

An Overview of Developments Since 1995 Relating to a Possible New U.S. Poverty Measure ⁽¹⁾

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(plus a Summary of the Recommendations of the National Research Council's Panel on Poverty and Family Assistance)

(NOTE--This overview is unofficial, and does not represent the position of the U.S. Department of Health and Human Services.)

During the first year or so after the 1995 issuance of the report of the National Research Council's Panel on Poverty and Family Assistance, there appeared to be relatively little government response to it. Since then, however, there has been a good deal of research and related activities to lay the groundwork for possible adoption of some form of the Panel's recommendations as a new official poverty measure for the U.S. (A number of relevant papers resulting from this research are available on the Census Bureau's Experimental Poverty Measures Internet site. This research is summarized in the first part of this paper; a summary of the Panel's main recommendations forms the second part.

Noteworthy research work includes the following:

- A group of employees from the Bureau of Labor Statistics (BLS) and the Census Bureau have done a number of research papers replicating the Poverty Panel's work by developing new poverty thresholds from expenditure data and applying them to family income data using the Panel's proposed resource definition, as well as examining additional issues raised by the Panel's recommendations.⁽²⁾
- In addition, a number of persons from the Census Bureau, BLS, and other organizations have done papers addressing specific issues arising out of the Poverty Panel's recommendations.⁽³⁾
- Poverty Panel member David Betson (with funding support from the Department of Health and Human Services' Office of the Assistant Secretary for Planning and Evaluation) has written four papers⁽⁴⁾ dealing with such topics as valuing home ownership to add to income, equivalence scales, and revised poverty estimates using corrected estimates of out-of-pocket medical care expenditures.
- In April 1997, in response to a Congressional request, the U.S. General Accounting Office (GAO) issued a report on various issues involved in updating the official poverty measure.⁽⁵⁾ The report discussed issues relating to measuring families' economic well-being and setting a standard below which families are considered poor, identified suggestions by experts for addressing these issues, and reviewed recent developments concerning these issues since the issuance of the Poverty Panel's report in 1995. (In March 1995, shortly before the Poverty Panel's report was released, GAO had issued a report⁽⁶⁾ on possible methodologies for adjusting for geographic cost-of-living differentials--a significant issue in poverty measurement.)

Several groups have been involved in activities relating to a possible new poverty measure.

In 1997, the Office of Management and Budget convened a federal Interagency Technical Working Group [TWG] to Improve the Measurement of Income and Poverty. The TWG held one meeting in April 1997, and has held five more meetings during the April 1998-May 1999 period. The group has formed subgroups to deal with various specific issues--e.g., how to account for medical needs in poverty measurement. TWG members have compiled a list of research projects relating to poverty measurement currently under way in federal agencies.⁽⁷⁾ TWG members have also provided comments on the Census Bureau's plans for a report on new experimental poverty measures (for which see below). As one might infer from its name, the Technical Working Group will not deal with such policy decisions as the dollar level at which a possible new poverty measure might be set.

The Brookings Institution and the Institute for Research on Poverty (IRP) have received funding from the Annie Casey Foundation for a project to help implement and popularize some form of alternative poverty measure based on the recommendations of the NRC's Poverty Panel.⁽⁸⁾ Gary Burtless of Brookings and Tom Corbett of IRP have been working closely with Wendell Primus (now at the Center on Budget and Policy Priorities) on this project. The project proposes that the new alternative poverty measure be used to calculate poverty population statistics but not (at least initially) to allocate federal grant funds among states or to determine eligibility for means-tested federal programs. In addition, "[t]he key recommendation of our proposal is to define a poverty measure that will yield approximately the same number of poor as the current measure does for 1995." Project personnel state that "if a determination is made ahead of time, for political reasons, that poverty cannot exceed current levels, this is not a violation of the panel's recommendations."⁽⁹⁾ (For a brief discussion of the relationship between the Panel's recommended threshold range and a new threshold that yields the same number of poor

persons as the current thresholds, see p. 8 below.) Concerning the project's "key recommendation," an IRP newsletter article commented, "The reason for this is in large part pragmatic. How might the public, Congress, and the administration react to a new poverty measure that showed millions more (or fewer) persons [in poverty] than the current measure? Securing acceptance for any new definition will surely be easier if the new index is 'chained' to the old."⁽¹⁰⁾ In addition, one of the project personnel has commented that "[t]he most controversial of the panel's recommendations is that updates to the poverty threshold should be based on changes in [median food/clothing/shelter] expenditures....Over time, this recommendation could cause the poverty thresholds to increase more than they would if they were adjusted only for changes in prices."⁽¹¹⁾

Since April 1997, the Brookings/IRP/Primus project has held half a dozen seminars on various aspects of poverty measurement. Several of these meetings were held on Capitol Hill and involved a number of policymakers and federal officials in a broad discussion of the merits of introducing an alternative measure of poverty. Other meetings, held at the Brookings Institution, focused on solving technical issues involved in constructing a new poverty measure, and were attended primarily by technical staff members of federal agencies and academics familiar with the issues.

The project culminated in a large conference, "Poverty: Improving the Definition after Thirty Years," organized by IRP and the La Follette Institute of Public Affairs at the University of Wisconsin-Madison. The conference was held on the University campus on April 15-17, 1999, and was attended by about 75 people, including federal agency employees, academics, and employees of Wisconsin state-level agencies and organizations. Conference presenters and participants discussed the proposed new poverty measure, unresolved issues about it, and possible public reactions and policy consequences of shifting to a new measure.⁽¹²⁾

The Census Bureau plans to issue a report on new experimental measures of poverty; that report is scheduled (as of April 1999) to be issued in June 1999. As of October 1998, it was expected that one section of the report would look at various elements of the new poverty thresholds and resources (income) measure separately, examining how variations in each of these elements (e.g., the equivalence scale) would affect poverty statistics with all other elements held constant. Another section would examine a small number of "combination" poverty measures (comprising specific combinations of various versions of the elements), following poverty statistics resulting from these combination measures over the 1990-1997 period. It appears that the poverty statistics in the body of the report would be "standardized"--adjusted to show the same proportion of persons in poverty as under the current official measure during a particular reference year; however, unstandardized (unadjusted) statistics would be available in a technical appendix.

One of the Poverty Panel's recommendations was to use SIPP rather than the CPS to calculate official poverty statistics. In 1996, however, SIPP was made into a single four-year panel rather than a set of chronologically overlapping panels. To offset the problem of bias resulting from attrition from a single longitudinal panel, the Census Bureau asked for funds in its Fiscal Year 1999 budget request to introduce a new SIPP panel each year, supplementing the existing longitudinal panel of 36,700 households with two additional three-year panels of 11,400 households each. This would have allowed the Census Bureau to produce stable cross-sectional estimates of poverty without the problem of attrition bias from a single panel. Congress did not appropriate any funds for Fiscal Year 1999 in response to this request, but the request has been renewed.

As a result of the above-described research and other activities (both ongoing and planned), there is a real possibility that over the next four years or so the United States may adopt a new official poverty measure based to a greater or lesser degree on the recommendations of the NRC's Panel on Poverty and Family Assistance. Already--and regardless of the ultimate outcome--the U.S. has come much closer to taking that step than at any other time during the last three decades. However, it is also very possible that something could happen to derail the current move towards adopting a new official poverty measure, especially in view of the highly controversial nature of the topics of poverty and poverty lines in American society and politics.

A Summary of the Main Recommendations of the Report of the National Research Council's Panel on Poverty and Family Assistance

In 1990, a Congressional committee requested a study of the official U.S. poverty measure by the National Academy of Sciences/National Research Council to provide a basis for a possible revision of the poverty measure. In 1992, the NRC's Committee on National Statistics appointed a Panel on Poverty and Family Assistance (comprising thirteen non-government academic experts) to conduct this study. The Panel published its report⁽¹³⁾ of its study in May 1995. In the report, the Panel did not propose a specific set of dollar figures as poverty lines, but it did propose a new approach for developing an official poverty measure for the U.S., and it did present what it called a "reasonable range" of dollar figures within which it recommended the reference threshold for a four-person family should be set.

In its report, the Panel acknowledged Mollie Orshansky's work in developing the current poverty line--"a poverty measure that proved broadly acceptable and widely useful."⁽¹⁴⁾ However, the Panel argued that "[t]he current poverty measure has weaknesses both in the implementation of the threshold concept and in the definition of

family resources. Changing social and economic conditions over the last three decades have made these weaknesses more obvious and more consequential. As a result, the current measure does not accurately reflect differences in poverty across population groups and across time. We conclude that it would be inadvisable to retain the current measure for the future."⁽¹⁵⁾

The Panel's proposal would continue to define poverty as economic deprivation.⁽¹⁶⁾ Rather than deriving poverty thresholds using a food plan and a multiplier, the Panel's proposal would derive a poverty threshold that would comprise a dollar amount for food, clothing, and shelter (including utilities) [FCSU], plus a small additional amount to allow for other needs (e.g., household supplies, personal care, and non-work-related transportation). To develop a poverty threshold for its reference family (two adults and two children), the Panel's proposal would set the FCSU dollar amount as a percentage--the Panel said that 78 to 83 percent would be a reasonable range--of median annual expenditures by all two-adult/two-child families for these categories according to the Consumer Expenditure Survey. (The Panel also expressed the FCSU dollar amount range as the amount spent for these categories by two-adult/two-child families at the 30th to 35th percentiles of the distribution for spending on these items by such families.) The threshold would be derived by applying a relatively small multiplier (between 1.15 and 1.25) to the FCSU dollar amount.^{(17),(18)}

After adjusting for the differences between the Panel's family resources concept [see below] and the current official Census definition of income, the range proposed by the Panel for the new threshold for the reference family--between \$13,700 and \$15,900 in 1992 dollars--would be between 14 and 33 percent higher than the current poverty threshold for such a family; this would take into account the real growth in the general population's standard of living since the official poverty thresholds were first established three decades ago [see next paragraph].⁽¹⁹⁾ The Panel's proposed range for the new reference-family threshold was a conclusion which represented "our own judgment, informed by analysis of thresholds developed from other commonly used concepts, such as expert budgets, relative thresholds expressed as one-half median income or expenditures, and thresholds derived from responses to sample survey questions about the poverty line."⁽²⁰⁾

The Panel proposed what it called a "quasi-relative" procedure for updating its poverty threshold each year. The specific mechanism that it proposed was an updating based on changes in FCSU expenditures by two-adult/two-child families in the general population (using a three-year average of expenditures to moderate business-cycle-related fluctuations). The Panel believed that this updating mechanism would result in the threshold being raised in real terms as total consumption (or family income) increased in real terms, but that the threshold would not rise as rapidly as total consumption or family income, thus avoiding a completely relative updating procedure.⁽²¹⁾ To support its updating procedure, the Panel cited considerable historical evidence that successive absolute poverty lines and budgets rise in real terms over time as the real income of the general population rises.⁽²²⁾ "... [W]e conclude that the relevant question is not whether poverty thresholds should be updated for changes in real consumption, but whether they should be updated on a sporadic or on a regular basis."⁽²³⁾

The Panel put great emphasis on the principle that in poverty measurement, the definition of family resources [income] used should be consistent with the concept underlying the poverty thresholds.⁽²⁴⁾ The Panel noted that the current poverty measure violates this consistency principle, since poverty thresholds calculated on the basis of after-tax money income are applied to before-tax money income data.⁽²⁵⁾ On the same grounds, the Panel criticized "experimental" poverty figures (such as those published by the Census Bureau since the 1980's) that add the value of public and private health insurance to families' resources without adjusting the thresholds to account for medical care needs⁽²⁶⁾; the Panel said that such measures "should be discontinued."⁽²⁷⁾ On the basis of the consistency principle, the Panel's proposal would define family resources as "the sum of money income from all sources together with the value of near-money benefits (e.g., food stamps) that are available to buy goods and services in the budget, minus expenses that cannot be used to buy these goods and services. Such expenses include income and payroll taxes, child care and other work-related expenses, child support payments to another household, and out-of-pocket medical care costs, including health insurance premiums."⁽²⁸⁾

In particular, note that the Panel's proposal would deal with the conceptual problems of medical expenses by excluding them from both the poverty thresholds and the definition of family resources.⁽²⁹⁾ The Panel's poverty thresholds would not include any allowance for medical expenses. The Panel's family resources definition would subtract out-of-pocket medical care costs and would not add in the value of health insurance. The Panel's reasons for separating the measurement of economic poverty from the measurement of medical care needs (and resources to meet them) are that medical care benefits are not very fungible (they cannot be spent for other goods such as food and housing) and that medical care needs vary widely across the population.⁽³⁰⁾

The Panel's proposal would use a new equivalence scale to develop poverty thresholds for different family sizes and types from the poverty threshold for the reference family; the scale would assume different consumption needs for adults and children, and economies of scale for larger families. Rather than proposing a single set of figures, the Panel proposed a range within which the economy-of-scale parameter could be set; different values for that parameter would yield somewhat different equivalence scales.⁽³¹⁾

The Panel's proposal would adjust the poverty thresholds for differences in the cost of housing across geographic areas; the Panel believed that housing cost differences can be measured using Decennial Census data. The adjustment would be made not by state but by the nine Census divisions and (within each division) the size of metropolitan area.⁽³²⁾

The Panel proposed that "[t]he Survey of Income and Program Participation should become the basis of official U.S. income and poverty statistics in place of the March income supplement to the Current Population Survey."⁽³³⁾

The Panel prepared a tabulation of the 1992 poverty population under its proposed approach using a reference (two-adult/two-child) threshold set at \$14,800--the midpoint of its recommended range for the reference threshold. Using the Current Population Survey (CPS), the resulting overall poverty rate was 18.1 percent (with an 0.75 economy-of-scale parameter for the equivalence scale) or 19.0 percent (with an 0.65 economy-of-scale parameter); the corresponding rate under the current official measure is 14.5 percent.⁽³⁴⁾ The Panel was unable to prepare a similar tabulation using the Survey of Income and Program Participation (SIPP).⁽³⁵⁾ However, the Panel estimated (based on earlier CPS and SIPP poverty tabulations using the current official definition) that if it had been able to prepare a tabulation using SIPP, the overall poverty rate for 1992 would have been 14.9 percent (0.75 economy-of-scale parameter) or 15.8 percent (0.65 economy-of-scale parameter).⁽³⁶⁾

The Panel also prepared a tabulation of the 1992 poverty population under its proposed approach, but constrained so that the resulting overall poverty rate was equal to the 1992 poverty rate under the current official measure (14.5 percent).⁽³⁷⁾ The purpose of this "exercise" was simply "to illustrate the effects of the proposed measure, compared with the current measure, on the distribution of poverty among population groups and areas of the country"⁽³⁸⁾; the Panel was not advocating that a new official poverty measure should be constrained or "benchmarked" so as to show no more persons in poverty than under the current official measure. The reference threshold resulting from this constrained "exercise" was \$13,175⁽³⁹⁾; the Panel stated that "[t]he value of \$13,175 has no intrinsic meaning as a reference family poverty threshold. It is an artifact of the analysis...."⁽⁴⁰⁾ Note that the reference threshold resulting from this constrained procedure was noticeably below the low end of the Panel's recommended range (\$13,700 to \$15,900) for the reference threshold.

1. In addition to the individual papers and articles cited, this overview also draws on Daniel H. Weinberg and Charles T. Nelson, "Changing the Way the United States Measures Income and Poverty: A Progress Report (Draft)," May 1997 (available on the Census Bureau's Poverty Measurement Internet site); Daniel Weinberg, Kathleen Short, and Donald Hernandez, "The Census Bureau's Plans for Poverty Measurement Research" (to be presented to the Census Advisory Committee of Professional Associations), April 23, 1998 (available on the Census Bureau's Poverty Measurement Internet site); *Focus* [newsletter of the Institute for Research on Poverty], Vol. 19, No. 2, Spring 1998--a special issue on Revising the poverty measure; and David M. Betson, Constance F. Citro, and Robert T. Michael, "*Measuring Poverty--A New Approach--The Report of the Panel on Poverty and Family Assistance: An Overview and Update*" (Working Paper), Department of Economics, University of Notre Dame, July 1998. I also gratefully acknowledge the assistance of Chuck Nelson and Betty Evanson.

2. See David Johnson, Stephanie Shipp, and Thesia I. Garner, "Developing Poverty Thresholds Using Expenditure Data," pp. 28-37 in *Proceedings of the Government and Social Statistics Section, American Statistical Association*, 1997; David Johnson, Thesia I. Garner, and Stephanie Shipp, *Developing Poverty Thresholds Using Expenditure Data* (BLS Working Paper 315), U.S. Department of Labor, Bureau of Labor Statistics, Office of Prices and Living Conditions, May 1998; Thesia I. Garner, Kathleen Short, Stephanie Shipp, Charles Nelson, and Geoffrey Paulin, "Experimental poverty measurement for the 1990s," *Monthly Labor Review*, Vol. 121, No. 3, March 1998, pp. 39-61; and Kathleen Short, Martina Shea, David Johnson, and Thesia I. Garner, "Poverty-Measurement Research Using the Consumer Expenditure Survey and the Survey of Income and Program Participation," *American Economic Review*, Vol. 88, No. 2, May 1998, pp. 352-356. (Earlier versions of these papers were presented at professional association meetings in 1996, 1997, and 1998. Versions of these papers are available on the Census Bureau's Poverty Measurement Internet site.) See also Kathleen Short, Martina Shea, David Johnson, and Thesia I. Garner, "Putting the experimental poverty measure into practice," pp. 16-20 in the special issue of *Focus* cited in footnote 1; Kathleen Short, Thesia I. Garner, David S. Johnson, and Martina Shea, "Redefining Poverty Measurement in the U.S.: Examining the Impact on Inequality and Poverty" (a paper prepared for the 25th Conference of the International Association for Research in Income and Wealth), August 1998; and David S. Johnson, Kathleen Short, and Thesia I. Garner, "Poverty Measurement Research at the Bureau of the Census and the Bureau of Labor Statistics" (a paper prepared for the Twentieth Annual Research Conference of the Association for Public Policy Analysis and Management), October 1998.

3. See, for instance, Kathleen Short, Martina Shea, and T.J. Eller, "Work-Related Expenditures in a New Measure of Poverty" (unpublished manuscript presented at the annual meeting of the American Statistical Association, Chicago, Illinois), August 1996; Martina Shea, Mary Naifeh, and Kathleen Short, "Valuing Housing

Subsidies in a New Measure of Poverty: SIPP," pp. 376-381 in *Proceedings of the Government and Social Statistics Section, American Statistical Association*, 1997; Pat Doyle, "Who's At Risk? Designing a Medical Care Risk Index" (working paper), U.S. Bureau of the Census, May 1, 1997; Patricia Doyle, "How Do We Deduct What We Do Not Collect?", pp. 38-47 in *Proceedings of the Government and Social Statistics Section, American Statistical Association*, 1997; and Kurt Bauman, "Shifting Family Definitions: The Effect of Cohabitation and Other Nonfamily Household Relationships on Measures of Poverty" (working paper), U.S. Bureau of the Census, January 1997. (Versions of these and other similar papers are available on the Census Bureau's Poverty Measurement Internet site.) See also "Research in Federal Agencies Related to the Measurement of Income and Poverty" (pp. 12-15), "Measuring the cost of medical care" (pp. 25-28), and "Estimating the value and the cost of housing" (pp. 31-35) in the special issue of *Focus* cited in footnote 1.

4. David M. Betson, "Poor Old Folks: Have Our Methods of Poverty Measurement Blinded Us to Who is Poor?", Department of Economics, University of Notre Dame, November 1995; David M. Betson, "Effect of Home Ownership on Poverty Measurement," University of Notre Dame, November 1995; David M. Betson, "'Is Everything Relative?' The Role of Equivalence Scales in Poverty Measurement," University of Notre Dame, March 1996; and David M. Betson, "In Search of an Elusive Truth. 'How Much do Americans Spend on their Health Care?'" University of Notre Dame, April 1997. These working papers are available on the Department of Health and Human Services' Poverty Guidelines, Research, and Measurement Internet site <<http://aspe.hhs.gov/poverty/poverty.htm>>.

5. United States General Accounting Office, *Poverty Measurement: Issues in Revising and Updating the Official Definition* (GAO/HEHS-97-38), Washington, D.C., April 1997.

6. United States General Accounting Office, *Poverty Measurement: Adjusting for Geographic Cost-of-Living Difference* (GAO/GGD-95-64), Washington, D.C., March 1995.

7. For a version of this list, see "Research in Federal Agencies Related to the Measurement of Income and Poverty," pp. 12-15 in the special issue of *Focus* cited in footnote 1.

8. See Gary Burtless, Tom Corbett, and Wendell Primus, "Improving the Measurement of American Poverty" (unpublished paper), Institute for Research on Poverty and the Brookings Institution, 1997; and Wendell Primus, "Implementing a New Measure of Poverty: State of Current Research and Analytical Work" (unpublished paper), February 13, 1997. See also "Improving the measurement of American poverty," pp. 2-5 in the special issue of *Focus* cited in footnote 1.

9. These two quotations are from p. 6 of the Burtless/Corbett/Primus paper.

10. "Improving the measurement of American poverty," p. 3 in the special issue of *Focus* cited in footnote 1.

11. Primus, p. 10.

12. A one-page account of the conference, "Changing the Way We Measure Poverty," was posted on IRP's "What's New" Internet page <<http://www.ssc.wisc.edu/irp/whatsnew.htm>> on April 26, 1999.

13. Constance F. Citro and Robert T. Michael (editors), *Measuring Poverty: A New Approach*, Washington, D.C., National Academy Press, 1995.

14. Citro and Michael, p. 110, fn. 5.

15. Citro and Michael, p. xvi.

16. Citro and Michael, pp. xvi and 19-22.

17. Citro and Michael, pp. 4-6, 40-41, 50-53, 56-57, 105-106, and 146-153.

18. In this paragraph I have referred to a "dollar amount" for FCSU, rather than using such terms as "budget" or "basic bundle of commodities," because the Panel did not use any list or budget of specific commodity items to develop its FCSU dollar amount.

19. Citro and Michael, pp. 55-56, 106, and 153-154.

20. Citro and Michael, pp. 6 (the source of the quotation), 54-57, 106, 142, and 146-154.

21. Citro and Michael, pp. 5-7, 40, 46-52, and 104-105.

22. Citro and Michael, pp. 32, 33, 98-99, 103, 141, and 319.

23. Citro and Michael, p. 103.

24. Citro and Michael, pp. 4, 9-10, 37-40, 65-66, 98, and 203-206.

25. Citro and Michael, pp. 9, 38, 65, and 204; cf. also p. 43.

26. Citro and Michael, pp. 9, 65-66, 205, and 227-231.

27. Citro and Michael, p. 9.

28. Citro and Michael, pp. 5 and 40; see also pp. 9-10, 65-69, and 203-246.

29. Citro and Michael, pp. 5, 9-10, 40-41, 65-69, 203-209, and 223-237.

30. Citro and Michael, pp. 9, 67-68, 205, and 224.

31. Citro and Michael, pp. 7-8, 59-61, 161-162, and 175-182.

32. Citro and Michael, pp. 8-9, 61-65, 183, and 193-201.

33. Citro and Michael, pp. 11-12, 82-83, and 281-288.

34. Citro and Michael, pp. 11 and 262.

35. Citro and Michael, pp. 80 (footnote 26) and 248 (footnote 1).

36. Citro and Michael, pp. 80 (footnote 26) and 278.

37. Citro and Michael, pp. 11, 53, 74, 248, and 256.

38. Citro and Michael, p. 53.

39. Citro and Michael, pp. 74, 248, and 256.

40. Citro and Michael, p. 248 (footnote 3).

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