

**A Hamilton Project paper:**  
**Improving the Measurement of  
Poverty**

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**Economic statistics should say something useful about the phenomenon they are measuring.**

**The current U.S. poverty measure is a flawed statistic and does not provide adequate information about who is poor or whether key programs are helping to make progress against poverty.**

**We recommend that the U.S. adopt an improved measure of poverty.**

## **Poverty measures have two components**

- **Threshold or poverty line**
- **Resource measure**

**The poverty rate is the percentage of persons with family resources below the poverty line.**

## **Current Poverty Line (1963)**

- **Threshold (family of four)**
  - = 3 x Subsistence food budget**
  - Based on 1955 expenditure data**
  - Other size family thresholds determined with an equivalence scale**
  - Updated by CPI in years since**
- **Resources = Pretax cash income**

## **Many problems with this definition...**

### **Thresholds --**

- **Based on family expenditure patterns from 1955**
- **No adjustment for geographic cost-of-living**
- **Outdated equivalence scales**

### **Resources –**

- **No adjustment for taxes paid or credits received**
- **No adjustment for in-kind benefits**

## Why change?

- Does not measure of the effects of our many non-cash and tax-based program expansions on low-income families.
- Does not reflect other changes affecting poor families (women working; changing health care landscape; etc)

## **This is a state/local concern as well as a national concern**

A number of states and localities have launched or are considering significant policy efforts to reduce poverty

But they need a baseline measure that will take their efforts into account and tell them if they are achieving their goal.

This is why NYC released its own poverty calculation in summer 2008

## **Our Recommendation**

**Follow the approach of the National Academies of Science in its 1995 report.**

**Our paper specifies a number of specific decisions that we recommend, that nail down questions that the NAS report left open.**

## **Our recommendation: Threshold**

Take point at the 33<sup>rd</sup> percentile in the distribution of expenditures of 4-person families on food, shelter (including utilities) and clothing. Multiple by 1.2 to account for spending on other necessities not included in these items.

- Use updated equivalence scales
- Adjust for cost-of-living based on housing cost differences

## **Our recommendation: Threshold**

- **Include cohabitators in the family unit**
- **Base this calculation on at least three years of expenditure data. Update the thresholds whenever a new year of expenditure data is available.**

## **Our Recommendations: Resources**

- **Cash income**
- **Take account of taxes paid or credits received**
- **Include the value of near-cash in-kind benefits that help purchase the necessities included in the thresholds (food stamps, housing assistance, energy assistance, etc.)**

## **Our Recommendations: Resources**

- Subtract three items from resources
  - » Child support payments made
  - » Work expenses (include child care)
  - » Out-of-pocket medical expenses

These items vary greatly across families, so its hard to set a 'standard amount needed'

## **Substantive Advantages**

- **Poverty line is based on a measure linked to current expenditure patterns**
- **Poverty line is adjusted for real differences in living expenses and uses a better equivalence scale for different family sizes**
- **Resource measure is much more complete and reflects the current tax/policy environment, and reflects growing child care and health care expenses among families**

## Practical Advantages

- Based on a report from an expert, non-political panel, which has been discussed and drawn wide acceptance in the years since.
- Census and other government agencies have experience with these calculations and a growing body of research studies how to implement them.

Any other approach will require re-starting a lengthy process of debate and greatly delay implementation of any new measure.

## **The NAS Approach Isn't Perfect...**

- **Narrow set of needs in thresholds. Healthy child development needs more than food, clothing, shelter.**
- **Threshold at 33<sup>rd</sup> percentile (or any specific percentile) can be criticized as arbitrary.**
- **Treating work expenses and medical costs as exclusions from resources makes poverty line harder to interpret.**
  - » **And understates needs for those who pay little for health care/work costs because they can't afford to pay more.**
- **Requires collection of some data that do not currently exist, including some for which accuracy may be difficult.**

## Best Among Alternatives

- Relative measure (e.g. 60 percent median income)
  - » Useful, but not a substitute – measure of inequality, not capacity to meet basic needs.
- Family Budget
  - » We prefer NAS approach of looking at what other families actually spend rather than trying to decide what families “need.”
- Consumption measure
  - » Better to look at family resources, rather than consumption, which can be driven by borrowing, exhausting resources, illicit activities.

## Implementation

- Could be done by legislation or Administration action
  - » McDermott/Dodd legislation proposed
  - » Campaign staffer indicated Obama support
- Data improvements
  - » Some immediate steps essential
  - » Longer term improvements desirable
- Continued reporting of old and new measure

## **Effects on existing programs**

- No automatic effects, case-by-case instead
- Programs currently using a percentage of poverty could reconsider percentage
- Definition of resources that makes sense for statistical purposes may not make sense for program eligibility/benefits

## **How will NAS affect poverty rates?**

- **Will depend on issues still needing resolution and improved data**
- **We anticipate**
  - » **Elderly poverty up**
  - » **Extreme poverty down**
  - » **Immigrant poverty up**
  - » **Increases in higher cost, decreases in lower-cost areas**
  - » **Impact on child poverty unclear**

## What else?

- NAS should be charged with developing a decent living standard measure.
- Regular reporting should include:
  - » Medical risk index
  - » Relative poverty measure
  - » Improved asset measures