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## ABSTRACT

Both social scientists and politicians agree that the way poverty is measured in the United States is inadequate. Noting that this metric influences our understanding of the extent of economic deprivation and influences the provision of social supports, this report presents various options to the current measurement and suggests a replacement for the current poverty line measure. The report argues that a poverty line measure should categorize families such that those who fall below it cannot adequately meet their basic needs, given what is known about human needs and prevailing living standards. It is asserted that the current measure is out of date; fails to reflect changes in consumption and relative spending; excludes non-cash resources, work expenses, and taxes; and neglects geographical differences in the cost of living. The report puts forth the National Academy of Sciences (NAS) method as the leading contender to replace the current measure because of its separate treatment of the needs and the resources side of the equation. This approach as implemented by the Census Bureau also appears to be more sensitive to the business cycle than the official poverty line measure. The family budget approach and the half-the-median income approach are also discussed as possibilities, as is the use of standardized rates with the NAS method. The report includes recommendations for improving the NAS method. Suggestions are given for advocating change in the measurement of poverty, including a focused movement with one simply articulated goal of replacing the current poverty measure with a better one, offering a positive rationale for the change, unifying the social science and advocacy communities around a single approach, and enlisting political representatives in the cause. (KB)

# THE FOUNDATION FOR CHILD DEVELOPMENT

## WORKING PAPER SERIES

### LET THE WAR ON THE POVERTY LINE COMMENCE

Jared Bernstein

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## WORKING PAPER SERIES

### LET THE WAR ON THE POVERTY LINE COMMENCE

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June 2001

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## PITY THE POOR POVERTY LINE

You'd have to search far and wide to find someone who thinks we do a decent job measuring poverty. Critics from the left argue that it significantly undercounts the poor, thus painting an undeservedly pretty picture about the extent of need in America. Unsurprisingly, conservatives argue vigorously the other way, pointing out that various cash and near-cash benefits, such as the Earned Income Tax Credit (EITC) or food stamps, are ignored when comparing the poor's income to the Federal government's poverty thresholds, leading to an inflated count of the poor.

Even social scientists uniformly agree that the way we measure poverty in this country is woefully inadequate. That doesn't mean there's widespread agreement on what should be done (though there's more than you might think). But pretty much everyone who's taken a serious look at the issue thinks something needs to change.

The issue seems academic, and, in the sense that accurate measurement of social conditions generally falls to social scientists, it is. But there is a lot riding on this metric, both in terms of our understanding the extent of deprivation in our society, and in terms of the provision of social supports, many of which are keyed to the current poverty line.

So why, year after year, do we continue to generate a vitally important measure of the extent of poverty in our nation that is widely regarded as invalid?

The biggest constraint is political. Compared to the current approach, more valid measures would show higher rates of poverty. One new approach would raise the poverty rate by 2.6 percentage points, assigning over seven million more people to the ranks of the poor. No President wants that to happen on his or her watch (it's the administration's Office of Management and Budget that ultimately has to sign off on the change). That said, significant changes are underway. To a very real extent, the move to replace the poverty line has begun.

PRETTY MUCH EVERYONE  
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LOOK AT THE ISSUE THINKS  
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THE BIGGEST CONSTRAINT  
IS POLITICAL.

FOR EXAMPLE, "ADEQUATE" HOUSING MIGHT SIMPLY MEAN SAFE HOUSING; FEW WOULD DISAGREE THAT THIS IS A BASIC NEED. BUT THOSE WHO WANT TO RATCHET THE STANDARD UP A BIT MIGHT WANT HOUSING TO BE "SAFE AND DECENT."

OUR CURRENT FIXED THRESHOLD FAILS TO ACCOUNT FOR CHANGES IN LIVING STANDARDS, I.E., MATERIAL PROGRESS.

But, given available options, what's the best replacement? A central goal of this paper is to present various options and suggest what might be the best choice to replace the current poverty measure. Of course, no method is perfect, and what follows is nothing more than my take on what would be the most accurate way to proceed. To this end, it is important to state up front what I think the poverty line ought to measure:

**The poverty line should categorize families such that those who fall below it cannot adequately meet their basic needs, given what we know about human needs and prevailing living standards.**

This description suggests a measurement with absolute, relative, and normative components. Meeting basic needs, is, to some degree, an absolute concept implying real income levels that would enable people to meet, for example, nutritional needs that will foster their health. A similar argument could be made for housing, although here, the word "adequate" introduces a normative, if not ambiguous, construct. Some ambiguity is unavoidable and even desirable, in that it allows the concept to be dynamic, such that it can be shaped to fit dominant preferences. For example, "adequate" housing might simply mean safe housing; few would disagree that this is a basic need. But those who want to ratchet the standard up a bit might want housing to be "safe and decent."

The description also includes a reference to prevailing living standards. This notion is included to make sure the poverty threshold adjusts to account for general improvements in the average standard of living that tends to occur as the economy grows over time. Our current fixed threshold fails to account for changes in living standards, i.e., material progress. Since it is only adjusted for price changes, it cannot measure the extent to which low-income families are lagging behind the rest of society, and risks classifying those whose relative conditions are far behind the mainstream as non-poor.

#### The Problem with the Current Measure

Almost since it was derived by Mollie Orshansky of the Social Security Administration in the early 1960s, ink began spilling criticizing the way we measure poverty. Whether the original

WHETHER THE ORIGINAL MEASURE WAS EVER VALID IS DEBATABLE, BUT BY NOW, IT IS WIDELY AGREED THAT IT IS WAY OUT OF DATE.

IN 2000, THE POVERTY THRESHOLD FOR A FAMILY OF FOUR (TWO ADULTS AND TWO CHILDREN) WAS \$17,463. FAMILIES WHOSE PRE-TAX, POST-CASH TRANSFER INCOME IS BELOW THIS LEVEL ARE CONSIDERED TO BE POOR BY THE FEDERAL GOVERNMENT.

measure was ever valid is debatable, but by now, it is widely agreed that it is way out of date.<sup>1</sup>

*It's out of date:* The original thresholds were based on two factors: the costs assumed necessary to meet the basic food needs of low-income families of differing sizes and types, and the share of income spent on food by all families. The costs of meeting food needs came from the US Department of Agriculture's low-cost food plan. Since it was believed that families of three or more persons (all such families, not just low-income families) spent about one third of their after-tax money income on food in 1955, Orshansky multiplied the costs of the food plan for different family sizes by three.

In a recent interview, Orshansky herself noted that "They haven't changed it in all the time since it was mandated by Congress...Anyone who thinks we ought to change it is perfectly right. I told them that then but they didn't do it."<sup>2</sup> As early as 1965, she recognized the deficiencies in using the food plan and its multiplier for all other expenditures. At that time, she judged that the percentage of income dedicated to food had fallen closer to one-fourth of total expenditures. In addition, she apparently believed that the food plan used to cost out the poverty thresholds was often insufficient to feed even a poor family.<sup>3</sup>

Other than adjusting for price changes, the original formulation is little changed. In 2000, the poverty threshold for a family of four (two adults and two children) was \$17,463. Families whose pre-tax, post-cash transfer income is below this level are considered to be poor by the Federal government.

*It fails to reflect changes in consumption and relative spending:* Even if this original construct made sense, the fact that

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<sup>1</sup> This section is partially drawn from Bernstein et al, 2000.

<sup>2</sup> From an interview with Orshansky by Robert Smith on NPR show Morning Edition, May 3, 2001.

<sup>3</sup> In "Mollie Orshansky, Who's Who Among the Poor: A Demographic View of Poverty," she writes, "In 1955, the latest year for which there are details, only one-tenth of all nonfarm families spent less than the economy plan [the food plan used to construct the poverty lines, now called the thrifty plan]. Today, ten years later, the number with such meager food outlays is no doubt even smaller," Social Security Bulletin, July 1965, p. 9.

THE FACT THAT CONSUMPTION PATTERNS AND RELATIVE PRICES HAVE CHANGED MEANS THAT THE THRESHOLDS ARE NO LONGER VALID.

EVEN IF WE WERE TO APPLY THE ORIGINAL METHOD TO TODAY'S CONSUMPTION BUNDLE, WE WOULD COME UP WITH POVERTY THRESHOLDS HIGHER THAN THOSE CURRENTLY IN USE.

THE CURRENT APPROACH ALSO LEAVES OUT THE VALUE OF PUBLICLY-PROVIDED NON-CASH RESOURCES THAT CLEARLY INCREASE THE BUYING POWER OF LOW-INCOME FAMILIES.

consumption patterns and relative prices have changed means that the thresholds are no longer valid. For example, the current measure is based on the assumption that one-third of family income is spent on food. But, over time, the prices of the items that families consume have changed considerably. Families spend relatively (i.e., as a budget share) more on housing, health care, and transportation than they used to, and less on food. Thus, even if we were to apply the original method to today's consumption bundle, we would come up with poverty thresholds higher than those currently in use. When a National Academy of Sciences (NAS) Panel updated the Orshansky method to 1992, using the lower share of food consumption, the result was a poverty threshold of \$20,659 for a two-adult, two-child family, compared with the official threshold that year of \$14,228 (much more on the NAS panel below).

*It leaves out non-cash resources, work expenses, and taxes:*

The current approach also leaves out the value of publicly-provided non-cash resources that clearly increase the buying power of low-income families. For example, food stamps are generally considered to be much like cash, and thus should be factored in to family income, as are welfare benefits. Health care benefits, such as Medicaid, are much less fungible (i.e., harder to value).<sup>4</sup> To price them at market value generally overstates their value to low-income families, particularly those without significant health needs. Yet, even to these families, it is certainly worth something.<sup>5</sup>

But this approach—adding resources on the income side without reflecting new expenses on the outlay side—fails to reflect the many economic changes that have occurred over the years since the creation of the poverty thresholds, the most important being the increased number of women participating in the paid

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<sup>4</sup> The Census calculates the fungible value of Medicaid and Medicare by first seeing if family income is high enough to meet food and housing needs. If not, no value is assigned to the health insurance programs. If family income surpasses what's needed for food and housing, the difference (up to the market value of the medical benefit) is assigned to Medicaid and Medicare. This approach makes the assumption that after food and housing, health insurance is a necessity that families will not choose to go without.

<sup>5</sup> The Census Bureau presents various measures of poverty rates including the value of these benefits; their inclusion raises the incomes of low-income families and thus lowers the rate of poverty.



labor force.<sup>6</sup> The poverty thresholds fail to reflect the expenses incurred by working families, most significantly child care and transportation.

In addition, despite the fact that it's your post-tax income that determines how much you can consume (aside from borrowing), official poverty measures compare the thresholds to pre-tax income (including cash transfers, such as Social Security benefits and welfare payments). The EITC, which has been expanded considerably over the last decade, is particularly important in this regard, as it can now easily represent a quarter of income for low-income, working families. When the poverty measure was first developed, the tax burden on the poor was negligible and micro-data on tax payments were scarce at best (Ruggles, 1990). In today's context, however, the poor both pay more taxes (e.g., payroll taxes have increased, affecting the working poor) and receive more benefits, as from food stamps and the EITC.

IN TODAY'S CONTEXT, THE POOR BOTH PAY MORE TAXES AND RECEIVE MORE BENEFITS.

THE OFFICIAL MEASURE NEGLECTS GEOGRAPHICAL DIFFERENCES IN THE COST OF LIVING.

A final critique of the official measure is that it neglects geographical differences in the cost of living, both across regions, localities, and urban/rural areas. This is a significant omission, because the prices of housing, health care, and child care vary significantly across place.

#### So, How Should We Measure Poverty?

COMPARED TO WHAT'S WRONG WITH THE CURRENT APPROACH, THE MUCH MORE INTERESTING AND DIFFICULT QUESTION IS HOW WE SHOULD MEASURE POVERTY.

Compared to what's wrong with the current approach, this is a much more interesting, and more difficult, question. As usual, it's much easier to criticize than to create, and too few poverty critiques have offered viable alternatives. Thankfully, there are now some worthwhile replacements from which to choose. The leading contender is the NAS recommendation. The runners-up are the family budget approach and the half-the-median income approach.

*The NAS Method:* Simply put, the NAS panel derived a new and improved way to measure needs, and a more reasonable, inclusive way to measure a family's economic resources. On the

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<sup>6</sup> In 2000, 61% of adult females (20 years and up) were in the labor force, compared to 51% 20 years ago; for women with young children, the increase has been from about one-half to two-thirds.

THE NATIONAL ACADEMY OF SCIENCES APPROACH GIVES THEIR MEASURE THE ABILITY TO REFLECT CHANGES IN THE RELATIVE CONSUMPTION TO MEET BASIC NEEDS, ALLOWING OUR DEFINITION OF WHO IS POOR TO EVOLVE WITH LIVING STANDARDS.

needs side, they examined current consumption patterns and expert estimates of what it takes to meet basic needs, and set their thresholds at between 30 and 35 percent of the median expenditures on food, shelter, clothing, and utilities, plus about 20% of this amount for other common needs.

On the income side they made several important adjustments. Along with cash-transfers, which are counted under the current method, they add the cash value of food stamps and housing subsidies, along with any tax credits. They then subtract work-related expenses (including child care), out-of-pocket medical expenditures, and taxes. They also recommend a few other important tweaks, such as incorporating regional price differences and updating the method through which thresholds are constructed for different sized families (called equivalence scaling).

The NAS method may not sound like a radical departure but it is actually pretty ambitious and, measured against the criterion set out above, quite a leap forward. Recall that a major shortcoming of the current measure is its inability to reflect overall progress in living standards over time. The NAS approach corrects this. By setting their threshold relative to median expenditures, they allow the threshold to evolve over time. This gives their measure the ability to reflect changes in the relative consumption to meet basic needs, allowing our definition of who is poor to evolve with living standards.<sup>7</sup> Also, the subtraction from income of work expenses is a real advance, acknowledging that it takes money to make money.

The Census Bureau has recently undertaken an ambitious project to implement the NAS approach (more on this below). Since the NAS panel made a range of recommendations, the Bureau offers numerous alternative measures. I have chosen to work with the one I think is the most accurate, but the differences between the alternatives is relatively small, especially compared to the differences between all the

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<sup>7</sup> Of course, if the distribution of consumption were to grow more unequal, as it has over the past few decades, this approach would not necessarily "correct" for this dispersion. This would be the case, for example, if the growth in consumption inequality was driven by the growth of the 90<sup>th</sup> percentile relative to the median.

Figure 1: NAS/Census and Official Poverty Measures

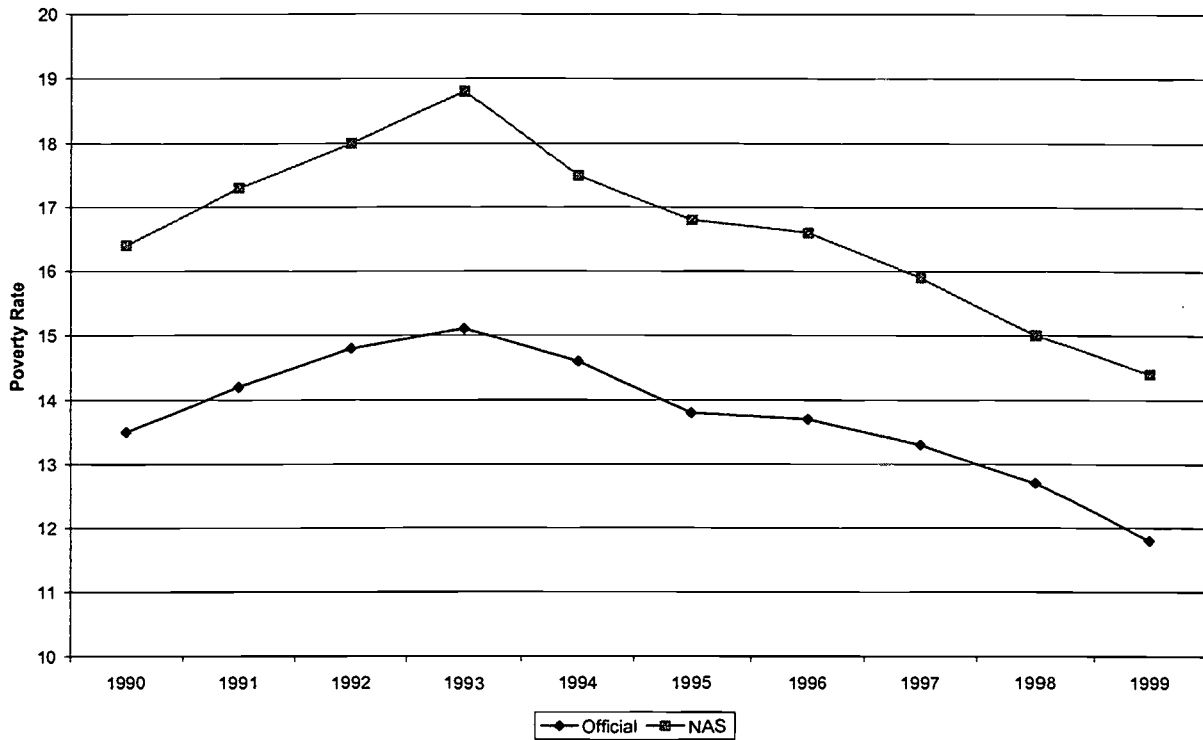


Figure 1 Source: <http://www.census.gov/hhes/poverty/povmeas/exppov/suexpov.htm>. Alternative measure DCM-U is used.

alternatives and the official rate (the data are available at <http://www.census.gov/hhes/www/povmeas.html>).

Figure 1 shows this difference between the official and NAS/Census methods, 1990-99. The alternative measure is consistently above the official measure. Over this period (the only years for which such data exist), the NAS/Census measure is, on average, three percentage points above the official rate. The difference in 1999, 14.4% vs. 11.8%, amounts to 7.1 million more poor persons.<sup>8</sup>

THE NAS/CENSUS MEASURE APPEARS TO BE A BIT MORE SENSITIVE TO THE BUSINESS CYCLE THAN THE OFFICIAL MEASURE.

Note also, that while the two lines follow a similar trend, the NAS/Census measure rises more in the recession of the early 1990s, and falls more quickly in the recovery. That is, it appears to be a bit more sensitive to the business cycle than the official rate, probably due to the fact that the alternative method includes the EITC, which was considerably expanded over this period, at the same time that more low-income families entered the labor market.

THE NAS MEASURE ALSO CHANGES THE COMPOSITION OF THE POOR.

The NAS measure also changes the composition of the poor. One important difference, given the shift in emphasis in poverty policy towards work, is the fact that the NAS measure increases the share of the poor who reside in working families, due to the subtraction of work expenses from income. The share of the poor who are elderly also increases, due to the subtraction of out-of-pocket medical expenditures. The share of the poor who are in mother-only families falls, due to the inclusion of more cash and near-cash benefits in the alternative measure (note, however, that the poverty rate for such families is higher under the alternative measure).

Should the NAS alternative replace the current measure? Before rendering an opinion, let us explore two other alternatives.

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<sup>8</sup> Ideally, the NAS measure should be updated by movements in the distribution of consumption expenditures, as suggested by the panel, and as implemented in some of the measures in the Census P60-205 study. However, such a measure is not included in their release of the 1990-99 data, which are updated using the CPI. Since consumption inequality appears to have been relatively flat over this period, the two approaches would probably yield similar results.

ONE ADVANTAGE OF FAMILY BUDGETS IS THAT THEY TEND TO PRODUCE SPECIFIC MEASURES OF NEED IN TERMS OF BOTH GEOGRAPHY AND FAMILY TYPE.

MANY FAMILY BUDGETS THESE DAYS ARE CONSTRUCTED FOR TWO-WORKER FAMILIES, AND THUS, LIKE THE NAS MEASURE, TAKE INTO ACCOUNT CHILD CARE EXPENDITURES.

*The Family Budget Approach:* This approach comes up with estimates of how much it costs for a particular family in a particular area to make ends meet. For example, family budget expert Diana Pearce has developed numerous budgets for specific family types throughout the country, summing up what they must spend on housing, food, health care, child care, transportation, taxes, and other items to meet their basic needs.<sup>9</sup>

One advantage of family budgets is that they tend to produce specific measures of need in terms of both geography and family type. For example, most family budgets in the literature refer to a few family types for a specific locality, such as one or two parent families in a particular city with two children, with one child in child care during the work day. This is largely due to the fact that they have historically been used for fairly specific, "local" purposes.<sup>10</sup> In the current context, a motivation for family budgets has been welfare reform, as advocates for working poor families use the budgets to help determine whether available jobs pay livable wages.

This specificity makes it difficult, however, to come up with a rate comparable to the national rates cited thus far. However, examining the budget levels cited in Bernstein et al (2000, Table 3) reveals that twice the poverty line is a crude proxy. Applying this measure yields a poverty rate of 30% in 1999, compared to 11.8% for the official rate and 14.4% for the NAS measure.

The components of the budgets vary somewhat, but most use government data where possible. For example, HUD's Fair-Market Rents (basically the 40<sup>th</sup> percentile rental cost for a specific area), or the USDA low-cost food plan are commonly used in this literature.

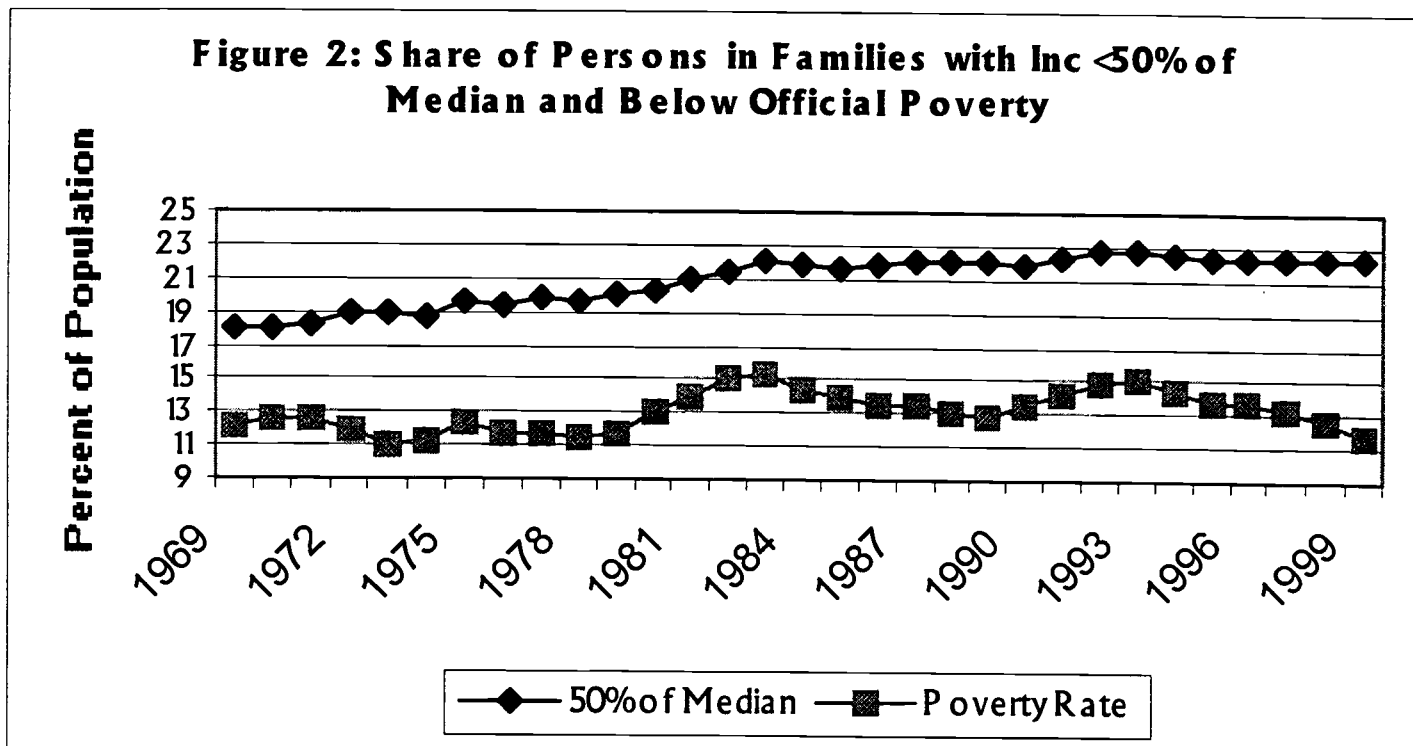
Many family budgets these days are constructed for two-worker families, and thus, like the NAS measure, take into account child care expenditures. But, due to different methods of costing out child care expenditures, family budgets tend to

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<sup>9</sup> See examples of her budgets at [www.wowonline.org](http://www.wowonline.org).

<sup>10</sup> See, for a fascinating history of family budgets, Johnson et al, 2000.

Figure 2 Source: <5\*Median: U.S. Bureau of the Census, unpublished tables provided by John McNeil. Poverty rates: <http://www.census.gov/hhes/www/poverty.html>.



THE HALF-THE-MEDIAN  
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COMPARATIVE WORK.

assign considerably higher child care expenditures than the NAS. Basically, the family budgets depend on market surveys of licensed child-care centers, while the NAS method is based on actual (or predicted, based on actual) expenditures. Thus, in Bernstein et al (2000), we found that on average child care amounted to about 20% of budget for working families. In dollars, our estimate for a parent with two young children in Baltimore in 1998 came to \$7,500 annually. While it is difficult to derive precisely comparable numbers from the NAS approach, they are surely much lower than this.<sup>11</sup>

*Half the Median:* One final measure which has considerable currency, particularly in international comparative work, uses the median of the income distribution as a reference point and sets the threshold at some percentage—usually 50%—of that value. Note that, unlike the current absolute measure, this value (in real terms) would likely change each year as both the average and variance, or spread, of the income distribution shifted over time.

Figure 2 shows the trend in this value along with the official poverty rate, 1969-99. Clearly, the half-the-median measure differs in both level and trend from the poverty rate series. Prior to flattening in the 1990s, at about 22%, it basically trended up from 1969 to about 1993, suggest that in relative terms, an ever larger share of persons have been falling behind. Even in the booming latter 1990s, the best that can be said is that the share of the relatively poor ceased rising. The poverty measure, however, is much more cyclical, particularly in the latter 1990s.<sup>12</sup> The difference reflects the fact that the relative measure is sensitive to increased dispersion in the income distribution, while the absolute measure is not.

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<sup>11</sup> Unpublished work by John Iceland of the Census Bureau (Iceland and Ribar, 2000) confirms this. Iceland also suggests that the difference between family budget and NAS/Census estimates of child care costs is due to the fact that the NAS imputations are capped by the number of weeks worked and the earnings of the parent with lower earnings (one method is also capped by the limit on the Child and Dependent Care tax credit).

<sup>12</sup> Various analysts have pointed out the poverty rates were actually less cyclical than expected throughout the 1980s (i.e., they fell less than prior experience would have predicted), primarily due to the increase in income inequality over this period.

THE HALF-THE-MEDIAN METHOD SCORES HIGH ON THE RELATIVE CRITERION OF A GOOD POVERTY MEASURE, BUT, THEORETICALLY, THERE IS NO REASON TO ASSUME THAT HALF THE MEDIAN WOULD ENABLE PEOPLE TO MEET THEIR BASIC NEEDS.

While the half-the-median method is clearly informative, and particularly useful in international comparisons where a common metric between countries is needed, it is not nearly as rigorously defined as the prior two measures. For this reason, it is less likely to be considered an acceptable measure of poverty. It scores high on the relative criterion of a good poverty measure, but, theoretically, there is no reason to assume that half the median would enable people to meet their basic needs. It also suffers from an arbitrary quality. Why half the median—why not 75% or 25%? For that matter, why the median—why not the 60<sup>th</sup> percentile? The family budget measure tries to avoid this problem by referencing more rigorous assessments of what constitutes safe housing, an adequate diet, and quality child care.

**COMPARING THE METHODS: WHICH METHOD SHOULD BE ADAPTED AS A NEW OFFICIAL MEASURE OF POVERTY?**

Of the three methods discussed so far (and there are, of course others—though these are the major contenders), the NAS method comes closest to meeting the criterion set out above (see bolded statement on page 4).

THE COMPARATIVE ADVANTAGE OF THE NAS METHOD IS ITS SEPARATE TREATMENT OF THE THRESHOLD AND THE RESOURCES SIDE OF THE EQUATION.

No measure is perfect, and the NAS method could be improved in ways suggested below, some of which are borrowed from the family budget approach. But its comparative advantage is its separate treatment of the threshold and the resources side of the equation. This approach is more in the spirit of poverty measurement than the family budget approach, which exclusively measures needs, with little attention to define and measure resources. While family budgets are generally more rigorous on measuring the costs of needs, the NAS method is reasonable, and could be improved without a tremendous investment of resources. Conceptually, the NAS method should appeal to both conservative critics, who correctly argue for the inclusion of near-cash benefits, as well as to advocates for the working poor, who note the importance of subtracting work expenses from income. Finally, and this is vital if we want this change to have any chance of actually occurring, the NAS measure is also the one most widely accepted by poverty

THE NAS METHOD SHOULD APPEAL TO BOTH CONSERVATIVE CRITICS AND TO ADVOCATES FOR THE WORKING POOR.



THE NAS MEASURE IS ALSO THE ONE MOST WIDELY ACCEPTED BY POVERTY ANALYSTS AND CARRIES THE IMPRIMATUR OF THE SOCIAL SCIENCE COMMUNITY.

analysts and carries the imprimatur of the social science community.<sup>13</sup>

But wouldn't it take a lot of resources to get a new method up and running? Yes, of course, but the fact is, as Figure 1 implies, that the NAS method is already being applied. This effort, implemented by a team of crack poverty analysts at the Bureau of Labor Statistics and the Census Bureau, has quietly been gaining attention of late, and it stands as one of the most impressive contributions to the poverty literature in decades.

As noted, the team has generated numerous variants of the NAS method, and, while they tend not to make too much difference in terms of levels, their small differences are very interesting (they all come in above the current measure). There is, however, one significant exception: the standardized series. In this series, the new threshold is manipulated until the poverty rate under the new measure is the same as that under the current method in a base year.

Why bother? The two primary reasons are: 1) to compare the composition of the poor under each method, holding the share constant between the two methods, and 2) to see how the trend in the two measures deviates from the point at which they were set to be equal.<sup>14</sup> But one needs to be wary of the standardized rates, which can create a misleading impression about the extent of need if they are not presented with the proper caveats.

For example, on September 26, 2000, when the official poverty rate was released for 1999, the press packet, for the first time, included a table with the NAS/Census alternative rates, a truly exciting development for those of us who desperately want a better poverty measure. The Bureau, however, choose to include only the standardized rates with the release, and unless you follow this debate closely, you came away thinking that the old measure must be fine because the new approach gets you

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<sup>13</sup> See, for example, a letter from policy analysts to the Census Bureau urging the shift to the NAS method (available at <http://www.ssc.wisc.edu/irp/povmeas/povlet.htm>).

<sup>14</sup> Tracking trend deviation does not necessarily require standardization, since any number of series can be indexed to a base year.

just about the same results, far different from the impression made by Figure 1 above (the rates were standardized to be equal in 1997; by 1999 they barely differed from the official measure).<sup>15</sup>

Recall that the primary use of the standardized rates is to compare the composition of poor under different methods, holding the poverty rate constant. But the release included no information on this question, just a table with experimental rates that gave the impression of applying the new methodology, and a figure which showed the two lines (official and standardized experimental) to be almost coincident. Anyone who hadn't followed the debate, or failed to read or comprehend the fine print, would be left with the impression that since it barely differs from the official measure, there's no point in switching to an alternative.

Anyway, putting this incident aside, we should all be inspired by the new approach taken by the NAS and implemented by the Census. It's not perfect, but it's so far superior to the old measure that there may well come a time when, notwithstanding OMB's political constraints, this is the measure we all cite when we discuss poverty.

There's another positive development afoot, which, like the new NAS measure, should also be viewed as an under-appreciated advance against the old regime. A majority of states now base eligibility for certain safety-net services, not on the poverty line, but on multiples of the poverty line. Thus, policy makers at both the state and federal level acknowledge, at least implicitly, that the poverty line is an inadequate benchmark for eligibility to various types of support.

One could view this approach as the most potent critique yet of the poverty line. It goes beyond social scientists arguing about methods, and gets real resources to the "near-poor."

For example, in California, the income eligibility level for SCHIP, a health insurance program for children in low-income families,

A MAJORITY OF STATES NOW BASE ELIGIBILITY FOR CERTAIN SAFETY-NET SERVICES, NOT ON THE POVERTY LINE, BUT ON MULTIPLES OF THE POVERTY LINE.

FOR EXAMPLE, IN CALIFORNIA, THE INCOME ELIGIBILITY LEVEL FOR SCHIP, A HEALTH INSURANCE PROGRAM FOR CHILDREN IN LOW-INCOME FAMILIES, IS NOT SET TO THE FEDERAL POVERTY LINE, BUT TO 2.5 TIMES THE LINE.

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<sup>15</sup> See, for example, the graph released by the Bureau in their press release, at <http://www.census.gov/hhes/www/img/incpov99/fig13.gif>.

IT SEEMS THAT A NEW DEFINITION OF THE WORKING POOR IS EVOLVING, ONE NOT BASED ON THE OFFICIAL POVERTY THRESHOLD.

is not set to the federal poverty line, but to 2.5 times the line. In fact, in 2000, 35 states pegged SCHIP eligibility to at least twice the poverty line, with the rest between 1-2 times the line. The population weighted average (weighted by the states' share of the nation's children) eligibility level was 2.2 times poverty, meaning this was the level facing the average American child in 2000. Many other programs use this same approach, including those that provide child care, housing, and transportation assistance.

Why do states do it? It's hard to say, and there's probably numerous reasons. For one, it seems that a new definition of the working poor is evolving, one not based on the official poverty threshold. That is, there appears to be an understanding, both in the public and the research community, that a growing number of low-income families are working at jobs that pay too little for them to meet their essential needs. Such families are viewed sympathetically, especially compared to the "non-deserving poor," non-working families headed by able-bodied persons who were viewed as being welfare-dependent. Various polls reveal that these families have a constituency that supports their efforts, which extends to granting them resources to help them fill the gap between their earnings and their needs.<sup>16</sup>

Another interesting reason why states—with blessing from the Feds—are pegging eligibility at multiples of the poverty line has to do with welfare reform, or Temporary Assistance for Needy Families (TANF). Under the new law, states have to spend most of their welfare block grant to meet Federal regulations. But the grants are pegged to the mid-1990s, when caseloads were twice today's level, on average. Thus, to comply with the so-called Maintenance of Effort rule, states have to spend TANF dollars but don't need to do so for cash assistance. At the same time, they're required to move folks from welfare to work. So, in many cases, they've significantly increased spending on supporting work through subsidizing some of the activities noted above.

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<sup>16</sup> See, for example, National Survey on Poverty in America, April 2001.

## Changing the Line and Implementing the Change

By updating the way we measure poverty in the spirit of the criteria set out above, we could vastly improve our understanding of the level, trend, and depth of economic deprivation in this country. The NAS method goes much of the way toward meeting this goal, and it is already being implemented by poverty experts at our major statistical agencies. It too could be improved. I have two recommendations.

THE NAS/CENSUS APPROACH HAS THE ADVANTAGE OF SIMPLICITY AND, MORE IMPORTANTLY, IT EVOLVES OVER TIME AS THE EXPENDITURE DISTRIBUTION ON FOOD, SHELTER, CLOTHING, AND UTILITIES CHANGES.

As noted, the family budget approach is less adaptable to measuring poverty for a variety of reasons, not least of which is that it sets the bar higher than the poverty threshold. But family budgeters have done an arguably more complete job of measuring needs than the NAS panel. The NAS/Census approach is to set the core of the threshold equal to about four-fifths of the national median of the expenditure distribution on food, shelter, clothing, and utilities. This has the advantage of simplicity, and more importantly, it evolves over time as the distribution changes.

BUT THERE IS NO GUARANTEE THAT A FIXED PERCENTILE OF THE EXPENDITURE DISTRIBUTION BUYS SAFE AND DECENT HOUSING.

But there is no guarantee that a fixed percentile of the expenditure distribution buys safe and decent housing. Thus, one recommendation is that Census Bureau substitute HUD's Fair Market Rents for the housing component in the NAS methodology.

This approach, which has been widely used in the family budget literature, has numerous advantages. First, the FMR's, which HUD uses to determine the rental cap on Section 8 housing, are updated annually with great geographic specificity, helping to introduce regional variation into the poverty measure. Second, HUD defines the FMR's as the "amount that would be needed to rent privately owned, decent, safe, and sanitary rental housing of a modest (non-luxury) nature with suitable amenities."<sup>17</sup> While this doesn't necessarily ensure that the FMR's will represent this standard, it creates a concrete benchmark against which to evaluate the values assigned to this basic need.

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<sup>17</sup> From the 1994 Federal Registry, quoted in Bernstein et al, 2000.

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In practice, the FMR's are the 40<sup>th</sup> percentile of recently rented housing, including utilities (other than telephone), and this gives some analysts pause. Why should the rents be of recent vintage—doesn't this bias the measure upwards, relative to rents that are not newly on the market? Also, does this approach differ enough from the NAS method to warrant its application, i.e., does it really matter whether we use some percent of the national median expenditures on a set of necessities or the 40<sup>th</sup> rental percentile?

The first critique is a valid one, but it is perhaps unduly conservative, in that it assumes that poor families can count on paying less than the spot market rent at a point in time. Most can, probably, in that it is certainly the case that only a minority move in a given year. But in the spirit of guaranteeing that the threshold represents the amount needed to rent decent housing at a given place and time, the use of FMR's would be an improvement.

The second question is an empirical one. It is difficult to know the answer to the question of how big a difference this change would make without trying it and comparing results. My priors, based on a table in Bernstein et al 2000 (Table 5) which compares FMR's and low-income families' expenditures on rent, is that the change might not make that big a difference in the aggregate, but would probably result in considerable variation by area.<sup>18</sup>

The second recommendation is in regard to imputations currently used by the Census in their implementation of the NAS method. The problem is that the March CPS, the data set used by Census to derive the experimental rates (as well as the official rates), does not ask about expenditures or taxes. Thus, Census analysts use various methods to impute how much families spend (or, in the case of the EITC, how much they receive) on these categories.

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<sup>18</sup> Census currently uses housing costs in 45 regions/metro-non-metro areas create a price index to adjust the experimental thresholds. The FMRs, however, exist for over 400 areas, and would thus capture more geographical variation.

IMPUTING CHILD CARE COSTS AND HEALTH CARE EXPENDITURES HAVE IN PARTICULAR PROVEN TO BE VERY CHALLENGING.

The inclusion of these values represents a key insight in both the NAS methodology and the family budget work: the importance of including these expenses or credits when deriving resources for working families. But even though the Census imputation methods are reasonable and defensible, this is a clear weakness in the application of the NAS method, and may lead to estimates too unreliable for policy purposes. Imputing child care costs and health care expenditures have in particular proven to be very challenging.

Perhaps a better way to go—and I realize this is nowhere near as simple as it sounds—would be to add some expenditure questions to the March CPS. It is probably unrealistic to think the March survey could ask about tax information, but the tax model now built into the CPS seems sufficient for this purpose, and it is difficult to imagine how you would do much better, without going to a very specialized survey or to IRS records (and this still leaves the problem of state tax records).<sup>19</sup> But could the March CPS possibly add questions on two key expenditures: child care and out-of-pocket medical spending?<sup>20</sup>

It is no small matter to add questions to a national survey, and, other than the food security supplement, the CPS does not typically ask consumption questions. In addition, both measures would suffer from the fact that, due to income constraints, some working poor families surely purchase less than adequate child care and medical care. But this approach would be most likely to be accepted by most objective analysts, especially those skeptical of the imputation procedures currently being used. It would also provide consistent, annual information about these important expenditure categories.

Another approach, suggested by the NAS panel, is to ultimately switch poverty measurement over to the SIPP, which already has child-care questions, along with detailed information on other economic resources. This may be a long-run solution, but

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<sup>19</sup> Research has shown that the inclusion of Federal and State income tax liabilities has virtually no effect of poverty rates, since very few poor families incur such liabilities. Of course, refundable tax credits have a substantial impact.

<sup>20</sup> The March CPS does have a new question on whether a family paid for child care, available on the 2001 file. There is no question, however, on the amount spent (personal correspondence with John Iceland of the Census Bureau).

there are various reasons to stick with the March CPS. First, the SIPP data have a much longer time lag and it may be difficult to produce the timely poverty estimates that we have come to depend on. Second, the Census Bureau has already shown the CPS data can be used to implement the NAS procedure, and has done so back to 1990. Third, the larger sample size of the CPS facilitates more accurate geographically disaggregated estimates.

In addition, and this thought is intended to bolster the likelihood that the changeover is officially sanctioned, the Census could use the March data to continue, at least for a time, publishing the current method. There are obvious political reasons why this would be important, in terms of providing cover for incumbents. Thus, Census could continue to publish, at least for a while, the rate measured under the current method, and this would hopefully smooth the feathers of those worried about being implicated by the new, higher rate.

#### It Takes a Movement to Raise the Poverty Threshold

Even without these changes, we could switch to the NAS/Census method today, and this would be a vast improvement over the current practice. The question is, how do we build the political will to make the change?

Not being well-versed in the basics of organizing such a movement, I do not know the answer (having attended many a "demo" doesn't help much here, I'm afraid). But, having tracked this issue, particularly the dissatisfaction with the current approach to poverty measurement, here are some broad outlines that may yield some insight about how to proceed.

#### *The Message:*

What's needed is a focused movement with one simply articulated goal: to replace the current poverty measure with a better one. Our effort would be more likely to prevail if we stick to a simple, concrete message. Thus, we (who "we" might be is described next) should try to agree on one, and only one, measure and push its use, exclusively. This would be more effective than an argument that offers a menu of choices, since

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THE MESSAGE MUST GO BEYOND A CRITIQUE OF THE CURRENT MEASURE AND OFFER A POSITIVE RATIONALE FOR THE CHANGE.

OTHER STATISTICAL AGENCIES HAVE REVISED THE WAY THEY MEASURE EMPLOYMENT, PRICES, AND QUANTITIES BASED ON BETTER METHODS AND EVOLVING KNOWLEDGE.

BY DEDUCTING THE COSTS ASSOCIATED WITH WORKING, THE NAS/CENSUS APPROACH REPRESENTS A BIG STEP FORWARD.

THE TREND IN THE NEW APPROACH REFLECTS DYNAMICS THAT ARE BEYOND THE RANGE OF THE CURRENT MEASURE.

this approach is likely to quickly degenerate into a debate over which is best.

The message must go beyond a critique of the current measure and offer a positive rationale for the change. That rationale could include the following points:

- ◆ *It is well within our ability and means to more accurately measure poverty, and we should do so, simply on the basis that better measures yield better understanding of our world and our policies.* Social science has made real gains in our understanding and measurement of many economic and social issues--poverty is just one example. Other statistical agencies, such as the Bureau of Economic Analysis and the Bureau of Labor Statistics have throughout their histories revised the way they measure employment, prices, and quantities based on better methods and evolving knowledge.
- ◆ *The economy, the labor force, and social policy have changed in fundamental ways and our poverty measure needs to reflect these changes.* The most important of these may well be the increased labor force participation employment of women, including single mothers. By deducting the costs associated with working, the NAS/Census approach represents a big step forward in this regard. Also, increases in social spending over the past few decades have been driven by expenditures on non-cash benefits, and the current measure fails to reflect the value of these efforts. The new measure would correct this omission (though not for medical expenditures).
- ◆ *We need to know how much progress we are making against poverty, something the current measure cannot accurately reveal.* As Figure 1 showed, the NAS/Census measure moves with the current measure, so this rationale may seem less important, in the sense that even if the level of the old measure is wrong, the trend is basically correct. But a closer look at the figure reveals that this is not really the case. The trend in the new approach reflects dynamics that are beyond the range of the current measure, and even in the short time frame covered by the figure, the gap between the two series varies from 2.3 to 3.7 percentage points.



IF THE CURRENT MEASURE DOES NOT ACCURATELY MEASURE NEED, THEN ONE CANNOT HAVE MUCH FAITH THAT TARGETED SAFETY NET PROGRAMS WHICH ARE KEYED OFF THE POVERTY LINE ARE REACHING INTENDED BENEFICIARIES.

UNIFORM STANDARDS COULD MAKE ACCESS TO THE SAFETY NET A FAIRER PROPOSITION ACROSS THE COUNTRY, AND LEAD TO MORE EFFICIENT USE OF LIMITED RESOURCES.

THE COMBINATION OF THE BROAD SOCIAL SCIENCE AND ADVOCACY COMMUNITIES, UNIFIED AROUND A SINGLE APPROACH, HAS THE POTENTIAL TO BE MORE PERSUASIVE THAN THE SUM OF THEIR PARTS.

THE PUBLIC AND THE MEDIA SHOULD ALSO BE ENLISTED TO PLAY A ROLE.

- ◆ *To the extent that program eligibility is often tied to the poverty line, a more reliable measure should help to improve the targeting of needed services.* If the current measure does not accurately measure need, then one cannot have much faith that targeted safety net programs which are keyed off the poverty line are reaching intended beneficiaries. Of course, as stressed above, some states have taken this matter into their own hands, and raised eligibility levels to some multiple of the poverty line. A new measure, particularly one with geographical variation built in, has the potential to lead to more uniform eligibility standards. Such uniform standards could make access to the safety net a fairer proposition across the country, and lead to more efficient use of limited resources. I am mindful, however, that this could end up leading some states to lower eligibility levels, and this possibility should be considered in judging the value of this rationale.<sup>21</sup>

#### *The Messengers:*

Arguments to change the federal poverty line have come mainly from the top down, by social scientists critical of the current measure. Grassroots advocates, meanwhile, have mostly organized around local family budgets initiatives. It appears that decision-makers can ignore the academic social scientists, including the prestigious NAS panel, with impunity. Grassroots advocates have been much less focused on a national movement around a national measure. One of their limitations is the lack of social science's endorsement of their measure. Perhaps the combination of the broad social science and advocacy communities, unified around a single approach, has the potential to be more persuasive than the sum of their parts.

The public and the media should also be enlisted to play a role. Subjective measures of the poverty line from polls which ask people where they think it should be set consistently come in well above the current measure. Reporters familiar with this

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<sup>21</sup> The fact that the NAS/Census approach subtracts expenditures on some needs (e.g., work-related expenses) from a family's resources is another reason why this rationale may be dubious. For example, eligibility for a transportation subsidy should probably not be based on an income measure that subtracts expenditures on transportation from income.

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issue know this, and many are skeptical of the current measure. If a movement to change the poverty measure caught their interest, the public and the press could turn this into an urgent issue that would be much more difficult to ignore than is currently the case.

Finally, political representatives need to be enlisted to carry the message to the legislative arena. If they could be convinced that enough constituents cared about it, there are politicians who would probably be happy to embrace this cause, but various political considerations would need to be made. For example, it would be important to know the cost of the change, both in terms of implementation, and more importantly, in terms of expanded program eligibility. Also, members of this coalition would need to assure sympathetic politicians that they would be insulated from the implications of the change to a measure that led to higher poverty rates. This means stressing the level and trend in the current measure throughout the period of the changeover.

#### CONCLUSION

At some point, we are going to change the way we measure poverty in the US. Given the recent developments discussed above, that time may be sooner than later. The current measure has few defenders, and we now have an excellent candidate with which to replace it: the NAS method, as implemented by the Census. I've recommended a few changes that would perhaps enhance the reliability of that measure. But even without these changes, the new measure (in its unstandardized version), which is being actively applied by researchers at the Census and BLS, gives us a much more accurate picture of the level of and trend in material deprivation.

With the caveat that I have no experience in movement-building, I have also suggested some themes that might be useful in building a coalition to hasten the change. This may or may not be the right way to make this happen. Measurement changes have fairly regularly been introduced by national statistical agencies without too much political pressure. In addition, while this issue clearly excites many of us who

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typically dwell on arcane matters, it is by no means clear that changing the poverty line would generate enough heat to fuel even a small advocacy movement.

But in this case, some sort of movement joining social scientists, low-income families, advocates, and sympathetic elected representatives may be the only way by which the change will occur. The measurement changes that have been made, such as changes to the Consumer Price Index or recent revisions in the Gross Domestic Product accounts, tend to make recent economic performance look better than was previously the case. I can think of no measurement changes that made things look significantly worse, as this change would.<sup>22</sup>

So, to paint a much clearer picture of the real state of human need in our country, and in the name of better social science and informed public policy, unsheathe your calculators and let the war on the poverty line begin!

[I benefited from comments from Chauna Brocht, Robert Haveman, John Iceland, David Johnson, Maggie Spade-Aguilar, Ruby Takanishi, and from research assistance by Abe Cambier.]

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<sup>22</sup> For this reason, some advocates of the change suggest moving to the standardized measure. While I clearly disagree with this approach, it might be a reasonable fall-back position.

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