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# Consumption Poverty: Measurement Matters

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# What is Poverty ?



# NAS Report: What is Poverty

*“We define poverty as **economic deprivation**. A way of expressing this concept is that it pertains to people’s lack of economic resources (e.g., money or near money income) for consumption of economic goods and services (e.g., food, housing, clothing, transportation). Thus, a poverty standard is based on a level of family resources (or, alternatively, of families’ actual consumption) **deemed necessary to obtain a minimally adequate standard of living, defined appropriately for the United States today.**”*

# History of SPM



**National Academy of Sciences** convenes a panel of experts to conduct a study of statistical issues in the measurement and understanding of poverty, *June 1992*.

An **Interagency Technical Working Group on Developing a Supplemental Poverty Measure** is formed by Commerce Under Secretary Rebecca Blank and Office of Management and Budget Chief Statistician Katherine Wallman and charged with developing a set of initial starting points to permit the U.S. Census Bureau, in cooperation with the Bureau of Labor Statistics, to produce a Supplemental Measure, *December 2009*



1990

2000

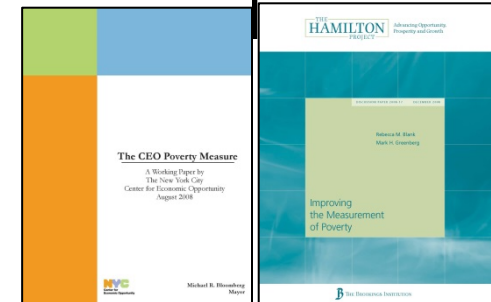
2010



The Panel on Poverty and Family Assistance publishes a report proposing a new approach for measuring poverty.

Constance F. Citro and Robert T. Michael (editors), *Measuring*

*Poverty: A New Approach*, Washington, D.C., National Academy Press, 1995.



**The CEO Poverty Measure**  
A Working Paper by  
The New York City  
Center for Economic Opportunity  
August 2008

Michael R. Henderson  
Mayor

THE HAMILTON  
INSTITUTE

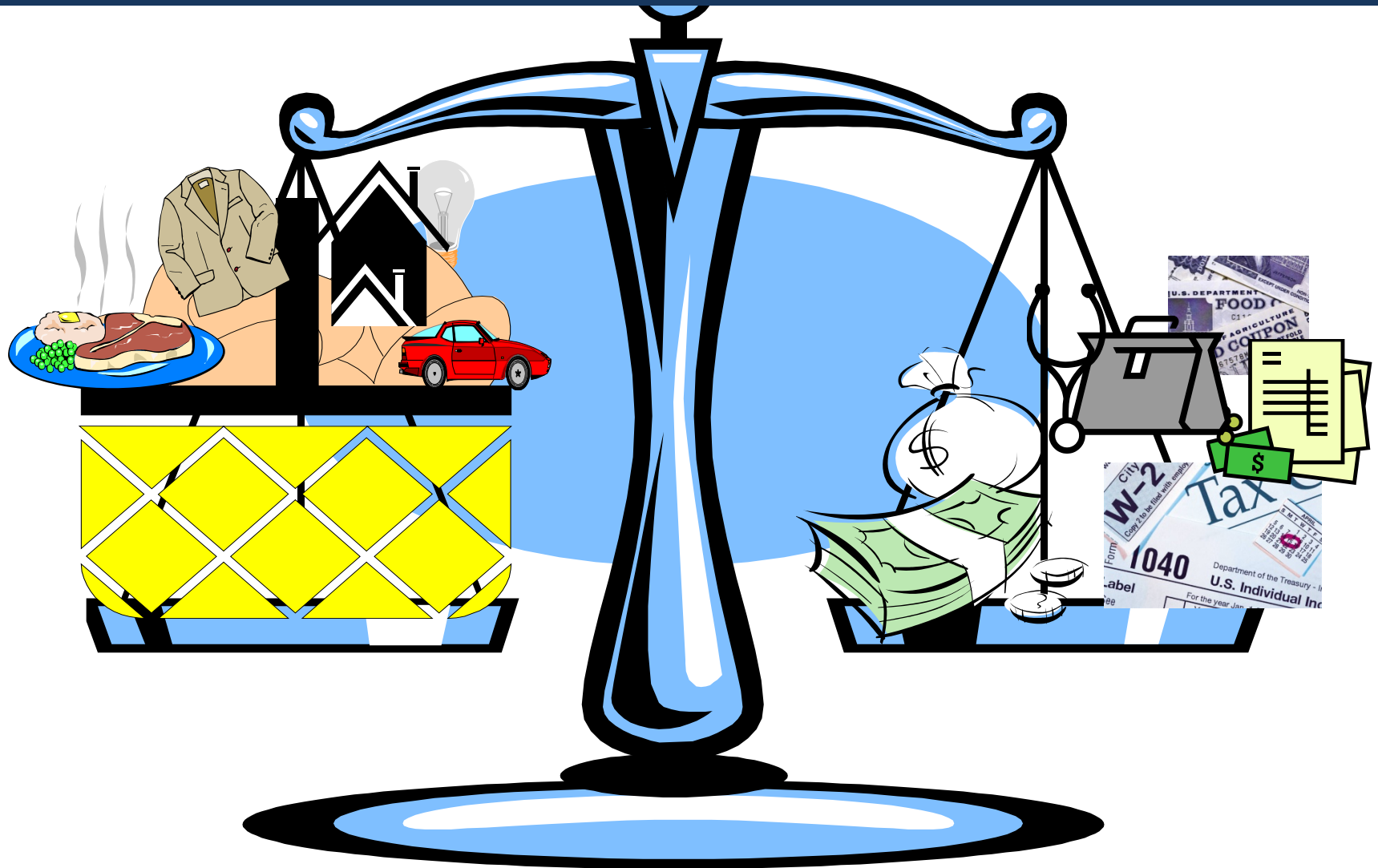
Advancing Opportunity  
Promoting Self-Sufficiency

Rebecca M. Blank  
Mark A. Courtney

Improving  
the Measurement  
of Poverty

The Hamilton Institute

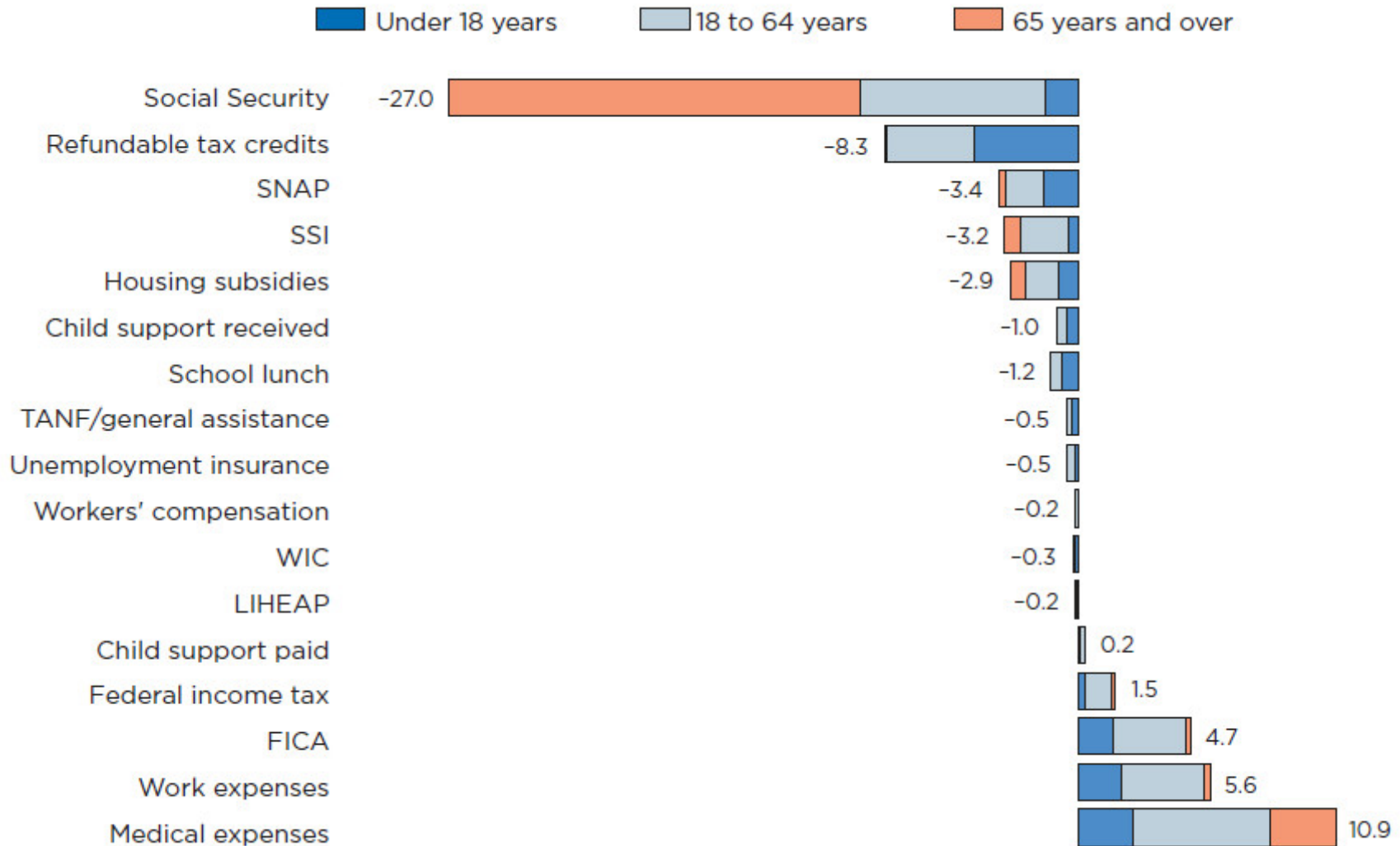
# Key feature of SPM: resources and thresholds are consistent and balanced



# Advantages of SPM

- Resources and Thresholds are consistent
- Thresholds annually updated by changing standard of living
- Resources include all government transfers (net of taxes), and can demonstrate impact of transfers on poverty
- Allows for geographic differences in housing costs
- Attempts to deal with differences in health care and differences between owners and renters

# Change in Number of People in Poverty After Including Each Element: 2017



See <https://www.census.gov/library/publications/2018/demo/p60-265.html>

# NAS Report on Consumption

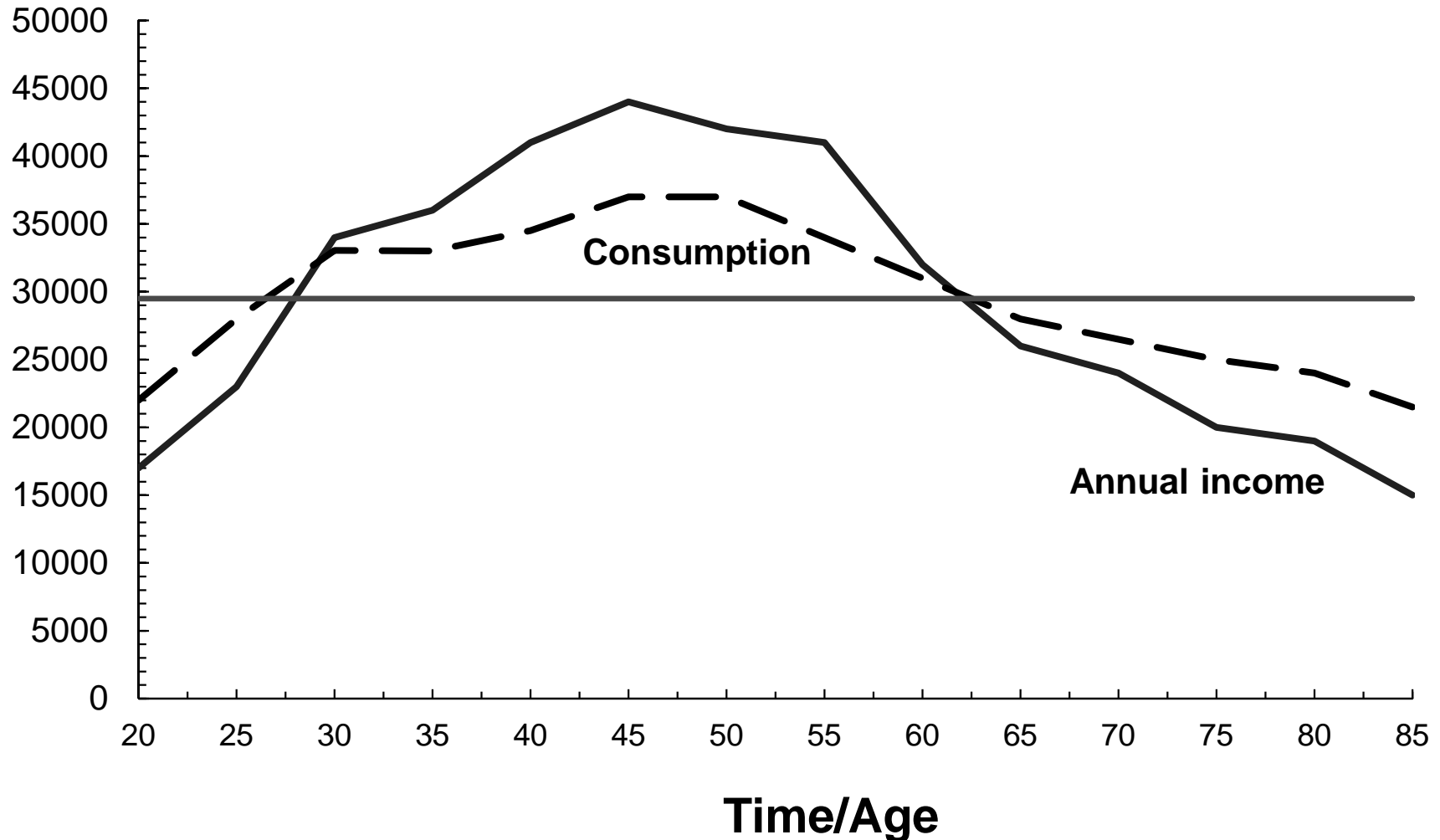
- What one thinks of the contrasting ways in which consumption and income resource definitions treat people who are income-rich but consumption-poor and people who are in the reverse situation depends on one's view of the meaning and purpose of a poverty measure. **One view is that the poverty measure should reflect the *actual level* of material well-being or consumption in the society** (in terms of the number of people above the threshold), regardless of how that well-being is attained. **Another view is that the poverty measure should reflect people's *ability* to obtain a level of material well-being** above the threshold through the use of their own income and related resources.



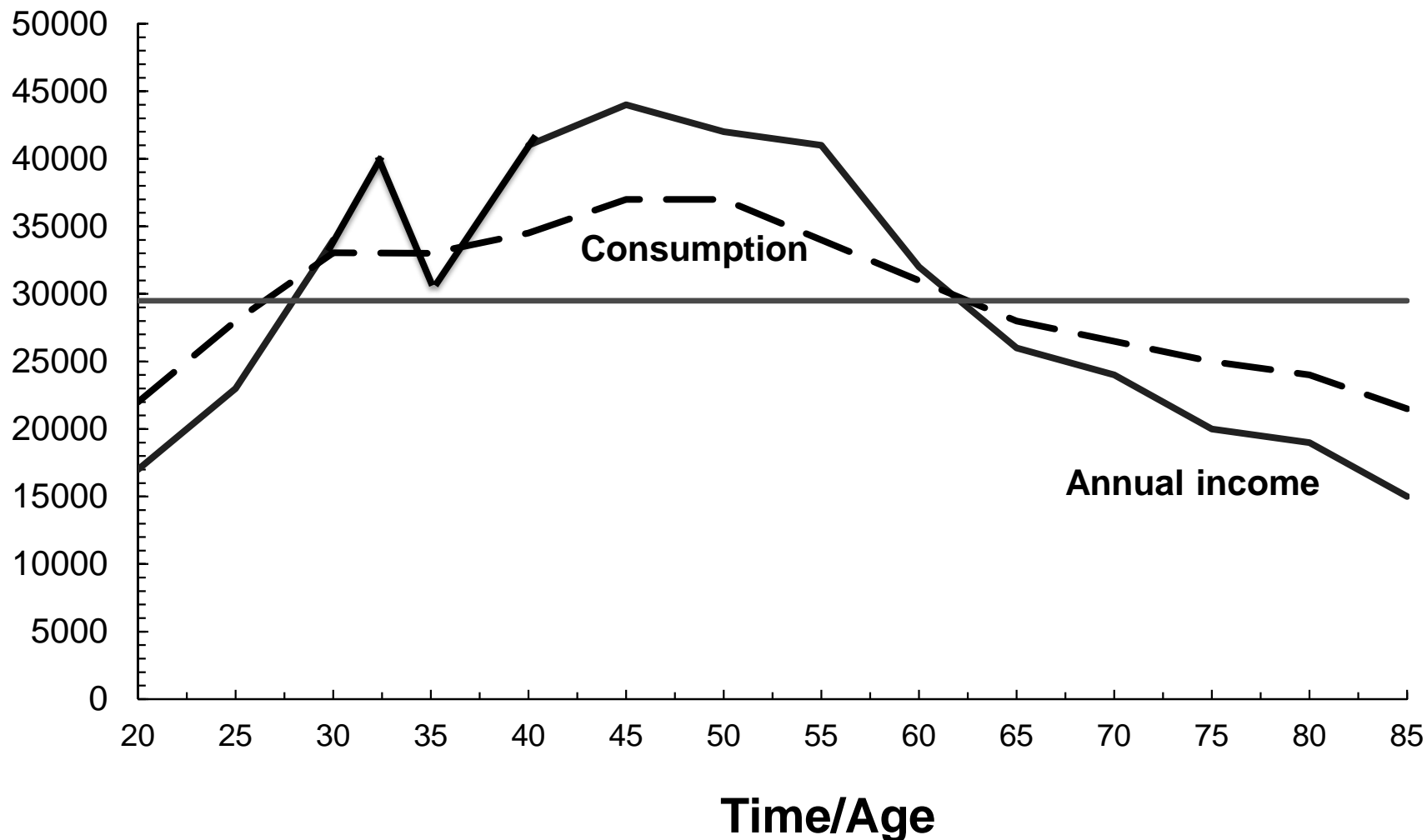
# NAS Report suggested using Consumption

- On the fundamental question of whether to base the definition of family resources for the poverty measure on income or consumption, we believe that there are merits to the conceptual arguments on both sides of the debate. On balance, **many members of the panel find more compelling the arguments in favor of a consumption definition that attempts to assess actual levels of material well-being**. However, in the United States today, adequate data with which to implement a consumption-based resource definition for use in the official poverty measure are not available.

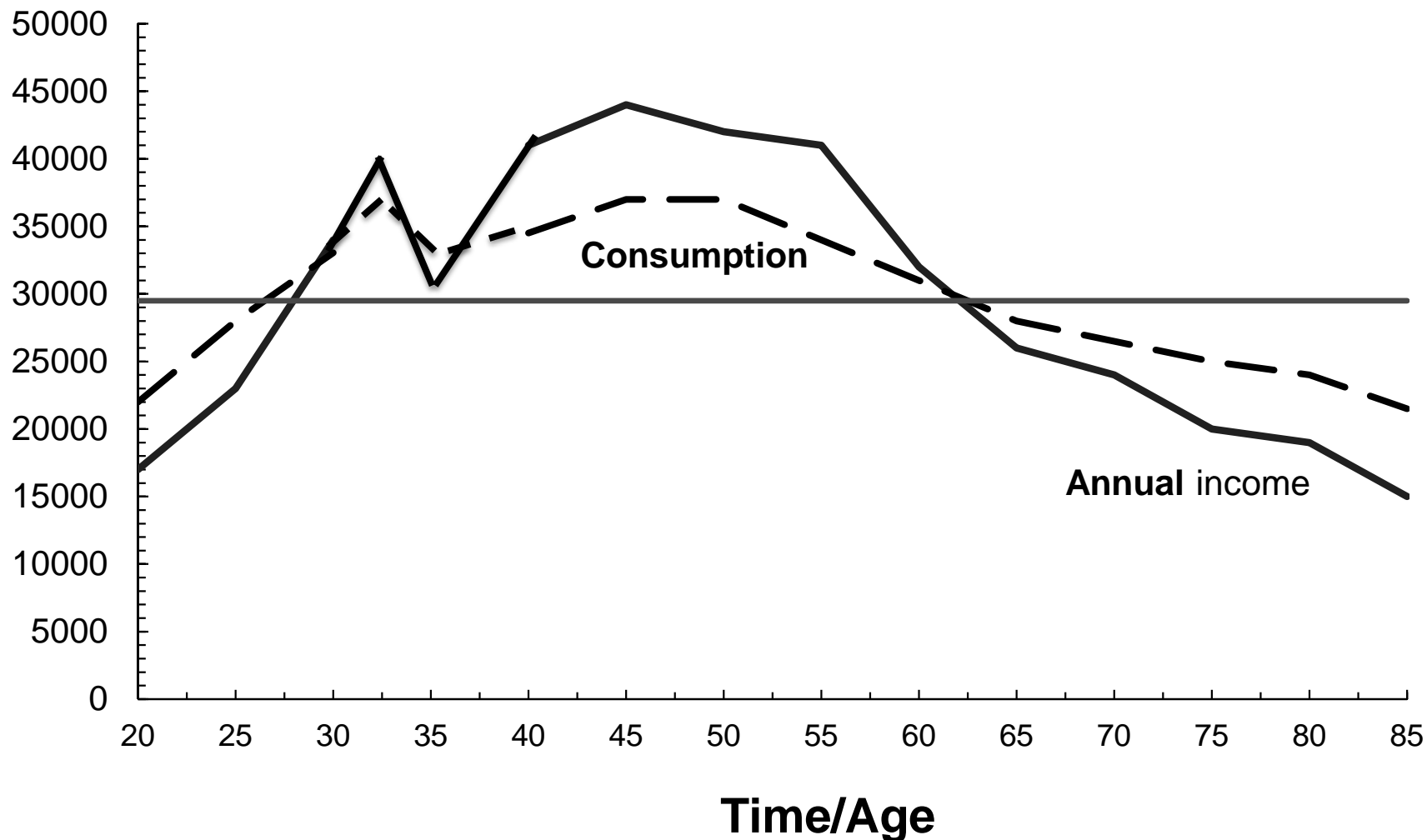
# Conceptual reason for Consumption Life-Cycle Permanent Income Hypothesis



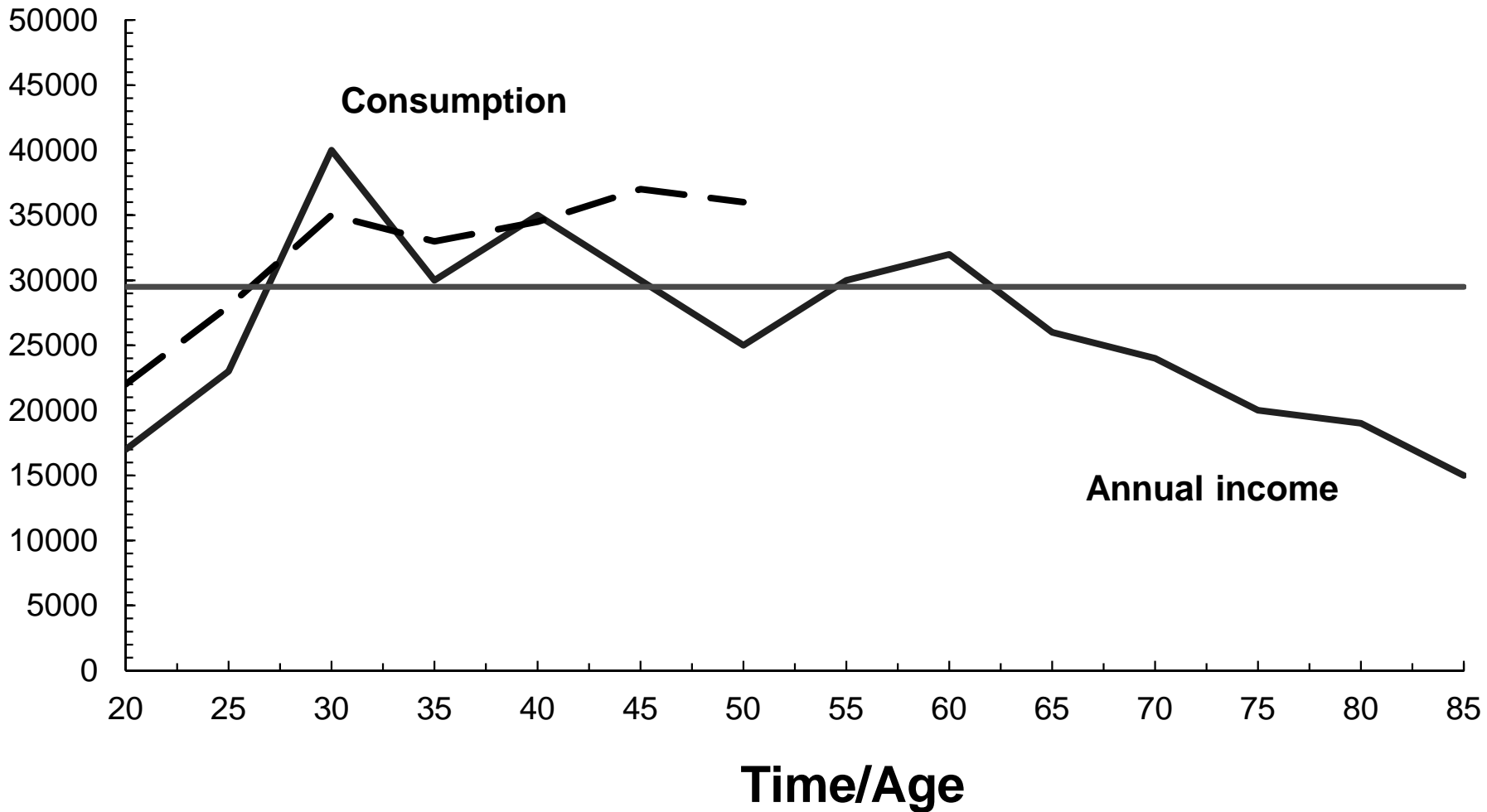
# Respond by smoothing income shocks



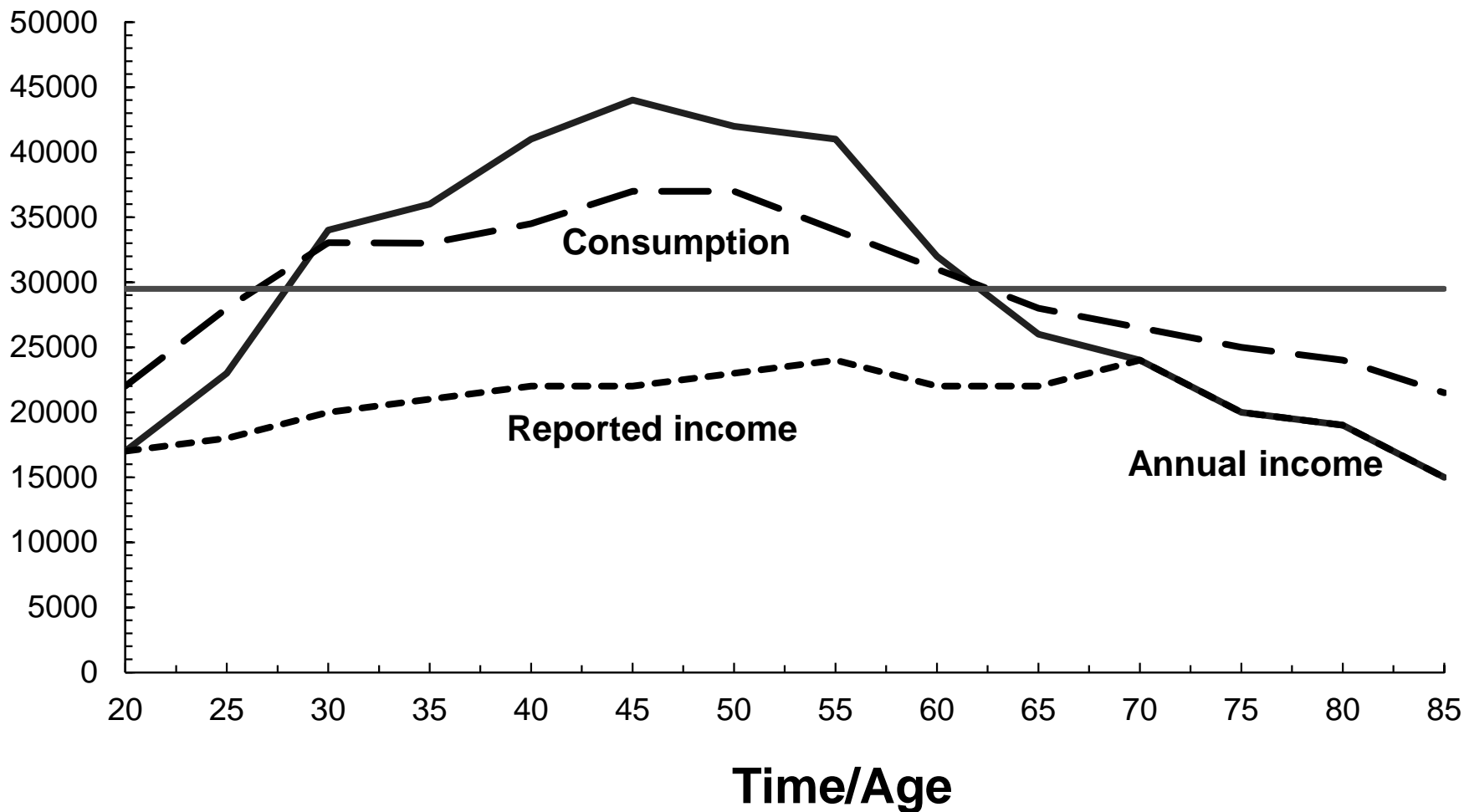
# However, consumption responds to income shocks, especially at low end



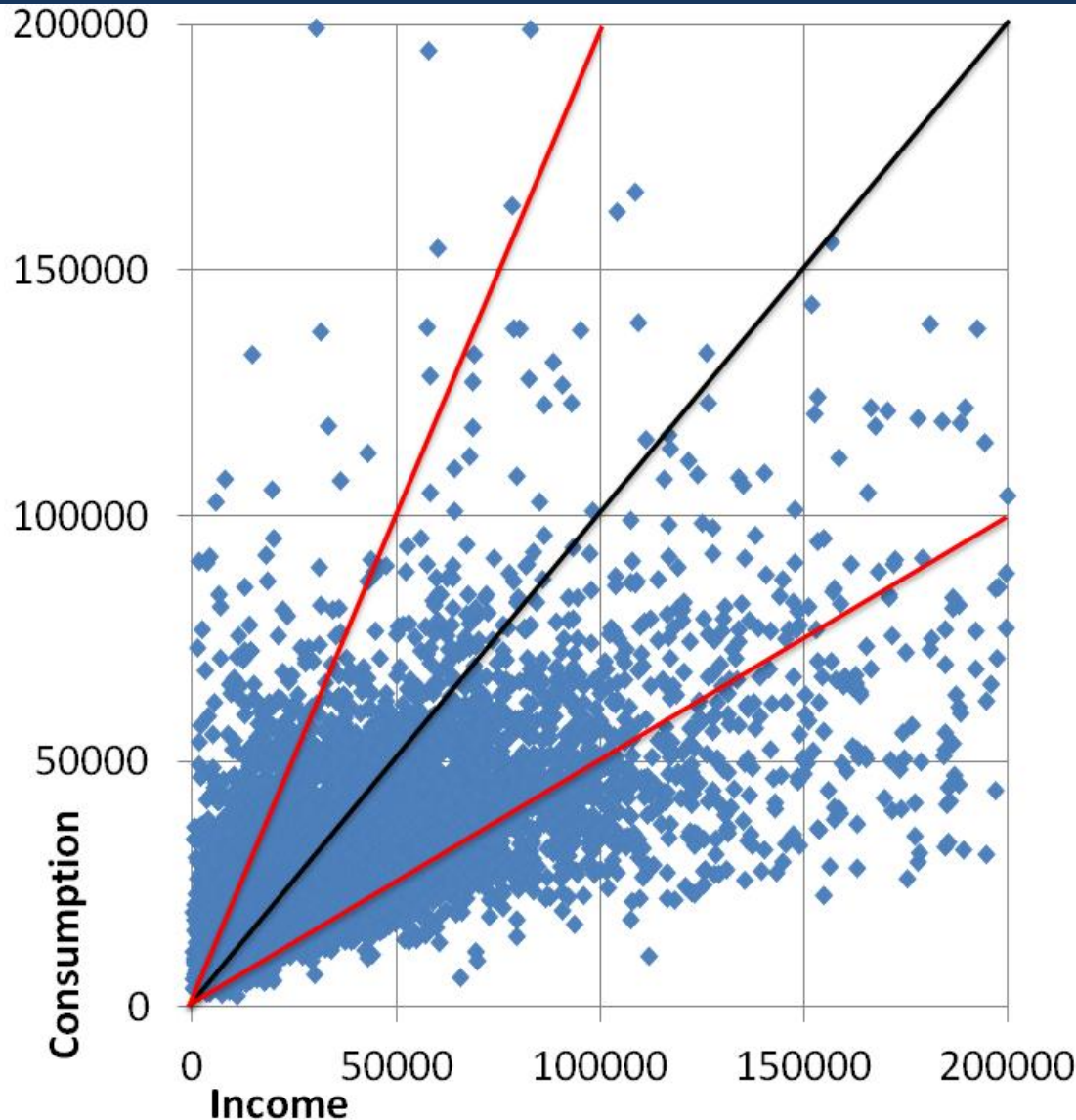
# Some may use extra debt to over-consume



# Measurement Reason for consumption: Reported income may be under-reported



# Measurement Issue: Does Income = Consumption?



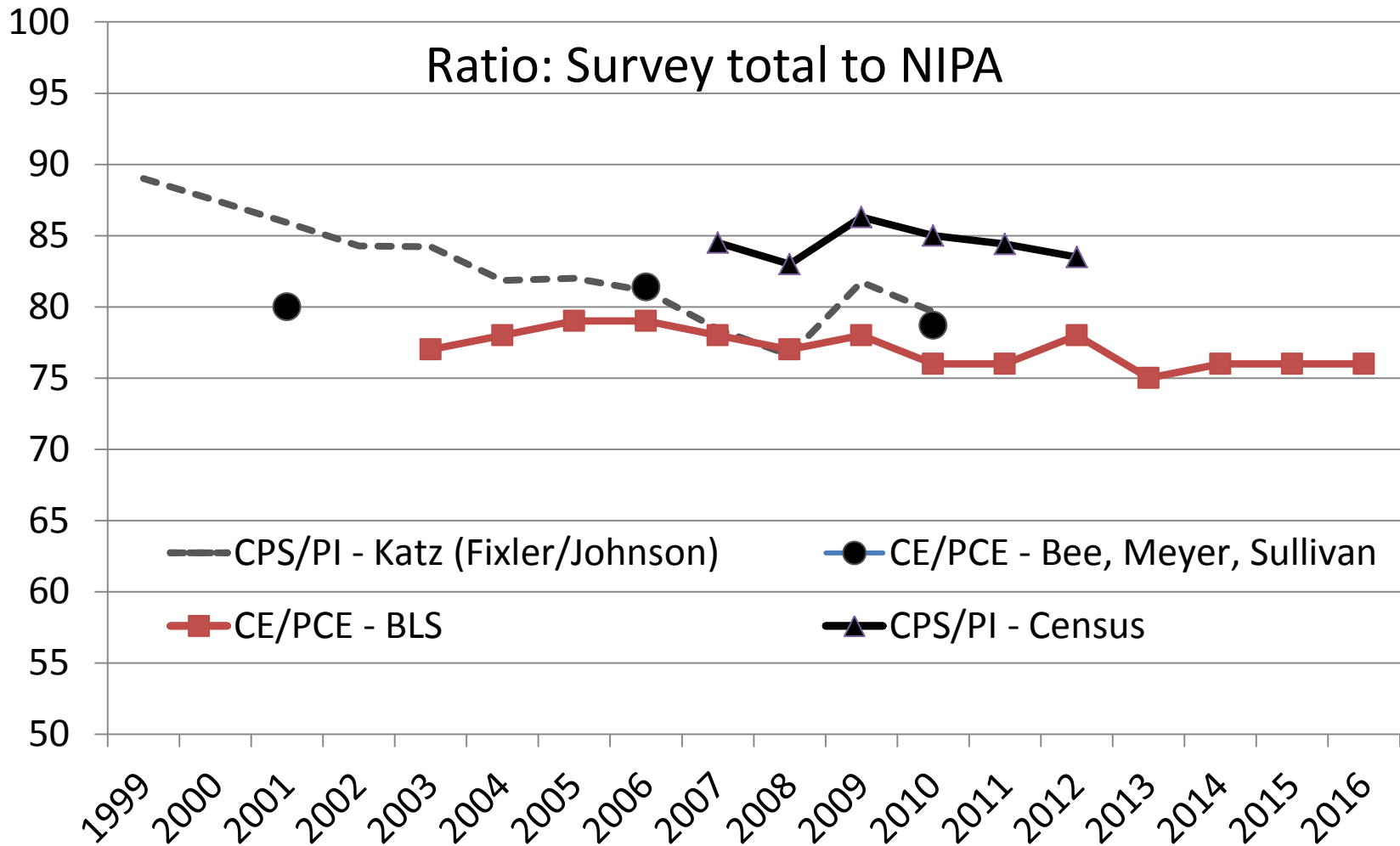
Consumption is related  
to income (.6)  
80% lie between  
Consumption-to-  
income ratios (APC) of  
.5 and 2

# Measurement Matters

- Quality of CE data
- Sample size in CE support state-level estimates (currently MSA level)
- How to obtain annual consumption from quarterly CE spending data
- What do we include in consumption
  - Housing, Health, Education
  - Measuring service flows for housing and durables
- What about under-reporting of spending (e.g., alcohol, clothing)
- What do we do about elderly
- How can we examine the impacts of government programs
- How do we determine a consistent thresholds



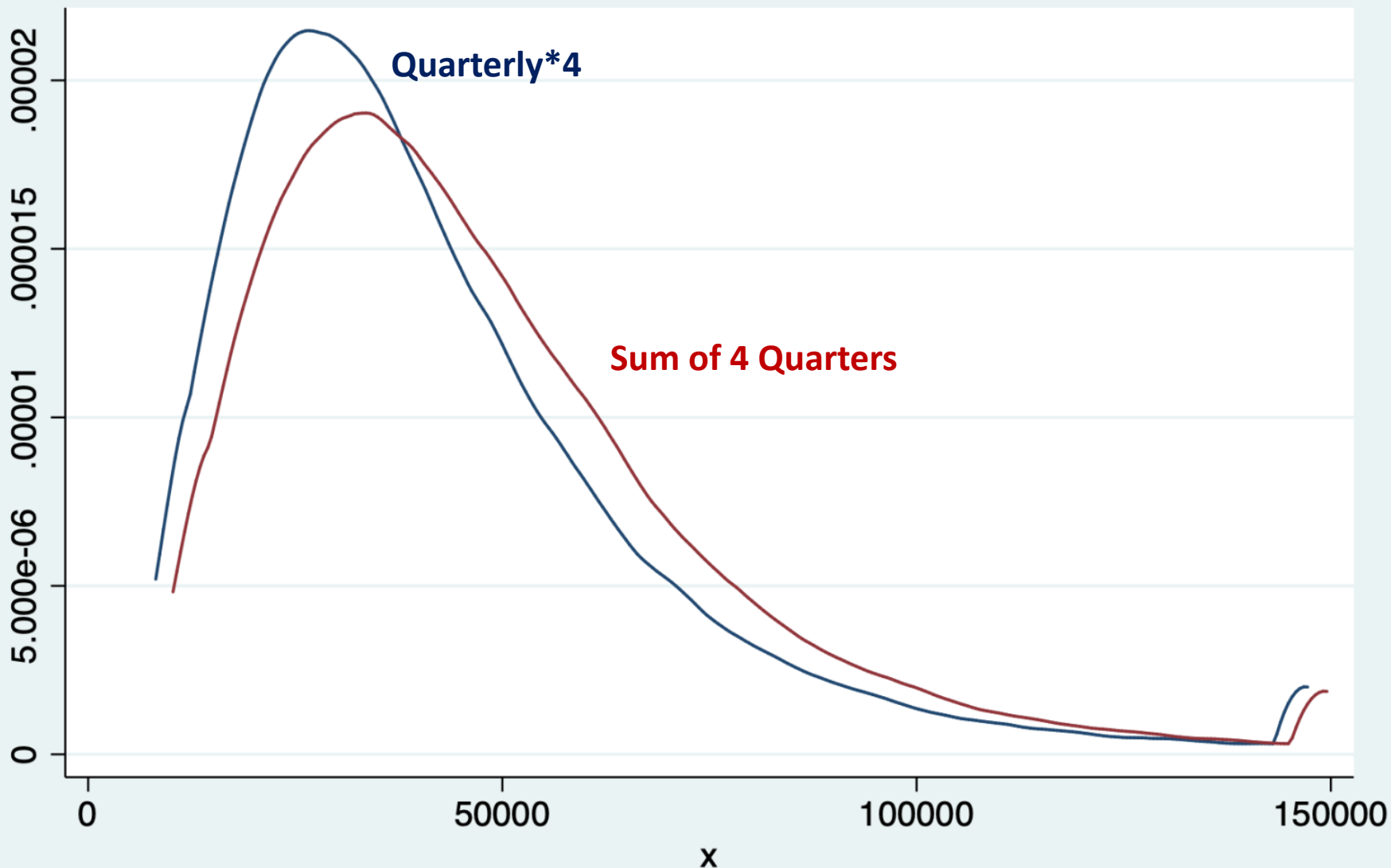
# Measurement Issue: Under-reporting of consumption and income is stable



CE/PCE see <https://www.bls.gov/cex/cepeconcordance.htm>

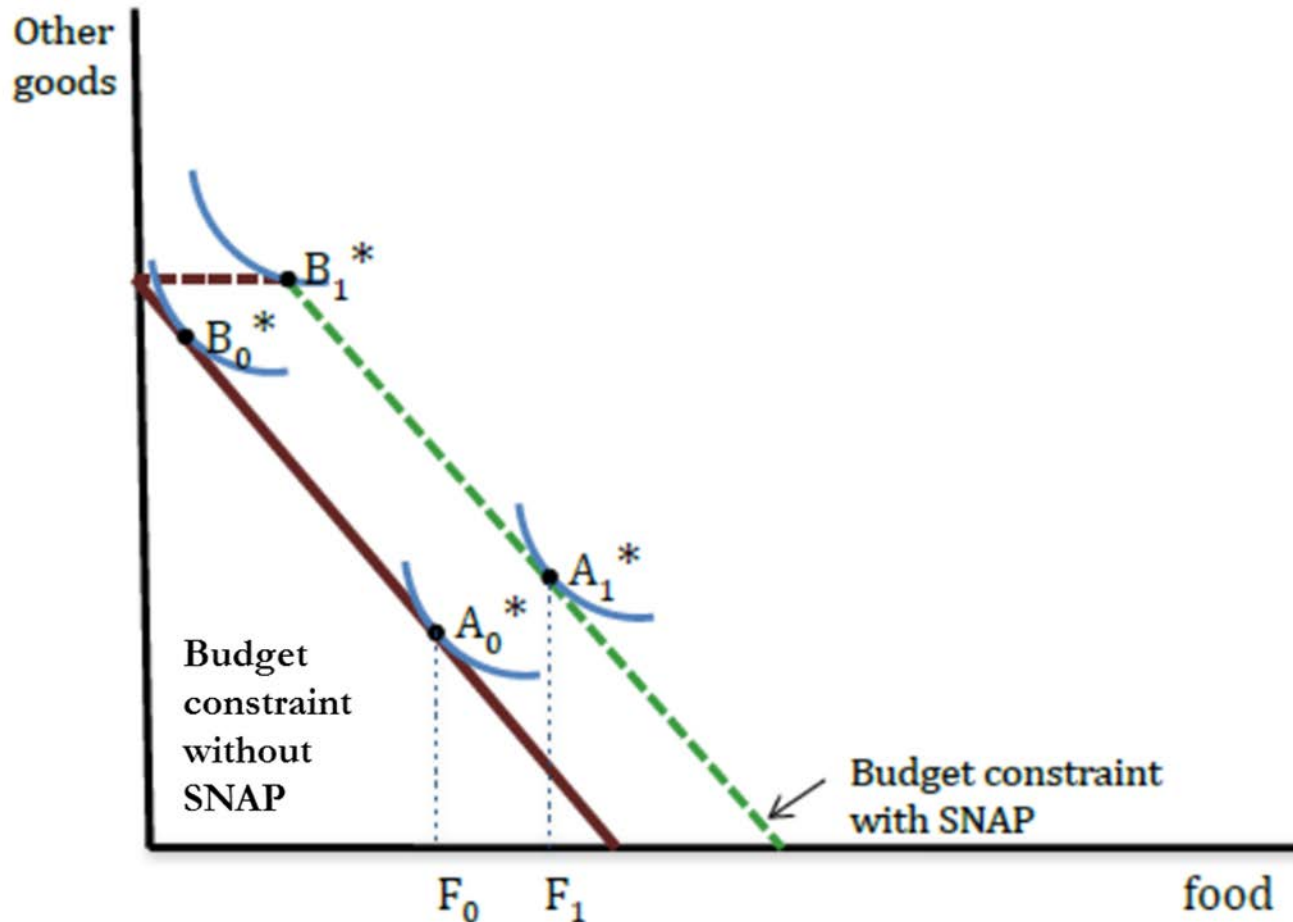
CPS/PI see <https://www.census.gov/content/dam/Census/library/working-papers/2015/demo/SEHSD-WP2015-01.pdf>

# Quarterly consumption is more disperse than annual yielding higher poverty rate



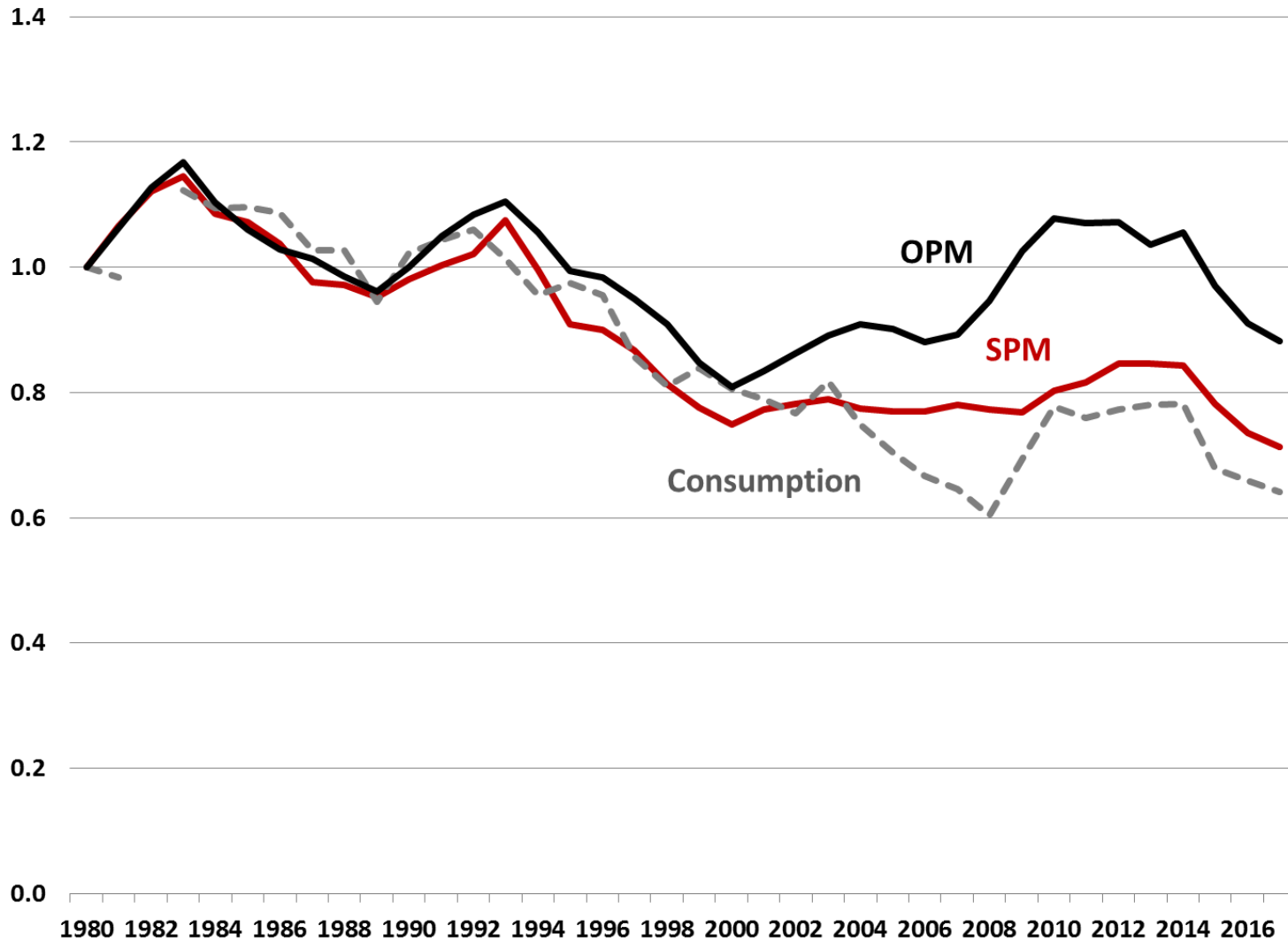
# SNAP effects on Income vs. Consumption

30% of SNAP participants are Extramarginal,  $B_1^*$



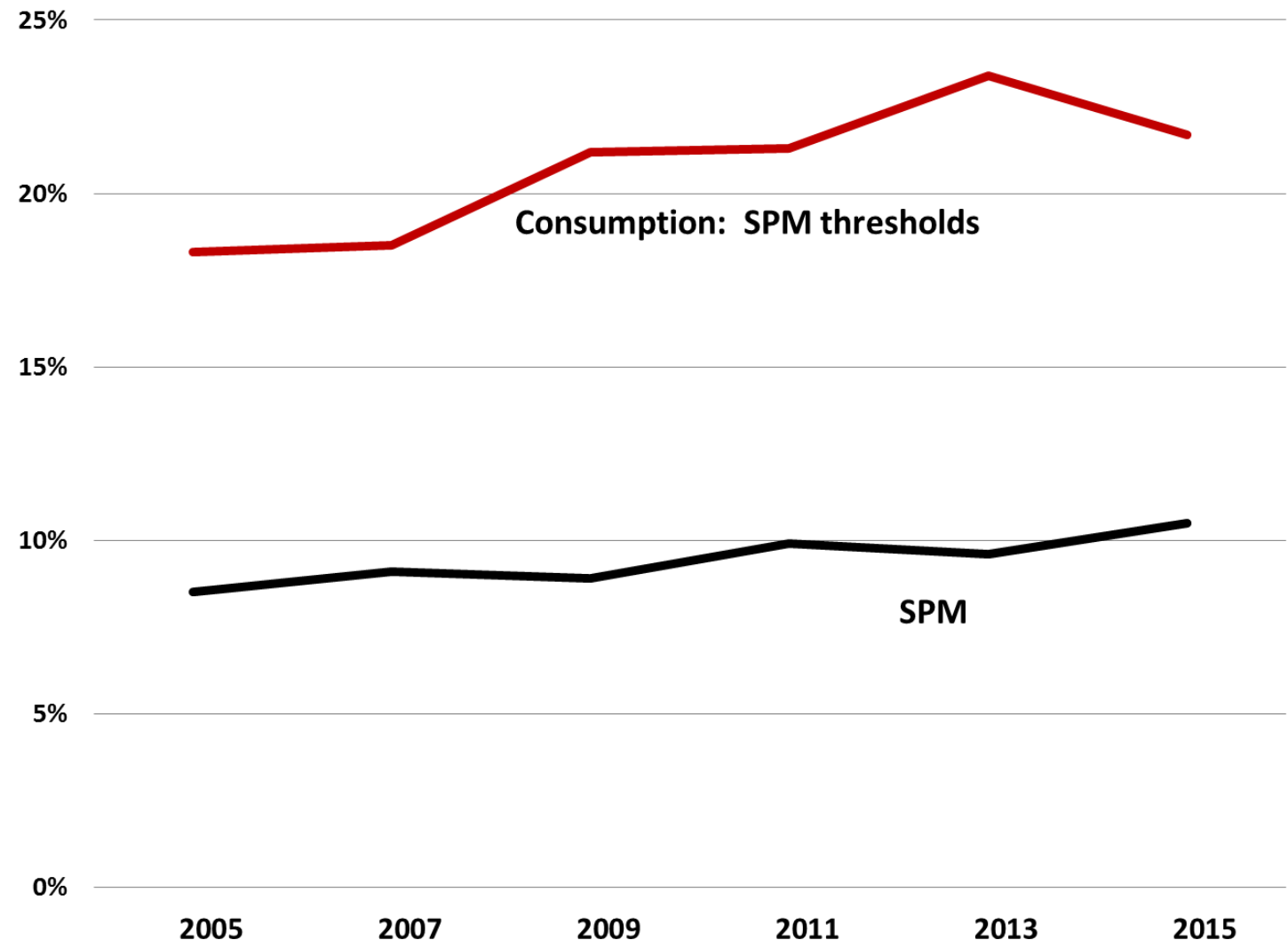
# Trends in Income (SPM) and Consumption Poverty (Meyer/Sullivan) are similar

(Pov=1 in 1980)



NOTE: All use thresholds adjusted by CPI-U-RS

# Use SPM thresholds for both: Trends in Income (SPM) and Consumption Poor (2005-2015; PSID)



# Measurement Issue: Are the income poor and consumption poor the same people (2015; PSID)

	<b>Not Consumption poor</b>	<b>Consumption poor</b>	<b>Total</b>
<b>Not SPM poor</b>	<b>73.8%</b>	<b>14.8%</b>	<b>88.6%</b>
<b>SPM poor</b>	<b>6.4%</b>	<b>5.0%</b>	<b>11.4%</b>
<b>Total</b>	<b>80.2%</b>	<b>19.8%</b>	<b>100%</b>

# What should we do?

- **Need Consumption poverty measure to complement SPM**
- **But we also need to consider wealth**
  - need all three – I, C & W
- **Consider a consumption poverty using the SPM thresholds**
- **We need to be careful with the index to update thresholds**
  - don't only update with inflation.
  - Updates to Statistical Policy Directive 14
- **More research into what to include in consumption**
  - Housing, Health, Education
- **Research on under-reporting of Income and Consumption**
  - (CID *and* CED)
- **Use Census funding for a CNSTAT consensus panel**

# OMB Statistical Policy Directive 14

For the years 1959-1968 the statistics on poverty contained in the Census Bureau's Current Population Reports, Series P-60, No. 68, shall be used....

For the years 1969 and thereafter, the statistics contained in **subsequent applicable reports in this series shall be used**...The Bureau of the Census series continues the Social Security Administration definition for the base year, 1963...

...Annual adjustments in Census series are based on changes in the average annual total Consumer Price Index (CPI) instead of changes in the cost of the U.S. Department of Agriculture's Economy Food Plan...

**...Other measures of poverty may be developed for particular research purposes**, and published, so long as they are clearly distinguished from the standard data series....



# Census Budget

- The FY2020 budget request includes the following program changes: Supplemental Poverty Measure (+\$2,000,000)
- The Census Bureau will fund a research study by the National Academies of Sciences, Engineering, and Medicine to evaluate and improve the supplemental poverty measure.

# Final Thought: Obtain P & Q, Y & C from survey, admin and commercial data

