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### Remeasuring Poverty

by S.M. Miller and Else Øyen

Every year the Census Bureau presents the official estimate of the number and characteristics of poor persons in the United States. The Census count purports to reveal whether poverty is increasing or decreasing; what percentage of the poor live in inner cities, suburbs or rural areas; who the poor are in terms of gender, race and age; how many of the poor work full time. Poverty measurements shape "the poverty problem."

The Census reports are treated as though they were an authentic measure of trends in poverty and the situation of

those it designates as "poor." Yet from its early days, the official American way of counting the poor has been recognized as deeply flawed. The criticisms are contradictory: Census data are attacked by analysts and politicians as either overestimating or undercounting the number of poor persons. For some analysts, the basic approach to measuring poverty in the United States is also inattentive to ways of defining the poor and counting their number that have been developed in other countries.

A strong statement calling for revision in the official poverty measurement

process was issued recently by a prestigious committee of the National Research Council (NRC), the principal operating arm of the National Academy of Science, chartered by Congress in 1863. Their long, detailed report, *Measuring Poverty: A New Approach*, was initiated by the Joint Economic Committee of Congress and supported by several federal agencies. The panel, chaired by Robert Michael of the University of Chicago, reviewed current ways of computing poverty rates and adjudicates among the competing left-right claims about the deficiencies of official poverty line calculations.

Despite its subtitle, the report seeks to reform, not overturn, the way poverty

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Well, we blinked. We just couldn't bring ourselves to drop so many of you from our mailing list. And we really don't believe you want to stop receiving *P&R*. Summer vacations and the piles of undone things on your desk likely have led you to neglect our announcement (and reminder postcard) that we now have become a subscription publication.

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Chester Hartman  
Executive Director

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is measured. It stays within the narrow confines of the poverty-line thinking of more than 30 years ago and does not utilize the more sophisticated views and measurements of poverty that now exist in other nations.

Nonetheless, the recommendations of *Measuring Poverty* are important. If they were adopted, the reported number of poor persons likely would increase and the characteristics of the poor would significantly change. The number of African Americans, Hispanics, Native Americans and Asian Americans reported as living in poverty would increase, and the working poor would constitute a larger part of the poverty population. The magnitude and causes of poverty would be seen in new ways.

Despite its potential significance, the report has received little attention. No Congressional committee has held hearings exploring the usefulness of the NRC recommendations, nor have the media checked to discover what is happening to it. What is occurring is that the Census Bureau (collaborating to an extent with the Bureau of Labor Statistics) has been quietly investigating the possibilities of developing a data series on poverty that would carry out

many of the NRC proposals. Unfortunately, the effort is underfunded. Even if only the more readily implementable of the suggested changes were adopted, new understandings of American poverty would emerge. Those concerned about poverty, race and ethnicity should be promoting adoption of the NRC recommendations despite some limitations noted below.

### Poverty, 1964-Style

Much has changed since the poverty count methodology was put in place in 1964. The task in the early 60s was to develop an "objective" way of specifying an income level, termed the poverty line or threshold level, below which a family of four (husband, wife, two children) would be considered poor. Molly Orshansky, a Social Security Administration researcher, hit upon the idea of using the Department of

through use of the Consumer Price Index. This way of counting the poor has been employed with only minor changes since Orshansky first suggested it. It dominates America's understanding what is happening to poor people.

### Poverty Critiques

From the first days of the Orshansky poverty line, conservative economists like Milton and Rose Friedman charged that the poverty line was placed at much too high an income level, asserting that a family could survive with much less income. They contended that an absolute, bare subsistence level of living should replace the Orshansky poverty line.

A somewhat opposing critique is that nutritional or expert delineation of how and what low-income families should eat did not accord with what they actually did eat. Nor did it make sense to set a poverty line by studying the food spending of low-income families and then assuming that sum met their needs.

An important issue is what should be considered as income or economic resources. The U.S. poverty line concentrates exclusively on cash income, whether from work, welfare or Social Security. It ignores the great increase since 1964 in non-cash governmental contributions to the resources and standard of living of the poor, mainly means-tested non-cash programs such as Medicaid, food stamps and housing assistance.

Paralleling the question of what to include as income is the issue of what to exclude from income. Under present procedures, gross, pre-tax income is used as the poverty threshold. The increasing income and Social Security taxes paid by employees reduce the income available for consumption. Should pre-tax or after-tax income be the relevant income measure? Should transportation and other expenses required for employment be considered as part of economic resources? Using after-tax income would increase not only the number of people calculated as poor but would also increase the

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Agriculture's estimate of the lowest level of expenditures for food that would sustain a four-person family in the 1956-59 period and multiplying that sum by three, since food expenses were a third of average family outlays. The Census Bureau uses "equivalence scales" to adjust the line for different household sizes and composition and other considerations (e.g., originally, farm families had a lower poverty line). Nearly everyone agrees, however, that the way these are designed is faulty and that they should be significantly modified.

That figure became the official poverty line, partly because it legitimated the income level that the Council of Economic Advisors had used in its ballpark estimate of the extent of poverty. The poverty line is updated annually

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number and percentage of poor households that are described as "the working poor," as compared to the demeaned "welfare poor." That transformation could affect public policy, since the former are more politically attractive.

A significant shift in household spending has occurred since the Department of Agriculture estimated a low-income family's food outlay in the late 50's. Today, food expenditures are only a fifth rather than a third of family spending. This change is largely due to "shelter poverty," Michael Stone's term for the extraordinary increase in the percentage of low-income households' budgets that comprise housing costs. Using a multiplier of five rather than three would raise the poverty line substantially, increase the number of poor persons and swell the numbers assigned the status of "working poor." (The Census Bureau calculates a near-poverty line, 125% of the Orshansky poverty line, that conveys somewhat the change in the standard of living that has occurred. It gets little attention.)

Another important change is that the poverty line was half that of the median family income for a family of four when the Orshansky index was introduced. Today, it is about 40% of median income. A relative view of poverty underlines this concern, differing sharply from the Friedmans' and others' absolute poverty perspective. As Adam Smith recognized in 1776 in his *Wealth of Nations*, "want" or poverty is lacking "not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indigent for creditable people, even of the lowest order, to be without." Thus, the poverty line understates what is needed to manage and participate in today's

economy and society. The poor are falling further and further away from the general standards of American society, emphasizing the importance of a relative rather than absolute standard for judging who is or is not poor.

## Reforming Orshansky

The NRC report clearly states its allegiance to a relative or comparative approach to measuring poverty, but does not seek to overturn the Orshansky approach. Instead, it recommends reforms within the current poverty-counting methodology that would likely yield a very different picture of the extent and character of poverty.

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### ***The poor are falling further and further away from the general standards of American society.***

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On the thorny issue of estimating a household's economic resources, the report advocates including "near-money" as well as cash income. Near-money includes in-kind transfers of food stamps, housing subsidies, school lunches and home energy assistance. The dollar value of these items would be added to the sum of household income. It would exclude the value of Medicaid, on the grounds that increasing use of medical facilities is not a contribution to household economic resources. (If it were included, the perverse result would be that the sicker a family, the greater its economic resources!)

The report recommends eliminating the present practice of using gross, pre-tax income and would deduct several types of expenses from income. Federal and state income taxes as well as Social Security taxes (larger than income taxes for most low-income persons) would be deducted from gross income, as would out-of-pocket medical care expenditures, including health insurance premiums paid by the household. Since

work involves costs, it would deduct from economic resources the actual costs of child care (where there is no non-working adult in the household) and other work-related expenses (e.g., transportation).

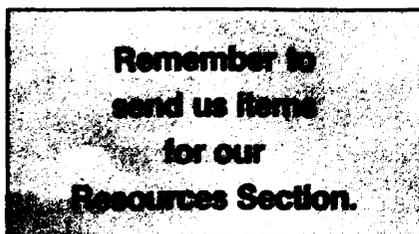
The NRC proposals on economic resources, then, expand the definition of income while narrowing the range of what are considered available resources to sustain the daily life of a household.

A more controversial issue is what procedures to use in designating the poverty line or threshold level of poverty. The report calls for estimating the cost of three main items—food, shelter (including utilities) and clothing for a family of four—and then taking a percentage of that sum (the multiplier) to cover incidental expenses. That total, then, is the poverty line. Instead of using annual changes in the overall Consumer Price Index to maintain the real purchasing power of poverty level income, it would adjust the poverty line by compensating for increases in the prices of its three basic items.

The big question is how to estimate the cost of food, shelter and clothing. Households vary enormously in spending on these items; which households should be the reference group for the poor? Here, the report hedges, offering two possibilities. One is to set the three expenditures at what is spent by four-person families whose incomes are at the 30th percentile of all four-person families (i.e., 70% of families of this size have higher incomes). The multiplier to cover other spending would be 1.15 (i.e., 15% of outlays for food, shelter and clothing would be added to the three basic expenses to determine the poverty line). The alternative suggestion is to determine costs by what is spent by families at the 35th percentile and to increase the multiplier to 1.25.

The report also outlines how it would adjust the poverty line for different household sizes and characteristics, recognizing the incongruities in current adjustments. These changes would probably be acceptable to most who have studied the issue of household size and consumption. More controversial perhaps is its proposal to adjust the

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poverty line for geographic differences in housing costs. The suggestion is to estimate housing cost differences among nine regions and within each region by each major city's population size. Adjustments would then be made in the poverty threshold to respond to these variations in housing costs, the major spending outlay for most low-income households.

The offer of two reference groups for calculating the poverty line seems partly intended to mute political criticism. As the report notes, poverty calculation is not a simple scientific enterprise but a matter of judgment as well. The questions of course are whose judgment and what influences it? The report, unfortunately, limits its contribution to public understanding and "judgment," since it fails to clarify how its recommendations would increase the number of poor persons or change their characteristics.

### What Effects?

The NRC report estimates what the composition of poverty would be if its recommendations were carried out in such a way that the total number of poor people remained the same as in 1992. This political timidity (or sagacity) results in the absence of information on how many poor people there would be if its proposals were followed and how the characteristics of the poor would shift if more (or very unlikely fewer) people were defined as poor. The absence of such information may contribute to the unfortunate lack of attention to the report among advocacy groups concerned about poverty.

If that assumption of no increase in the overall poverty count were ignored, what would be the effects? The total number classified as poor would undoubtedly increase, especially if the 35th percentile households were the reference group for setting the poverty line. The result conforms with the widespread feeling that a family of four has a very difficult time even if its income is somewhat above the current poverty line of about \$15,000. Enlarged

awareness of the size of the poverty population might convince the non-poor that more should be done to alleviate poverty and might increase the political activity of these new additions to the ranks of the officially recognized poor.

Following the NRC recommendations would also change the characteristics of the poor. The political effects of such shifts are uncertain, partly because there is much confusion about the difference between compositional importance and incidence or frequency. The incidence of poverty in a demographic group (e.g., African Americans) can be increasing while its percentage of or "contribution" to the total number of poor—its compositional significance—may be decreasing. Whether frequency or composition gets the political and

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media play is important. Furthermore, reactions to changes are not easy to predict, other than that people respond to who is in poverty as well as how badly off the poor are.

What are reasonable estimates about changes in composition and incidence if the NRC proposals were instituted? Since the numbers in poverty would increase, it is likely that more white households would be counted as poor. They would become an even larger proportion of all poor people than they now are, and households of color would accordingly decline as a percentage of the poor population. "Working poor" households among both whites and people of color would increase, both in terms of incidence and compositional importance, and the percentage of the poor receiving welfare would decrease. The percentage of husband/wife/children households would grow, and female-headed households would diminish as a percentage of all the poor. Overall, the compositional importance of "mainstream" households would increase.

The frequency or incidence of poverty would also show significant changes, for all social categories would have higher rates of poverty. A higher percentage of white households would fall below the poverty line, and people of color and female-headed households would experience even higher rates of poverty than they now do.

The NRC recommendations might increase awareness of extreme poverty, those at half of the relevant poverty threshold, who are sometimes designated as "the poorest of the poor" or the "fourth world." Their numbers would decidedly increase; their compositional importance is more difficult to predict. The incidence of extreme poverty would probably increase among all racial and household type categories.

The overall picture would be along these lines: The poor as a whole would more closely mirror the overall population of the United States in terms of participation in the labor force, welfare receipt, racial and family make-up.

Such a situation *might* increase political support for efforts to alleviate poverty. On the other hand, it might neglect the plight of the very poorest, many of whom are people of color and female-headed households that require cash and non-cash transfer programs because of their low chances of getting a job that could support them.

All in all, the NRC report is a decidedly forward step, even though it lags behind the new thinking about poverty concepts and measurements occurring in other countries. If the Census Bureau does not have data or procedures to undertake all the changes recommended by the NRC panel, it would perform a distinct service by instituting *soon* the feasible changes that would provide a different view of the poverty count and composition.

### Basic Changes

It is important to emphasize that the NRC recommendations do not depart fundamentally from the 1960s way of conceptualizing and measuring poverty. Other nations are using very different

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~~understand and utilize the rich diversity of cultural children bring to the classroom. Unfortunately, the children most in need are most likely to be taught by teachers who do not understand their~~ approaches to thinking about and counting the poor. Some of them deserve at least an experimental tryout in the United States.

The European Union (EU) openly treats poverty as a relative question: people are poor when they fall far behind others in that society. The EU as a whole uses 50% of median family or household income, adjusted for household size, as the poverty line, although some member nations employ a lower percentage in their internal reports.

Some foreign researchers use deprivation approaches. One method revolves around a set of indicators of material deprivation, such as lacking running water, an individual indoor toilet or a refrigerator or having to forego meals because of inadequate income. Instead of looking at the inflow of economic resources, as in the American case, it looks at the actual level of living of households and defines the poor as those experiencing these deprivations. In high-income nations, material deprivation methods tend to report a low level of poverty, partly because what is included in the bundle of material goods does not keep up with changes in the standard of living. For example, should the absence of a home computer (or the lack of access to one in children's schools) today constitute a deprivation? (The Census Bureau's solo report on material deprivation suffers from the limited range of items that are included in the bundle.)

A second deprivation orientation, associated with British social policy expert Peter Townsend, adds indicators of social deprivation such as not being able to participate in the usual social connection activities. An example is not having the resources to reciprocate gifts. It is concerned with, in John Kenneth Galbraith's formulation, falling below the standards and grades of a society. Relative well-being and social integration are central.

Attitudes or subjective feelings about when people are poor are studied in two ways. One is to do national opinion surveys about where the poverty line should be for that country. Gallup and other polls studied by the NRC panel have used this approach for many years. Since the 60s, respondents have put the poverty line fairly consistently at a figure considerably above official poverty designations.

The second method, developed in The Netherlands, applies to the individual household. It asks the respondent to indicate what he or she believes to be the appropriate poverty line. That figure is, then, compared to the respondent's household income. If the latter falls below the respondent's designation of the poverty line, that household is considered poor. Feeling poor is part of the condition of being poor.

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**Other nations are using very different approaches to thinking about and counting the poor.**

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Citing these approaches is not to argue that they should be adopted as official measurements for the United States. They are useful ways of checking statistical estimates with ordinary people's feelings about poverty levels. What most of them do is to view poverty as a relative economic and social situation. What is happening to others in the society is important to the definition of poverty. A second current is that social consequences, not only economic resources, are important in defining the state of poverty.

As the great (but unfortunately neglected) American social scientist Thorstein Veblen noted, a habit of thought is a habit of action. It is important, then, to change the ways that we think about poverty and the poor. The NRC report has fallen into the political pit of here yesterday, gone today. Apart from poverty research specialists, few know of it. No political figure pays any attention to it; advocacy groups do not

promote it; public discussion is missing. This situation should be challenged. Those concerned about poverty should push for more rapid implementation of the NRC proposals. How we understand the intersections of poverty and race will be transformed if its recommendations become the measures of poverty.

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culture. They are most likely to attend schools or participate in programs that have the least resources and/or provide the least challenging educational environments. A country that fails to capitalize on the rich diversity of its own human resources is a country in severe trouble. America cannot and will not prosper if it fails to adequately educate its culturally diverse students who are quickly becoming America's New Majority.

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