

## Two New Tools for Measuring Income and Poverty

Opening Remarks

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*By Cynthia A. Glassman*

Under Secretary for Economic Affairs, U.S. Department of Commerce

Thank you Becky.

I appreciate the opportunity to be with you today and to help kick off an exciting advance in studying American well being – the poverty calculators.

Doug Besharov and the American Enterprise Institute have been great partners with the Census Bureau in advancing our understanding of the condition of the American people. I also appreciate the interest of my predecessor and friend, Kathy Cooper, who wanted to learn more about why the poverty rate in our very prosperous and productive country has not declined more. Others who have focused on this issue are experts at the University of Maryland, the Department of Health and Human Services, and elsewhere in the government and academia.

The issue, of course, is what is poverty and how do we measure it? As I was doing a walk through of each of these interactive calculators, I couldn't help remembering the midnight discussions in my dorm room at college of just this sort of question. As I recall, the discussions were pretty intense, although we never actually came to a conclusion.

What is exciting about these calculators is that now we can think about this issue with real data to help us answer all of the "what if" questions. That is important.

The official income and poverty numbers are an important input not only to policy formulation but also to its implementation. But the world has changed and the way poverty is measured has not.

I know that later today you are going to celebrate the contributions of Mollie Orshansky, who developed the poverty measure in 1963. What Mollie did was, as she famously put it, "arbitrary, but not unreasonable" – but it was not necessarily the *most* reasonable alternative, even then, but especially now, given how much has changed in the economy and government policies.

Many of us are not satisfied with the official measure of poverty. The idea of three times the cost of a nutritionally adequate diet probably is not the formula we would come up with today – 40 years later. Even if what was deemed nutritionally adequate then would pass muster now, there are clearly other factors that come into play in determining who is poor – although we may not all agree on what those factors are.

While drawing the poverty line is inherently arbitrary, Mollie's quest for "reasonableness" would have been greatly aided in the early 1960s by the widespread availability of detailed micro data sets on income, taxes, and consumption that we have today as well as the technology to quickly crunch through many alternative measures. The process would also have been significantly enhanced by interactive tools, such as those we are going to learn about today.

The lack of such tools in the 1960s caused the poverty dialogue to fall victim to what economists call "path dependence" – a new technology (in this case, Mollie's choice of a poverty line) gets "locked-in" as more and more people, organizations, and governments adopt it, because it gets costlier and costlier to make a switch even to a superior technology.

Oft-cited cases of path dependency are the design of the QWERTY keyboard, devised so that salespeople could quickly type the word "typewriter" (all of whose letters are on the top row) to impress potential customers (that may be apocryphal – it may have been the more practical issue of avoiding locking of keys and appropriate finger usage) and the choice of the VHS video format over Beta.

Now 40-plus years later, so much has been invested both politically and programmatically into the poverty line that it would be very difficult to change it. Mollie drew an arbitrary line, not in the sand, but in wet cement, because the tools were not available to make corrections before the line froze in place.

As this audience well knows, the official poverty number or its multiples are the triggers for eligibility for myriad federal, state, and local programs. We heard a great deal about the poverty level as a trigger for qualification during the debate over SCHIP, for example.

To their credit, the Census Bureau and AEI are enabling the study of poverty and well being to keep pace with the times. The interactive tools that you will learn about today will allow you to be flexible in your work with or study of the numbers. The Census Bureau and AEI will present you with different tabulators that I believe you will find both powerful and empowering. For example, if you want to see what happens when you add the Earned Income Tax Credit or subtract taxes, you can. Or, you can add in food stamps and other payments in kind. I do not want to steal Doug and David's thunder, so I will leave it to them to share with you how robust these calculators are.

What I do want to leave with you is an excitement about using these new tools. I want these tabulators to increase and enhance research in this area. I hope these programs will be a valuable teaching tool for social science statistics. As an economist, I cannot overemphasize the importance of using good data to undertake research and formulate policy.

Again, I would like to thank Doug Besharov and Gordon Green at AEI, and David Johnson and Chuck Nelson at the Census Bureau. They have all been very committed to good and accessible data, and this is very good news for the researchers and policy experts.

Thank you all for being here and I hope you will find the interactive programs useful.