for

The goals he listed were targeting benefits toward those most in need; treating persons with similar incomes alike; encouraging families to remain together; maintaining incentives so that program recipients who can work do so; simplifying the system and reducing administrative costs; and keeping costs as low as possible.

After making these qualifying remarks, Penner set forth the following options for changes in welfare programs, the particular advantages and drawbacks of which have been the subject of much debate.[36]

1. Establish a national minimum AFDC benefit level. AFDC now varies from state to state. The maximum guarantee in Mississippi for a family of three is $96 a month. The same family in Vermont would get $530. A national minimum would target much of the increase in benefits on single-parent families in states where payments are quite low, resulting in more equal treatment across states for these families. If costs were shared by states and the federal government, however, poor states might have difficulty in funding the program. To bring AFDC plus food stamp benefits up to three-fourths of the poverty line, federal expenditures would have to rise by $1.2-1.6 billion in 1984 and state costs by $1.0-1.5 billion.

2. Require state participation in the Unemployed Parent program under AFDC. This program would make AFDC available to intact families in the 31 states that do not now have an AFDC-UP program. It would provide equity families earning less than $10,000. Increasing the credit and making it refundable would encourage work by reducing some of the tax burden on poor working families who have dependent care expenses. Even an increased credit would provide limited aid to the very poor, who would be unable to pay for care for their dependents in the first place. A refundable credit to cover up to 60 percent of expenses is estimated to cost between $1.5 and $2 billion in reduced revenues in 1984.

6. Change the earned-income tax credit. As mentioned earlier, the EITC has not kept up with inflation. Either the amount of the credit could be raised or the credit could be expanded to cover childless couples and unrelated individuals. The expansion would cause a revenue loss of about $600 million. Penner suggests that a tax rate lower than 12.5 percent could be used during the phase-out stage in order to lessen work disincentives.

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7. Expand child support enforcement. Because the poverty of single-parent families is directly related to lack of child support from the noncustodial parents, mandatory withholding of child support payments from wages would reduce poverty. Withholding would save the federal government between $25 million and $50 million a year in AFDC benefits but would not increase the well-being of women on AFDC because the payments would be used to offset AFDC benefits. Increased incentive payments to states would encourage them to collect child support payments and to establish clearinghouses through which child support payments would pass.

8. Moderate the asset test required under SSI. Although the income limits for SSI and AFDC are indexed to the growth of the CPI, the SSI asset test of $1500 for an individual and $2250 for a couple has not changed. Raising the asset limit would raise participation rates for SSI among the elderly and disabled. Raising the asset limit of SSI by 50 percent would probably cost less than $500 million, but the resulting impact on the degree of SSI participation cannot be predicted.

It should be pointed out that these proposals by no means exhaust the possibilities for change. Many different prescriptions have been recommended by students of poverty policy. Some advocate incremental changes in programs now in place. Others propose more sweeping reforms[37] such as a Credit Income Tax.

social security and Medicare, though these programs account for four-fifths of federal social spending.[39] He further pointed to the trend, implicit in the budget cuts, which reduces aid to the working poor while maintaining it for the dependent poor: the elimination of the $30-and-a-third provision for employed AFDC beneficiaries after four months, the cutback in food stamps, and the loss of health insurance by the unemployed. He argued that "The administration contends that it would be a waste of society's scarce public dollars to give 'permanent' help to the working low-income households. Yet, it has made little effort to withdraw the wide array of special tax breaks and other equally permanent subsidies flowing to middle and upper-income households."[40] As an example, Meyer pointed to the open-ended tax deduction for employer-provided health insurance.

Poverty has proved more difficult to eliminate than was envisioned when the War on Poverty was declared, twenty years ago. There is more of it in bad economic times than in good, more when less is done to alleviate it, more for some types of people than for others. No cheap and easy solutions have been proposed. Yet the concern of members of Congress and the growing body of research and experimental results are encouraging – there is a range of alternative policies which, though expensive, offer the promise for further reducing poverty. ■

[39]David Stockman, statement before the U.S. House of Representatives Ways and Means Committee, Subcommittees on Oversight and on Public

Conclusion

Robert Rubin summed up the Reagan administration's goals as follows:

> Our policy for reducing poverty is two-fold. First, we believe that a sound and growing economy is the essential element to reducing poverty and improving the economic well-being of all Americans. A strong economy will produce jobs that provide income to those capable of working. Employment not only provides immediate income but ensures the long-run potential for improving a family's standard of living. Second, for those who are unable to provide for themselves, the federal and state governments must maintain public assistance programs that assure that every American can maintain a decent standard of living.[38]

Doubts were expressed over whether the administration's programs could carry out these goals and bring poverty rates back down to the levels of the late 1970s. And questions were raised about the fairness of the administration's budget cuts.

Jack Meyer of the American Enterprise Institute pointed out that while the 1982 and 1983 budgets made significant cuts in programs for the poor, such as Food Stamps, AFDC, and Medicaid, there were much smaller cuts in

Assistance and Unemployment Compensation, Washington, D.C., November 3, 1983, p. 5.

[2]Ibid., p. 6.

[3]Sheldon Danziger, "Alternative Measures of the Recent Rise in Poverty," presented before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983 (also available in IRP Discussion Paper no. 740-83).

[4]*Background Material on Poverty*, prepared for use of U.S. House of Representatives Committee on Ways and Means by its staff (Washington, D.C.: U.S. GPO, October 17, 1983), p. 10.

[5]Daniel Patrick Moynihan, "Welfare Reform's 1971-72 Defeat, A Historic Loss," *Journal of the Institute for Socioeconomic Studies*, 6 (Spring 1981), 8.

[6]Rudolph G. Penner, statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, p. 9.

[7]"Poverty Trends and Issues," prepared by the Bureau of the Census for the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, p. 9.

[8]Irwin Garfinkel and Elizabeth Uhr, "Child Support and the Public Interest," *Public Interest*, in press.

[9]Steven Cole, Sandra Danziger, Sheldon Danziger, and Irving Piliavin, "Poverty and Welfare Recipiency after OBRA: Some Preliminary Evidence from Wisconsin," paper given at the Association for Public Policy Analysis and Management Research Conference, Philadelphia, October 20-22, 1983, p. 1.

[10]Robert J. Rubin, statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., November 3, 1983, p. 13 (also available in IRP Discussion Paper no. 740-83).

[11]Stockman, pp. 22-23.

[12]Cole et al.

[13] Timothy Smeeding, "Recent Increases in Poverty in the U.S.: What the Official Estimates Fail to Show," testimony before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, pp. 14–15 (also available in IRP Discussion Paper no. 740–83).

[14] Gary Burtless, testimony before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, pp. 1 and 6. The significant changes he lists are the following: The imposition of a high implicit tax on pensions and old age insurance, which cut back the amount of UI received by retirees; the imposition of federal taxation on UI benefits for higher income families; the imposition of interest charges on federal loans to debtor state UI programs; the tightening of eligibility requirements on workers who voluntarily leave a job or who are discharged for cause; tougher job search requirements to UI claimants; and restrictions on benefits to school employees who do not work during school holidays.

[15] *Background Material on Poverty*, p. 101.

[16] Burtless, p. 19.

[17] Ibid., p. 21.

[18] Smeeding, pp. 10–11 and Table 3; *Background Material on Poverty*, p. 151, Table 3.

[19] For an analysis of tax changes across the entire distribution, see Frank Levy and Richard C. Michel, "The Way We'll Be in 1984: Recent Changes in the Level and Distribution of Disposable Income," Urban Institute Discussion Paper, 2100 M Street, N.W., Washington, D.C., 20037, November 1983. Levy and Michel found that over 1979-84, "among the top one-fifth of families, taxes as a proportion of income will have declined slightly from 31.6 percent to 31.1 percent. The experience of the bottom quintile [is that] taxes as a proportion of income will have increased from 9.7 percent to 11.9 percent" (p. 42).

[20] Maurice MacDonald, "Evaluation of Impacts of the Omnibus Budget Reconciliation Act of 1981 on Wisconsin Food Stamp Costs and Caseload," IRP Special Report, forthcoming.

[21] *Background Material on Poverty*, p. 19.

The University of Wisconsin Foundation has established an Institute for Research on Poverty Fund to be used to support the projects of the Institute for Research on Poverty. Contributions to the fund are tax-deductible. Checks should be made out to the *University of Wisconsin Foundation–Institute for Research on Poverty Fund* and sent to the U.W. Foundation, 702 Langdon Street, Madison, WI 53706.

Institute publications

Sheldon Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee." IRP Discussion Paper no. 740–83.

Sheldon Danziger and Eugene Smolensky, "Abrupt Changes in Social Policy: The Redistributive

[22]"Poverty Trends and Issues," p. 10.
[23]Ibid.
[24]"Poverty Trends and Issues." Table 7.
[25]*Background Material on Poverty*, p. 12.
[26]See Mary Jo Bane and David T. Ellwood, "Slipping into and out of Poverty: The Dynamics of Spells," mimeo., Harvard University, August 1982, p. 43.
[27]Penner, p. 4.
[28]Danziger, pp. 9–11.
[29]Stockman, p. 2.
[30]Martha Hill et al., "Final Report of the Project: 'Motivation and Economic Mobility of the Poor'; Part 1, Intergenerational and Short-Run Dynamic Analyses," Survey Research Center, University of Michigan, Ann Arbor, August 1983, mimeo., p. 10.
[31]Danziger, p. 8.
[32]Peter Gottschalk and Sheldon Danziger, "Changes in Poverty, 1967–1982: Methodological Issues and Evidence," IRP Discussion Paper no. 737–83.
[33]Peter Gottschalk, "Will a Resumption of Economic Growth Reverse the Recent Increase in Poverty?" statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, pp. 2–7 (also available in IRP Discussion Paper no. 740–83).
[34]Stockman, p. 17.
[35]Gottschalk, p. 8.
[36]The discussion of the CBO proposals is taken from Penner, pp. 11–25.
[37]See, for example, Irwin Garfinkel and Robert Haveman, "Income Transfer Policy in the United States," IRP Reprint no. 473, 1983.
[38]Rubin, p. 1.
[39]Jack A. Meyer, statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, p. 1.
[40]Ibid., p. 5.

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Related reading

Staff of the U.S. House of Representatives, Committee on Ways and Means, *Background Material on Poverty*. Washington, D.C.: U.S. GPO, 1983.

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The Measurement of Poverty

Implications for Antipoverty Policy

SHELDON DANZIGER
University of Wisconsin—Madison

PETER GOTTSCHALK
Bowdoin College and
University of Wisconsin—Madison

The Bureau of the Census (1982a) has released a report showing that if in-kind income from government programs--food stamps, subsidized school lunches, public housing, Medicare and Medicaid--is valued and added to money incomes, then poverty in 1979 was substantially less than the 11.1% of persons the census had previously reported.[1] The resulting estimates of the percentage of persons who are poor range from 6.4% to 9.8%, depending on which of the transfer benefits are included and how they are valued.[2]

Many analysts concerned about the well-being of the poor have criticized the report, viewing it as an attempt to demonstrate that poverty is no longer a serious problem. Such skepticism is unwarranted for several reasons. First, it has long been recognized that programs like food stamps and subsidized housing increase the purchasing power of

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the poor even if they do not alter their cash incomes, hence the Census Bureau's official poverty statistics. Similar estimates for earlier years have been widely cited in the academic literature (Smeeding, 1975; Hoagland, 1982).[3] Thus the Census Bureau has merely responded to academic and congressional criticism of the official statistics.

Second, rationales for reducing social welfare expenditures are seriously challenged by the findings. The report's lowest estimate of poverty is derived by valuing all of the in-kind transfers listed above at their market cost and adding them to reported cash incomes. That 13.6 million people—6.4% of the population—remain poor refutes the claim that poverty is no longer a serious problem.[4] Moreover, the lowest estimates reported for 1979 for blacks, persons of Spanish origin, and female heads of households are above the poverty levels for whites in the late 1960s.

Third, because the report shows that food stamps, public housing, Medicare, and Medicaid do reduce poverty, the frequent criticism that poverty programs benefit social workers, academics, and providers (and not the poor) can be rejected. Just as adding the values of these transfers reduces measured poverty, reducing benefits and terminating eligibility will increase poverty.

Finally, the census report does not invalidate a basic finding that no matter how measured, poverty declined little between 1973 and 1978 and has sharply increased since that time. As we show below, if cash and in-kind transfers had not increased rapidly since 1965, poverty would not have declined. And, if transfers continue to be cut back without being replaced by other antipoverty policies, poverty will continue to rise through the mid-1980s.

The remainder of this article is organized as follows. First, several issues related to the measurement of poverty are reviewed. Then some evidence on the present level and recent trend in poverty is presented. This is followed by a discussion of how current antipoverty policy differs from that of the past fifteen years. Finally, some projections of poverty into the mid-1980s are offered.

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THE MEASUREMENT OF POVERTY

The federal government's official measure of poverty provides a set of income cutoffs adjusted for household size, the age of the head of the household, and the number of children under age 18. (Until 1981, sex of the head and farm-nonfarm residence were other distinctions.) The cutoffs provide an absolute measure of poverty that specifies in dollar terms minimally decent levels of consumption. The official income concept—current money income received during the calendar year—is defined as the sum of money wages and salaries, net income from self-employment, Social Security income and cash transfers from other government programs, property income (e.g., interest, dividends, net rental income), and other forms of cash income (e.g., private pensions, alimony). Current money income does not include capital gains, imputed rents, government or private benefits in-kind (e.g., food stamps, Medicare benefits, employer-provided health insurance) nor does it subtract taxes, although all of these affect a household's level of consumption.

The official poverty cutoffs are updated yearly by an amount corresponding to the change in the Consumer Price Index so that they represent the same purchasing power each year. According to this absolute standard, poverty will be eliminated when the incomes of all households exceed the poverty lines, regardless of what is happening to average household income.

There have been numerous discussions over the past fifteen years as to whether the official poverty thresholds and income concept are relevant to policy choices (U.S. Department of Health, Education and Welfare, 1976). Despite these controversies, the adoption of an official measure of poverty and its use as a social indicator became a symbol of this country's commitment to raising the standard of living of the poorest citizens. According to James Tob[illegible]: 83):

> Adoption of a specific quantitative measure, however arbitrary and debatable, will have durable and far-reaching political consequences. Administrations will be judged by their success or failure in reducing the officially measured prevalence of poverty. So long as any family is found below the official poverty line, no politician will be able to claim victory in the war on poverty or ignore the repeated solemn acknowledgements of society's obligation to its poorer members.

Income poverty is a complex concept, and different types of poverty thresholds and income concepts are appropriate for different purposes.

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An absolute perspective, such as the official measure, focuses on those with incomes that fall short of a minimum (fixed) level of economic resources. On the other hand, relative indicators emphasize not only the household's own level of resources, but how its position compares to that of others. A relative definition draws attention to the degree of inequality at the lower end of the income distribution. Those whose incomes fall well below the prevailing average in their society are regarded as poor, no matter what their absolute incomes may be. A relative poverty threshold, therefore, changes at about the same rate as average income. One common proposal defines the poor as those with less than half of the median income.

The census report addresses only the issue of augmenting the official income concept, not the issue of changing the current poverty thresholds. However, just as the valuation of in-kind transfers reduces measured poverty, the shift to a relative poverty threshold during a period of rising real incomes or an updating of the official thresholds would increase measured poverty.[5]

A matrix of poverty measures showing two income concepts and two types of poverty thresholds is presented in Figure 1. The official income concept lies somewhere between pretransfer income and posttranfer-posttax income in the first row. Census money income does not distinguish between income derived from market and private transfer sources (e.g., wages, dividends, alimony) and income derived from government sources (e.g., Social Security, public assistance income). As such, it fails to separate the private economy's antipoverty performance from the performance of government cash transfer programs. Households that do not receive enough money income from private sources to raise them over the poverty lines constitute the pretransfer poor (a more exact title would be pregovernment transfer poor). Pretransfer poverty has received virtually no attention in government reports. Yet it reveals the magnitude of the problem faced by the public sector after the market economy and private transfer system (e.g., private pensions, interfamily transfers) have distributed their rewards. This information is essential for analyzing the "trickle-down" effects of economic growth.

The valuation of in-kind transfers does move the census closer to the concept of posttransfer-posttax income. This preferred measure would have been the result if, in addition to adding in-kind government transfers received by the poor, the report had also added in-kind private transfers (e.g., fringe benefits) and subtracted direct taxes paid.

Type of Poverty Threshold	Income Concept:	
	Pretransfer Income	Posttransfer-Posttax Income
Absolute	I	II
Relative	III	IV

Figure 1: A Matrix of Poverty Measures

Nonetheless, recent studies suggest that the new report's results would not be significantly affected by these adjustments (Smeeding, 1981; Hoagland, 1982).

By providing a set of in-kind adjustments, the census allows the reader to choose his/her preferred method of valuation and what transfers to include. We prefer that all in-kind transfers other than medical expenditures be added at their recipient (cash equivalent) values and that the poverty budget share approach be used for medical expenditures, because the data required for estimating their recipient values are not available. Nonetheless, in what follows, we adopt the market cost approach for all in-kind transfers because, by using these lowest estimates of poverty we reinforce our conclusions about the failure of poverty to have declined since the early 1970s.

THE LEVEL AND TREND OF POVERTY

The new report shows that, for 1979, 11.1% of persons were officially poor and 6.4% were poor if in-kind transfers were valued at their market cost. Our estimate for pretransfer poverty for 1979 is about 21% of all persons. Transfers, therefore, had a large impact in reducing poverty. The exact magnitude cannot be determined without an estimate of how much transfer recipients reduced their work effort in response to transfers.[6] The data on pretransfer poverty reported here assume that there was no labor supply response. Thus, as an upper bound estimate, cash transfers removed 9.9% of persons from poverty (21.0 - 11.1) and in-kind transfers removed another 4.7% (11.1 - 6.4).

Despite the antipoverty effectiveness of income transfers, the war on poverty has not been won. Robert Lampman (1971: 53) has written the following on the subject:

> the elimination of income poverty is usefully thought of as a one-time operation in pursuit of a goal unique to this generation. That goal should be achieved before 1980, at which time the next generation will have set new economic and social goals, perhaps including a new distributional goal for themselves.

The census report shows that we have yet to reach this original antipoverty goal.

The data for all persons mask large differences in poverty across persons living in various types of households. Table 1 shows the substantial differences in both the official measure of poverty and the measure that values in-kind transfers at market costs for persons living in households where the head is white, black, of Spanish origin, or elderly. The data in column 2, the lowest poverty rates in the census report, reveal that poverty rates for blacks, persons of Spanish origin, and female household heads remain above the levels that existed for whites in the late 1960s (11.3% in 1966). The third column shows the upper bound estimate (assuming no labor supply response) of the antipoverty effectiveness of in-kind transfers. The lower is the ratio of the measure that values in-kind transfers to the official measure; the higher is the antipoverty effectiveness.[7] In-kind transfers reduce poverty from 39% to 69% for the various groups, with the smallest effect for whites and the largest for the elderly. The high levels of poverty that persist for female-headed and minority households after the receipt of cash and in-kind tranfers reinforce the continuing need for an antipoverty policy.

While Table 1 shows the antipoverty effectiveness of in-kind transfers, the report and the published official data do not reveal the antipoverty effectiveness of cash transfers. Table 2 shows for 1978 the incidence of poverty before and after government cash transfers and the antipoverty effectiveness of these transfers for households in which the head is white, black, of Spanish origin, a woman, and elderly. Cash transfers substantially reduce poverty for all of the groups. As is the case for in-kind transfers, the largest effect is for the elderly. Much of the difference in antipoverty effectiveness is due to the fact that Social Security and other social insurance transfers are based on past earnings, so that whites and males receive the largest transfers.

TABLE 1

Comparison of Incidence of Poverty, Official Measure and Money Income, Plus the Market Value of Food, Housing, and Medical Benefits, 1979

Persons Living in Households Headed by:	(1) Official Measure Money Income	(2) Money Income Plus In-Kind Transfers at Market Value	(3) Ratio: Column 2 / Column 1
All Persons	11.1%	6.4%	.58
White	8.5	5.2	.61
Black	30.4	15.1	.50
Spanish Origin	21.4	12.0	.56
Female Householder, No Husband Present	34.8	17.6	.51
Elderly (65 and over)	14.7	4.5	.31

SOURCE: U.S. Bureau of the Census (1982a).

TABLE 2

Comparison of Incidence of Poverty, Pretransfer Income and Official Measure, 1978

Persons Living in Households Headed by:	(1) Pretransfer Income	(2) Official Measure (Money Income)	(3) Ratio: Column 2 / Column 1
All Persons	20.2%	11.4%	.56
White	16.7	7.9	.47
Black	38.1	28.4	.75
Spanish Origin	28.5	22.1	.78
Female Householder, No Husband Present	49.0	32.3	.66
Elderly	56.2	14.0	.25

NOTE: *Pretransfer income is defined as census money income less cash transfers from Social Security, railroad retirement, public assistance (Aid to Families with Dependent Children, Supplemental Security Income, and General Assistance), unemployment compensation, workers' compensation, government employee pensions, and veterans' pensions and compensation.

SOURCE: Computations by authors from March 1979 Current Population Survey computer tapes.

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Although the large and increasing expenditures on income maintenance programs have been a topic of great concern, less attention has been focused on the gaps in coverage in the present system—the holes in the safety net. In recent years almost 40% of nonaged, poor households received no income transfers, and many of those who did receive transfers did not receive enough to lift their households above the poverty line. Much of the variation in coverage among the poor is due to the different eligibility requirements and benefit levels in programs administered by the states.

Taken together the data in Tables 1 and 2 refute assertions that current income transfer programs do not aid the poor. However, they do not show the trend in poverty or the change in the antipoverty effectiveness of transfers over the recent past. Three trends are apparent in the data that follow. First, poverty has declined, but the patterns differ by demographic group. Second, the progress achieved was primarily a result of increased transfers. Third, the antipoverty effectiveness of cash transfers increased between 1965 and 1974, but has remained fairly constant since then.

Table 3 shows the official poverty rates for 1966, 1973, and 1981 for all persons and the five demographic groups discussed above. The data show substantial improvement between 1966 and 1973, with the largest percentage decline for the elderly and the smallest for households headed by females. After 1973, however, the overall incidence of poverty increased, so that poverty in 1981 was only slightly lower than it was in 1966. Poverty continued to decline only for the elderly, but the extent of the decline was smaller than in the earlier period.

Table 4 suggests that increased transfers were an important component of the drop in poverty, a result which has been widely discussed in the literature (see Gottschalk, 1978; Institute for Research on Poverty, 1981-1982). Column 1 of Table 4 shows the dramatic rise in cash transfers from about 5% of GNP in 1965 to a peak of over 9% in 1976. This ratio declined after 1976, but increased due to the recession in 1980. Column 4 shows that the antipoverty effectiveness of cash transfers grew as well over this same period. The lower the ratio, the larger is the gap between official and pretransfer poverty, hence the greater the antipoverty effectiveness. Poverty stopped declining roughly when the proportion of GNP going to transfers leveled off. Pretransfer (column 3) poverty, which is not directly affected by increased transfers, decreased much more slowly than the official measure in the late 1960s and since then has increased to about the level that existed in 1965.

These descriptive statistics cannot sort out the separate impacts of changes in transfers, unemployment rates, and economic growth.

TABLE 3
Incidence of Poverty, by Race, Spanish Origin, Sex, and Age of the Household Head, Official Measure, Selected Years, 1966-1981

		Persons Living in Households Headed by:				
	All Persons	White	Black	Spanish Origin	Female Householder	Elderly
1966	14.7%	11.3%	41.8%	n.a.	41.0%	28.5%
1973	11.1	8.4	31.4	21.9	34.9	16.3
1981	14.0	11.1	34.2	26.5	35.2	15.3
Percentage Change						
1966-1973	- 24.5	-25.7	- 24.9	n.a.	- 14.9	- 42.8
1973-1981	26.1	32.1	8.9	21.0	0.9	- 6.1
1966-1981	- 4.8	-1.8	- 18.2	n.a.	- 14.1	- 46.3

SOURCE: U.S. Bureau of the Cenus (1982b).
n.a. = not available

TABLE 4
Trends in Cash Transfers as a Percentage of GNP and Official and Pretransfer Measures of Poverty, Selected Years, 1965-1981

	(1) Cash Transfers / (GNP)	Percentage of Persons Poor (2) Official Measure (Money Income)	Percentage of Persons Poor (3) Pretransfer Income	(4) Ratio: Column 2 / Column 3
1965	.053	17.3%	21.3%	.81
1968	.056	12.8	18.2	.70
1970	.063	12.6	18.8	.67
1972	.073	11.9	19.2	.62
1974	.076	11.6	20.3	.57
1976	.091	11.8	21.0	.56
1978	.085	11.4	20.2	.56
1980	.083	13.0	21.9	.59
1981	.086	14.0	n.a.	n.a.

SOURCES: Column (1): GNP is from The Economic Report of the President. Cash transfers are from the Social Security Bulletin.
Column (2): U.S. Bureau of the Census (1982b), Table 15.
Column (3): Danziger and Plotnick (1982: 40).
n.a. = not available

Nonetheless, the data are consistent with the view that transfers were an essential element in the trend toward lower poverty.

ANTIPOVERTY POLICIES: INCOME TRANSFER PROGRAMS AND ECONOMIC GROWTH

Social policies during the last 15 years reflected the view that public expenditures should be increased to stimulate opportunities for the poor. Many programs that provided billions of dollars of assistance to millions of recipients were enacted into law. These are the very programs that have been targeted for the largest budget reductions—for example, food stamps, the school lunch program, subsidized housing, Aid to Families with Dependent Children, and Medicaid. The current administration's approach is to rely less on transfers and more on economic growth. As a result, public expenditures on behalf of the poor have been decreased, and tax cuts to increase incentives to work and save have been enacted. Robert Lampman (1974) has argued that the very declaration of the war on poverty had an almost immediate and lasting effect; it required all existing programs and proposals for policy changes to address the question, What does it do for the poor? The Reagan economic program instead asks, What does it do for the nonpoor? This new approach assumes that those who remain poor will be better off if they wait for economic growth to trickle down from those above them on the socioeconomic ladder than if they rely on government income transfer programs.

While it is axiomatic that there are more poor in bad times than in good times, there is ample reason to doubt the efficacy of trickle-down policies. Until recently it was assumed that economic growth would reduce poverty. However, the evidence from the recent past suggests that economic growth will not raise the earnings of the poor enough to enable many of them to escape poverty without government assistance.

The major factor contributing to the reduction in poverty since 1966 seems to have been the growth in government transfers, which offset increases in poverty resulting from demographic changes and high unemployment rates. Economic growth per se seems to have had little effect. For example, Gottschalk (1978) analyzed a sample of middle-aged married men, who are expected to be aided most by economic growth. He found that the proportion with low earnings rose from

TABLE 5
The Composition of Households with Pretransfer Incomes below the Poverty Line, 1978

Household Head	Number (Millions)	Percentage of the Poor
Aged head (65 years and over)	10.12	48.1%
Female head, with a child under 6 years	1.50	7.1
Students	1.05	5.0
Disabled head	2.50	11.9
Persons working full time full year	1.57	7.5
Single persons working less than full time full year	1.91	9.1
Male head working less than full time full year	1.31	6.2
Female head, no children under 6, working less than full time full year	1.07	5.1
All pretransfer poor households	21.03	100.0

NOTE: Classification is mutually exclusive and is hierarchical. Any household that fits in more than one category has been classified only in the one closest to the top of the table.
SOURCE: Calculated by authors from the March 1979 Current Population Survey computer tapes.

12.6% in 1966 to 15.3% in 1973, even though economic growth over this period was substantial.

That the direct effects of economic growth on poverty are small should not be surprising, because only about one-third of those who are poor before the receipt of transfers can be expected to work. The remaining two-thirds—the aged, female-headed households with children under six, and the disabled—are likely to remain dependent upon transfers (see Table 5). This means that economic growth and expansion of the labor market cannot serve as a panacea for poverty. Any actions taken to dismantle transfer programs without replacing them with ones that are more effective in combating poverty could wipe out the gains that have been made in reducing poverty.

PROJECTIONS OF POVERTY

In order to assess the probable impacts of shifting from reliance on income transfers to reliance on economic growth, we have attempted to project whether the economic growth that is expected in the next several years is sufficient to reduce poverty at the same time that income transfers are being reduced. Table 6 presents the official census data on poverty for 1979 through 1981 and our projections for 1982 and 1983. These projections were derived by estimating separate regressions for each of the groups listed in the column headings of the table.[8] The pattern of the coefficients on unemployment and transfers was the same for all seven equations: Poverty declines when unemployment falls and when real cash transfers per households rise. The coefficients for GNP per household were significant only for white and Spanish-origin men.

The incidence of poverty for all persons and for persons in each of the groups shown is projected on the basis of the estimated coefficients and estimates of prices, GNP, unemployment rates, and cash transfers as reported by the Congressional Budget Office. These projections show an increase in poverty for each group.

Poverty in 1983 for each group other than persons living with white males will be higher than it was for all persons in 1964 (19.0%), when the War on Poverty was declared. These results reflect offsetting factors; unemployment is projected to fall and real GNP to rise after 1982, while transfers are projected to fall. Thus, to some extent the poverty-reducing effects of growth are offset by the poverty-increasing effects of the budget cuts, so that poverty in 1983 will be higher than it was in 1980, when the Reagan administration began.

We have also projected a series that includes in-kind transfers even though data inadequacies make these estimates less certain and prevent us from providing projections for the detailed groups. Poverty is projected to rise from 6.4% of all persons in 1979 to 8.1% in 1983.

This exercise gives us little reason to think that the earnings gains from economic growth that accrue to those at a disadvantage in the labor market are likely to be large enough to significantly reduce poverty. This does not mean that economic growth, which raises average living standards, is undesirable, but rather that growth alone is not a sufficient antipoverty strategy.

The recent growth of income transfer programs has had a significant effect on the trend in poverty. This, and other redistributive effects—protection against income losses due to unemployment, retirement,

TABLE 6

Incidence of Poverty, Actual and Projected Official Measure, 1979-1983

		Persons Living in Households Headed by:					
Year	All Persons	White Males	White Females	Black Males	Black Females	Spanish Origin Males	Spanish Origin Females
1979 Actual	11.7%	5.9%	24.9%	16.2%	52.2%	15.5%	48.9%
1980 Actual	13.2	7.0	27.6	17.8	52.9	18.9	53.5
1981 Actual	14.0	7.6	28.4	19.4	55.8	18.6	54.0
1982 Projected	14.9	8.4	28.0	19.7	54.3	21.1	54.1
1983 Projected	14.8	8.4	29.3	20.1	54.5	21.4	55.7

NOTE: Projections are based on regressions estimated for the period 1966 to 1981 (1972 to 1981 for persons of Spanish origin). Projections include the impact of the 1981 revision in the poverty lines.
SOURCE: Actual data from U.S. Bureau of the Census (1982b). Projections are from Danziger and Gottschalk (1982).

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disability, and death; guarantees of access to minimum levels of food, shelter, and medical care--must be balanced against the costs. The growth in transfers has been accompanied by some declines in work effort and savings that may have contributed to sluggish economic performance, but the magnitude of these declines is estimated to be small. Severe cutbacks of the programs will lead to small gains in efficiency but large increases in poverty.[9] However, continued expansion of current transfer programs is likely to produce increasingly small reductions in poverty because it will not aid those among the poor who do not receive any transfers, and it will do little to reduce pretransfer poverty.[10]

The census report provides important evidence on the antipoverty effectiveness of in-kind transfers. We have shown that increased cash and in-kind transfers were key elements in the reductions in poverty that have occurred in the past 15 years, but that there has been little success in reducing pretransfer poverty. We still do not have a good understanding as to why pretransfer poverty has been so difficult to reduce. However, there is ample reason to believe that transfer programs cannot be cut back without paying the price of higher levels of poverty, however measured.

NOTES

1. This study was mandated by the U.S. Senate in September 1980.

2. The report provides data on three income concepts and three methods for valuing in-kind transfers. This yields nine estimates, each of which adds additional amounts of in-kind transfers to the Census Bureau's previously published data on money incomes. The report provides detailed description of the methodology used. The income concepts are money income plus in-kind transfers for food and housing; money income plus food, housing, and medical care, but excluding institutional expenditures; and money income plus food, housing, and all medical care. The measured incidence of poverty falls as the additional benefits are added.

The three methods for valuing the in-kind transfers are the market value approach, the recipient value approach, and the poverty budget share approach. The market value is equal to the purchase price in the market; the recipient value reflects the view that the recipient would prefer a smaller amount of cash that would not restrict his/her consumption of the subsidized good; the poverty budget share value limits the in-kind transfer's value to an amount that equals the proportion of the poverty line typically spent on the good. This requires the estimation of the amount of expenditures for food, housing, and medical care for persons at or near the poverty level. Because the recipient value and the poverty budget share value are always less than or equal to the market value, they yield smaller reductions in the poverty population. The lowest estimate is the one that includes food, housing, and medical care, including institutional expenditures, and values these transfers at their market value.

3. These studies also attempt to correct for the underreporting of incomes to the census, an adjustment that further reduces estimates of the poverty population.

4. These census figures are substantially higher than the rough estimates provided by Paglin (1980).

5. For a discussion of the trend in relative poverty, see Danziger and Plotnick (1982). For a discussion of how the official thresholds would change if they were to be recomputed using recent information, see Fendler and Orshansky (1979).

6. If an individual reduces his/her labor supply when an income transfer is received, then the transfer may induce an increase in pretransfer poverty. The literature does not provide a definitive estimate of the size of this response. Robert Plotnick (forthcoming) used a simulation model to move from the standard comparison of pretransfer income (defined as posttransfer income less transfers) and posttransfer income to one that adjusts pretransfer income for transfer-induced labor supply and earnings effects. He restricted his analysis to household heads between the ages of 18 and 58 and to the six largest cash transfer programs (i.e., social security, public assistance, unemployment insurance, workers' compensation, veterans' pensions, and veterans' disability compensation). Using the income and substitution effects estimated from the Seattle-Denver Income Maintenance Experiments, Plotnick found that in 1974 all cash transfers from these programs, because of their income guarantees and marginal tax rates, induced a 15.4% decrease in the earnings of transfer recipients. As a result, his data show that cash transfers reduced poverty by 18% when their effect is measured as in Table 2 of this paper, but by only 8% when labor supply responses were included. For female heads of household with children, the conventional approach shows that transfers reduced poverty by 17%, while the labor supply adjustments reduce this to 13%.

Plotnick's estimate is not directly applicable for our purposes, however. First, in deriving his estimate, he assumed a total elimination of the transfer programs. Such a change would probably have considerably larger labor supply responses than would a marginal change in any program. Second, analyses based on income and substitution effects alone do not explain the increased participation of those already eligible. And over the recent period, participation has increased in many programs in which the income guarantees and marginal tax rates have remained fixed. Without a model of the decision to participate, one cannot determine whether the factors that contributed to increasing participation also led to labor supply changes. If factors unrelated to guarantees and tax rates were responsible for increased transfers, then transfers may not have had the labor supply effects attributed to them by Plotnick.

7. If transfers had no effect on poverty, the numbers in columns 1 and 2 would be the same, and the measure of antipoverty effectiveness in column 3 would be 1.0; if transfers totally eliminated poverty, the ratio would be 0.0.

8. The dependent variables were the logarithms of the various poverty incidences; the independent variables were the logarithms of the unemployment rate, cash transfers per household, and GNP per household. The regressions were estimated using a maximum likelihood adjustment for autocorrelation. The coefficients and complete details of our procedure can be found in Danziger and Gottschalk (1982).

9. The studies on which this conclusion is based are reviewed in Danziger et al. (1981).

10. For a discussion of alternative antipoverty policies see Danziger et al. (1979) and Danziger et al. (1980).

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