Testimony before the Subcommittee on Income Security and Family Support, House Committee on Ways and Means Hearing on "Establishing a Modern Poverty Measure,"

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July 17, 2008

I would like to thank Chairman McDermott and members of the subcommittee for inviting me to testify about how we might use improved methods to measure poverty and better assess the anti-poverty effectiveness of public programs and policies. I am pleased to endorse the ideas set forth in the draft proposal of "The Measuring American Poverty Act."

In this testimony, I make three key points. First, the official poverty rate, adopted in the late-1960s, is one of our nation's most important social indicators. Despite its flaws, the official poverty rate provides valuable information on how far we still have to go to achieve President Johnson's goal of ending income poverty. It is very important, especially for the historical record that the Census Bureau continues to publish this measure each year.

Second, social scientists have spent substantial time over the past three decades studying how to conceptualize and implement a poverty measure that better reflects the extent of poverty and the anti-poverty effectiveness of public programs and policies. There is widespread support among poverty researchers for an updated poverty measure based on the recommendations of the Panel on Poverty and Family Assistance of the National Academy of Sciences (NAS). Such a measure requires both changes in the poverty thresholds and changes in the resources that are counted.[2] The draft of "The Measuring American Poverty Act" does an excellent job of specifying how the NAS panel's recommendations can be moved forward by the Census Bureau.

Third, I present some illustrative estimates based on data from the March Current Population Surveys (CPS) that show the kind of measure the NAS Panel endorsed is likely to be only modestly higher than the official measure at the time the new series is established. This is because the two primary changes have opposite effects. Updating the poverty threshold to more accurately reflect what it means to be poor in the 21st century would raise the number of people who are poor based on their total annual income before government taxes and transfers (e.g., the sum of income from wages, salaries, self-employment, interest, dividends, rents, private pensions, etc.). On the other hand, adopting a comprehensive income definition that more accurately reflects the resources available to low-income families would add "near-cash, non-cash" transfers and tax credits received and subtract income and payroll taxes paid and would reduce the number of people who are poor and increase the measured anti-poverty effectiveness of government programs (i.e., the difference between total income after taxes and transfers and total income before taxes and transfers).[3]

The Official Measure of Poverty as an Important Social Indicator

The official poverty measure, adopted shortly after President Lyndon Johnson declared

War on Poverty, remains an important indicator of our nation's economic well-being. Although it receives less attention than the monthly unemployment rate or the quarterly growth rate in gross domestic product, the announcement of the official poverty rate each year by the Census Bureau calls attention to our progress or lack of progress in raising the living standards of those at the bottom of the economic ladder.

James Tobin, the Nobel-prize winning economist, noted the importance of the official poverty measure as a national indicator more than 35 years ago:

> "Adoption of a specific measure, however arbitrary and debatable, will have durable and far-reaching political consequences. Administrations will be judged by their success or failure in reducing the officially measured prevalence of poverty. So long as any families are found below the official poverty line, no politician will be able to claim victory in the war on poverty or ignore the repeated solemn acknowledgments of society's obligation to its poorer members (1970: p.83)."[4]

Tobin and President Johnson's other economic advisors were wrong, however, when they predicted that the benefits of economic growth would continue to be shared widely in the 1970s and future decades as they had been in the 1950s and 1960s. For example, Robert Lampman assumed that the nation would be required to choose a new measure of poverty because he expected the official poverty rate to be reduced to zero by 1980.

> "As I see it, the elimination of income poverty is usefully thought of as a one-time operation in pursuit of a goal unique to this generation. That goal should be achieved before 1980, at which time the next generation will have set new economic and social goals, perhaps including a new distributional goal for themselves (1971: 53)."[5]

That goal has never been achieved. Progress against poverty, as officially measured, stalled in the early-1970s, primarily because economic growth slowed and because the benefits of economic growth since that time have not been shared across the earnings distribution. These economic changes had their largest negative effects on workers with no more than a high school degree. Their wage gains in the two decades following World War II were largely based on employment in unionized, high-wage manufacturing jobs. Today, labor-saving technological changes, a globalizing economy, and other factors continue to depress the economic prospects of less-educated workers--they earn lower inflation-adjusted wages than they did 30 years ago.

As a result, the official poverty rate in 2006, 12.3 percent, was the same as it was in 1975. In 2006, the official poverty rate was 24.3 percent for African Americans, 20.6 percent for Hispanics, and 36.5 percent for single mothers with children. The rates fro these groups are similar to the poverty rate for all Americans about 50 years ago--22.4 percent in 1959. Thus, Lampman's remarks about the official poverty measure confirm that the Census Bureau should continue to report the official poverty rate because it reveals how far we still have to go to reach President Johnson's goal.

A Poverty Measure for the 21st Century

Poverty researchers and analysts have long discussed revising the official measure of poverty. The 1974 Amendments to the Elementary and Secondary Education Act directed the Department of Health, Education and Welfare (HEW) to "study ways of improving the accuracy and currency of the present measure of poverty (1976, p. xxi).[6] Although the report did not make specific suggestions for revising the official measure, it reviewed evidence that suggested both that the poverty threshold be revised upwards and that the resource measure be revised to include non-cash transfers (such as food stamps) that had began to grow rapidly in the early 1970s.

> "Commonly proposed changes in the definition of poverty would raise the poverty cutoffs and increase the number of persons who would be counted as poor.....Changes which lower the poverty count....include counting non-cash subsidies like food stamps as income.... (1976, p. xxiii)"

Two decades later, raising the poverty threshold and expanding the resource concept were among the NAS panel's key conclusions:

> "The poverty thresholds should represent a budget for food, clothing, shelter (including utilities), and a small additional amount to allow for other needs (e.g., household supplies, personal care, non-work-related transportation (1995, p. 4)."
>
> Family resources should be defined–consistent with the threshold concept–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 payment to another household, and out-of-pocket medical care costs, including health insurance premiums (1995, p.5)."

Note that both the 1976 report and the 1995 report call for simultaneously modernizing both the poverty thresholds and the resource measure. It is conceptually inconsistent to criticize the official measure and then respond by only raising the poverty threshold or only expanding the resources that are included. The draft of "The Measuring American Poverty Act" appropriately directs the Census Bureau to modernize both the poverty threshold and the income measure.

The 1976 HEW report and the 1995 NAS report are careful to note that many difficult choices must be made. Some involve choices dictated by available data; others involve choices that are politically-sensitive. For example, both reports suggest that the official measure is flawed because it does not adjust for geographical differences in prices. The NAS panel proposed an adjustment for differences in housing costs by region and size of metropolitan area. But it also recognized that the data available meant that such an adjustment would have limitations. Geographic adjustments raise issues of political feasibility. For example, does adjusting the poverty thresholds for geographical differences in the cost of living imply that the standard deduction or personal exemptions in the federal income tax should also be geographically adjusted?

Fortunately, over the past decade analysts from the Census Bureau and the Bureau of Labor Statistics have continued to refine many of the measurement issues raised by the NAS panel. For example, Garner and Short (2008) demonstrate that it is feasible to implement an NAS-style improved poverty measure and consistently define both the poverty thresholds and family resources using available data.[7] Their analysis follows many of the recommendations of a 2004 workshop convened by the Committee on National Statistics to review the research on alternative poverty measurement in the years following the 1995 report.[8]

These and other Census Bureau reports show that government researchers have the expertise to move quickly to conduct the analyses proposed in the draft of "The Measuring American Poverty Act." As the NAS panel suggested, it is appropriate, as the draft Act specifies, to base the modern poverty threshold on data from the Consumer Expenditure Survey that reflects expenditures on food, clothing, shelter and utilities. If these data had been readily available in the 1960s, I suspect that Mollie Orshansky would not have relied solely on spending on food when she developed the official poverty thresholds.[9]

I also endorse the development of a separate measure of "medical care risk," as the draft Act specifies. I do not think that spending for medical care should be included in the calculation of the poverty threshold. Rather, the NAS panel and the draft Act both specify that health care expenses should be subtracted from total annual income along with work-related child care and work-related transportation expenses. The NAS concept of food, clothing, shelter and utilities is consistent with President Franklin Roosevelt's famous statement about the extent of poverty during the Great Depression of the 1930s, "I see one-third of a nation ill-housed, ill-clad, ill-nourished."

An Illustrative Example of an NAS-style Measure

The NAS panel recognized that there would be transitional issues related to the adoption of a modern poverty measure. It suggested that one could always standardize the data so that the official rate and the modern rate would be same in the baseline year. Figure 1, based on Census Bureau calculations, shows that an NAS-type measure does not represent a radical departure from the historical measure. In 1999, the official rate, 11.9 percent and the NAS rate, 12.2 percent, are quite similar. Over the 7 years shown in the figure, the NAS measure increases more than the official measure because the NAS poverty line increases with the spending of the median two-adult, two-child family on food, shelter, clothing and utilities, whereas the official poverty line increases only by the consumer price index.

Figure 2 is based on my calculations from the annual March Current Population Survey data. For persons living in single-mother families who are poor before taxes and transfers, the solid line shows the importance of government benefits according to the official measure. That is, it first measures the poor as those whose incomes before taxes and transfers fall below the official poverty line. Then it measures how much of the total cash income (the official resource measure) of these poor people come from government cash benefits (the anti-poverty spending counted in the official measure). For 2006, these data suggest that about one-third of the total annual income of the poor comes from government benefits.

The dotted line shows the importance of government benefits to persons living with single mothers who are poor before taxes and transfers under an NAS-style measure. For this calculation, a greater percentage of persons living with single mothers are counted as poor because the NAS poverty threshold is higher than the official threshold. But, the importance of government benefits as a share of total resources is substantially higher–about half in 2006–because the resource measure includes near cash transfers (such as food stamps) and tax credits (such as the earned income tax credit) less income and payroll taxes paid.

Thus, an NAS-style measure, over time, is likely to show a higher poverty rate to the extent that the expenditures of the median family on food, clothing, shelter and utilities rise more than the consumer price index. But, it is likely to show a greater reduction in poverty due to government programs and policies because it counts important benefits that are not counted by the official measure.

Summary

Poverty researchers conducted a major review of the poverty measure in both the mid-1970s and the mid-1990s and concluded at both times that, on the basis of social science evidence, that the official poverty measure should be modernized. Over the last decade, researchers at universities, the Bureau of Labor Statistics and the Census Bureaus have continued to refine the recommendations of the National Academy of Sciences Panel on Poverty and Family Assistance. The draft of "The Measuring American Poverty Act" builds on this experience and provides a promising roadmap to producing a modern poverty measure for the 21st century.

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[2]Citro, Constance, F. and Robert T. Michael, eds. 1995. Measuring Poverty: A New Approach. Washington, D.C.: National Academy Press.

3 For example, a Census Bureau report, Experimental Poverty Measures: 1999, P-60-216 (October 2001), shows an official poverty rate of 11.8 percent and an NAS-style measure of 12.0 percent that reflected the best available data at that time (Figure 2, p.7, Official and MIS rates).

[4]Tobin, James. 1970. "Raising the Incomes of the Poor." In K. Gordon, ed., Agenda for the Nation. Washington, D.C.: Brookings Institution.

[5]Lampman, Robert. 1971. Ends and Means of Reducing Income Poverty. Chicago: Markham.

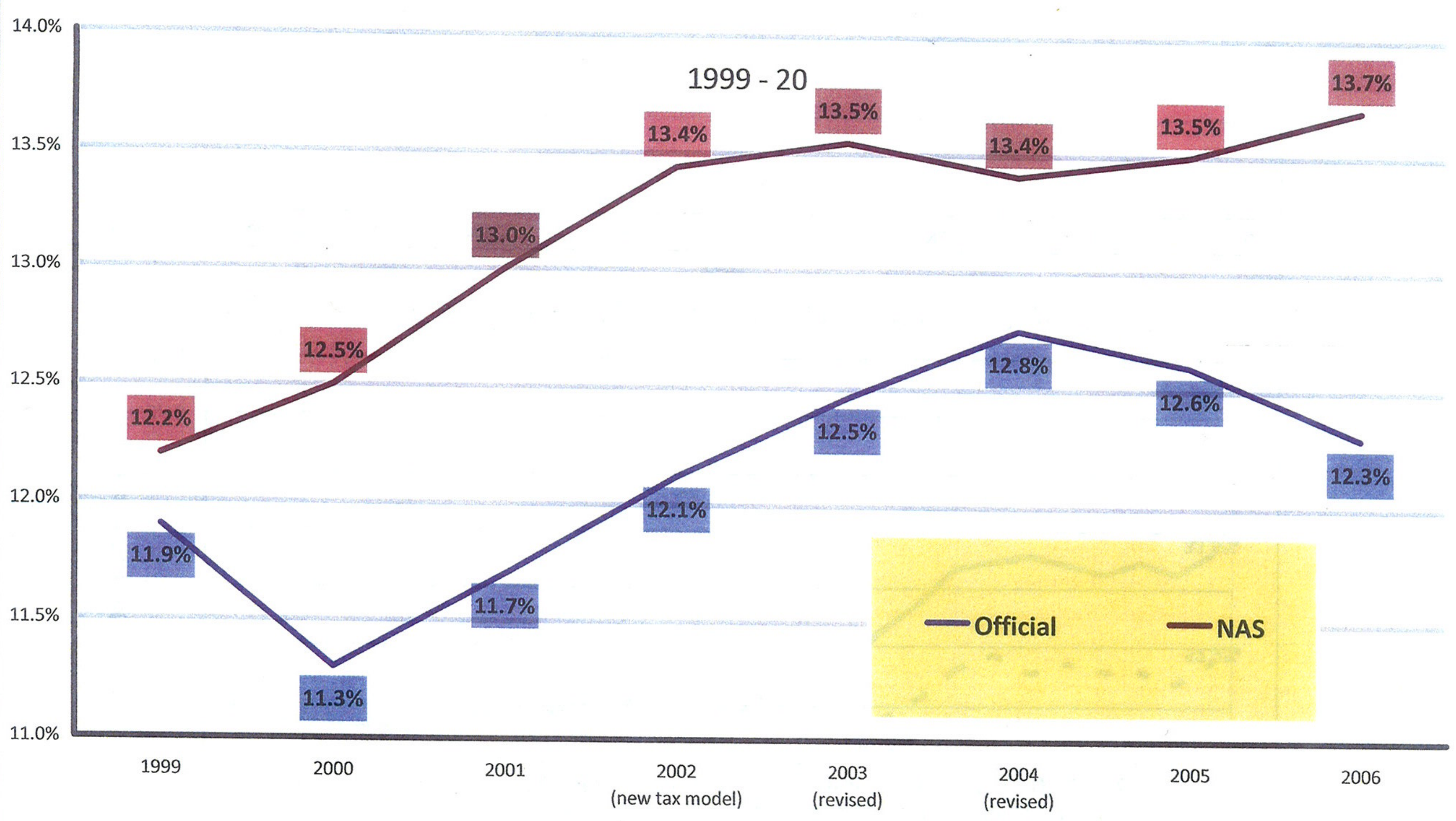
[6] U. S. Department of Health, Education, and Welfare. 1976. The Measure of Poverty: A Report to Congress as Mandated by the Education Amendments of 1974. Available at: http://www.census.gov/hhes/www/povmeas/pdf/measureofpoverty.pdf

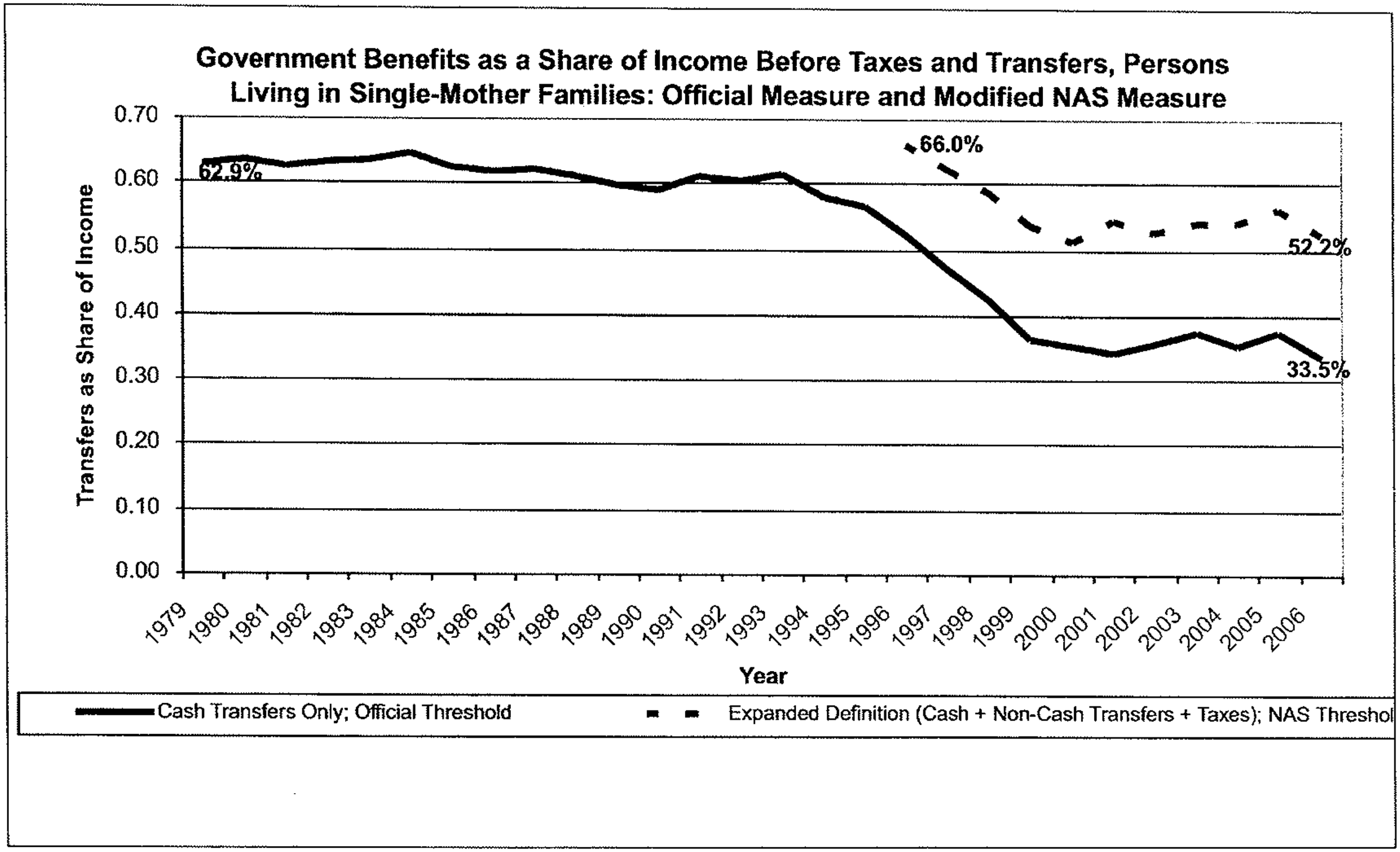
[7]Garner, Thesia I. and Kathleen S. Short. 2008. "Creating a Consistent Poverty Measure over Time Using NAS Procedures: 1996-2005," U.S. Department of Labor, Bureau of Labor Statistics: BLS Working Paper 417.

[8] Iceland, John. 2005. "The CNSTAT Workshop on Experimental Poverty Measures, June 2004." Focus: Newsletter of the Institute for Research on Poverty, University of Wisconsin-Madison, Vol.23, No.3.

[9]Orshansky, Mollie. 1963. "Children of the Poor." Social Security Bulletin, Vol. 26, No. 7: 3-13.

Poverty Rates Under NAS Measures without Geographic Adjustments




Government Benefits as a Share of Income Before Taxes and Transfers, Persons Living in Single-Mother Families: Official Measure and Modified NAS Measure
Transfers as Share of Income
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
62.9%
66.0%
52.2%
33.5%
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
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2003
2004
2005
2006
Year
Cash Transfers Only; Official Threshold
Expanded Definition (Cash + Non-Cash Transfers + Taxes); NAS Threshol