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)
  \[= 3 \times \text{Subsistence food budget}\]

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- Outdated equivalence scales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 33rd 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 cohabitors 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 it’s 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 33rd 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