

# Notes and Brief Reports

## Study of the Measure of Poverty\*

The Education Amendments of 1974 (P L 93-380) called for a

thorough study of the manner in which the relative measure of poverty for use in the financial assistance program authorized by Title I of the Elementary and Secondary Education Act of 1965 may be more accurately and currently developed

The financial assistance program, which is administered by the Commissioner of Education through the Office of Education, requires the use of a formula for the annual distribution of Federal funds to school districts. A significant factor in the formula is the number of school children aged 5-17 in poor families within each district. Before the 1974 amendments, the formula used to determine the amount of the grant to a local education agency was based in part on the number of children in families with income below the "low-income factor" (then authorized as \$2,000). The amendments included a revision of the formula, specifying the use of the Federal Government's official statistical definition of poverty and calling for a study of that measure.

A Poverty Studies Task Force under the Subcommittee on Education for the Disadvantaged and Minorities of the Federal Interagency Committee on Education was established by the HEW Assistant Secretary for Education to conduct the study. The Task Force had—in addition to the aid of the concerned constituents of the Department of Health, Education, and Welfare—the support of many departments and agencies, including the Bureau of the Census, the Council of Economic Advisers, the Department of Agriculture, the Department of Housing and Urban Development, the Department of Labor, the Office of Management and Budget, and the Department of the Treasury.

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\* Department of Health, Education, and Welfare, *The Measure of Poverty, A Report to Congress As Mandated by the Education Amendments of 1974*, 1976. To obtain copies of this report or information about the supplementary Technical Papers, write to the Office of the Assistant Secretary for Planning and Evaluation, Department of Health, Education, and Welfare, 200 Independence Ave., SW, Washington, D C 20201.

The Social Security Administration was represented on the Task Force by Mollie Orshansky of the Office of Research and Statistics who developed the poverty measure initially.<sup>1</sup>

*Presented below verbatim is the Executive Summary included in the report submitted to Congress on April 30, 1976, in compliance with section 823 of the Education Amendments of 1974 (A series of technical papers are to supplement the Report)*

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## EXECUTIVE SUMMARY

The 1974 Amendments to the Elementary and Secondary Education Act included a mandate to the Department of Health, Education, and Welfare to study ways of improving the accuracy and currency of the present measure of poverty used in the formula that allocates funds authorized by Title I of the Act. This is a summary of the report of that study.

Poor persons living in the United States in the 1970's are rich in contrast to their counterparts in other times and places. They are not poor if by poor is meant the subsistence levels of living common in some other countries. Nor are most poor like their counterparts in this country fifty or one hundred years ago. This country is concerned about poverty, its causes and correlates. It is willing to relieve the poverty of some of the poor and it wants to measure the effectiveness of its efforts to do so. None of this can be done without some idea of who is to be considered poor and who is not.

The report deals with measuring the current status of the poor rather than with the causes or solutions to poverty. A family is none the less poor for having arrived at that state of its own accord. Similarly, the fact that an individual could with modest and reasonable effort escape from poverty has nothing to do with whether he is currently poor.

The current measure of poverty used in the

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<sup>1</sup> See Mollie Orshansky in the *Social Security Bulletin* "Children of the Poor," July 1963, "Counting the Poor: Another Look at the Poverty Profile," January 1965, "Who's Who Among the Poor: A Demographic View of Poverty," July 1965, and "Recounting the Poor—A Five-Year Review," April 1966.

allocation formula was originally developed by Mollie Orshansky of the Social Security Administration in 1964 and was, with revisions, officially adopted in 1969 by the Office of Management and Budget as the Federal Government's official statistical measure of poverty. The measure is built around the Department of Agriculture's economy food plan of 1961 and the national average ratio of family food expenditures to total family after-tax income as measured in the 1955 Household Food Consumption Survey. It consists of 124 separate poverty cutoffs differentiating families by size, number of children, age and sex of head, and farm or nonfarm residence. The cutoffs are updated annually by changes in the Consumer Price Index. The weighted average poverty cutoff for a nonfarm family of four in 1974 was \$5,038. According to the Census Bureau's report based on the March 1975 Current Population Survey, in 1974 there were approximately 24.3 million persons, or 12 percent of the population, poor by this definition.

The Orshansky poverty definition is widely used to measure the nation's progress in reducing the extent of poverty. It is also used as a statistical tool to identify the target populations of government programs that help the financially needy and to evaluate the effectiveness of such programs. In recent years it has been adapted for administrative purposes. The Title I program of the Elementary and Secondary Education Act provides one example of its administrative use. A different example is its use in the Head Start program where it plays a part in the determination of individual eligibility and the amount of government benefits provided to beneficiaries.

The Orshansky matrix of poverty thresholds is not the only poverty or low-income measure used for statistical and administrative purposes. Other measures include dollar cutoffs unadjusted for family size, various percentiles of the income distribution, and various percentages of median family income. These measures have advantages and disadvantages which vary according to the specific statistical, analytical, or administrative purposes intended. Each has subjective elements and limitations due to unresolved conceptual problems or scarcity of data.

The study examines (1) regional, climatic, metropolitan, urban, suburban, and rural differences in the poverty measure, (2) differences

due to family size and head of household, and (3) the availability of state and other sub-national data more current than the decennial Census, including cost of living, cost of housing, labor market and job availability, prevailing wage rates, unemployment rates, income distribution, and the eligibility criteria for aid to families with dependent children (AFDC) under State plans approved for Title IV of the Social Security Act.

The report reviews various topics, major discussion areas are.

1 Measures of poverty used for national policy purposes require fundamental social, political, and ethical judgments which should reflect the following considerations: varying beliefs about the proper norms or standards of need which should be adopted, a well conceived purpose and reasoned use of the measure or measures, the implicit government policy to redistribute income to or substantially assist those below the poverty line, and the necessity for periodically reviewing any poverty measure in light of changed perceptions of need, new data, resource limitations, changes in the demographic composition, and social factors.

2 The official measure of poverty has a number of limitations, some of which stem from the fact that there are no commonly accepted standards of need, other than for food, even the Department of Agriculture's measure of this standard is approximate. A multiplier which reflects the average ratio of income to food consumption is used as only a rough measure of nonfood requirements. In addition it, along with other measures discussed in this study, does not account for geographic differences in the cost of living or relative prices. Nor does it change over time with changes in the standard of living, although it is adjusted for changing prices to the extent they are captured by the Consumer Price Index.

3 Various proposals have been made to change the official poverty measure. The most commonly discussed include revising it by using a more current USDA food plan and ratio of food expenditures to income from the 1965-66 Household Food Consumption Survey, simplifying it by removing the distinctions for farm residence, sex of head, or presence of children, making year-to-year changes through a price index specially weighted for poor persons, adjusting the definition of income for assets, taxes, and home produced goods and services, and measuring the effect of the subsidy programs which are now more available to the poor than they were when the measure was derived.

4 There may be cost-of-living differences between regions, and among urban, suburban, and rural areas, but the extent and nature of these differences is difficult to identify accurately. Existing sources of data which are both accurate at the State and local level and available on a timely basis cannot provide a reliable proxy measure of poverty. Because cost-of-living differences across areas are not satisfactorily measured by existing data and because there

is no agreement on the methodology for making such an adjustment, no geographic adjustment in the poverty threshold is made in the report. Nevertheless, even in the absence of demonstrated cost-of living or price differences, some believe that national programs could contain provisions to overcome problems which could arise from the effects of local labor and housing markets, local extent of poverty, or other special circumstances.

5 The development of a poverty definition based on a fully specified market basket of goods and services could provide a basis for varying the thresholds to account for differences in need due to variation in family size or composition. However, the lack of commonly accepted standards of need makes it difficult to construct a suitable poverty level market basket. Equivalence scales used to adjust the current poverty thresholds for family size and composition are based primarily on nutritional requirements and are not fully satisfactory. Alternative equivalence scales are examined in the report, but there is disagreement about their validity and in some cases they are quite arbitrary in their construction. Similarly, there are no generally accepted techniques for adjusting poverty cutoffs for other demographic characteristics such as health status or occupation. Unaddressed is the question of standards of poverty for the working poor compared with those dependent largely on public programs for support.

### Several findings related to changing the definition of poverty are

1 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. However, there have also been a number of criticisms of the way in which the poor are counted, which, if valid, suggest that some persons are counted as poor who should not be. Commonly proposed alterations vary from a revision of the current definition on the basis of more recent family consumption patterns to such entirely different approaches as specifying poverty in terms of some percentage of median income. Changes which lower the poverty count, if the present poverty measure were not changed, include counting non-cash subsidies like food stamps as income and imputing income value to wealth when it does not generate interest, dividends, or rental income.

2 Increasing the poverty income cutoffs results not only in more persons and families being counted as "poor," but also in a significantly different composition of the poor population. Increasing the poverty line results in a poverty population with proportionately more whites than at present, more working poor, an increased proportion of families with a male rather than a female head, slightly higher concentrations of the elderly, and slightly lower concentrations of children. It also causes a relative shift in the proportionate share of the poor population from the Southern to other States and from less populated to more populated states.

3 Since no accepted standards exist for nonfood items (housing, clothing, transportation, etc.), the current poverty threshold is derived by assuming

that the appropriate ratio of expenditures on non food items to expenditures on food would be that observed on the average in the United States. Based on more recent household food consumption data, the average proportion of income devoted to nonfood items and the corresponding multiplier to be applied to food costs are higher than in the current poverty measure. Arguments have been made both for increasing and decreasing the multiplier. These are related to the assumption that food expenditures must not exceed the measured national average proportion of total income spent on food, differences in the statistical bases for calculating the multiplier, and the income definition to be used.

4 Under the official poverty measurement system (when backdated by the Consumer Price Index), the number of poor families was reduced from 18.5 percent in 1959 to 9.2 percent during 1974. Revising the official poverty line on the basis of current nutritional standards, food plans, food prices, and a higher multiplier reflecting more recent overall consumption data would raise the poverty line in real terms and lessen the amount of progress shown in reducing the extent of poverty. A poverty line based on 50 percent of national median family income would consistently show about 19 percent of all families as poor over the past fifteen years, although at ever higher real income levels.

5 In-kind benefits from government and private sources have grown sharply during the past decade. Empirical evidence for 1974 and several earlier years indicates that, if food stamps were included as income and if the poverty thresholds were not changed, about 5 to 15 percent of the poor (depending on the method of valuation used) would no longer be counted as poor. The number of poor children would be reduced more significantly than other groups of poor persons. Inclusion of the value of other in-kind subsidies such as housing and health insurance would also reduce the number of poor counted by the present measure if the poverty thresholds were not changed. However, if the logic of the existing measure is maintained, the ratio of after tax income to food expenditures which is used in computing the poverty thresholds might be altered. Although it is difficult to agree on what value of in-kind benefits to include as income, failure to do so excludes some of the fastest growing sources of income in the economy.

6 Addition of unrealized or imputed income from assets (or even addition of stock of assets) to current income will also reduce the count of the poor if the poverty thresholds are not changed. The most dramatic reduction will occur for the self-employed, the aged, whites, and other groups in which the average net worth is higher than it is for the population as a whole. However, many of the poor have no sizable assets. Furthermore, if the poverty definition were revised maintaining its current logic, whether the number of poor would increase or decrease would depend on the distribution of such imputed income.

### Findings related to programs are

7 Except for a few programs, like child nutrition and food stamps, raising the poverty line (or low-

ering it) need not in itself increase (or decrease) the Federal budget, since in most programs a fixed amount of Federal funds is distributed. Federal revenues are linked to the poverty line to some extent through the minimum standard deduction for income taxes. The primary administrative effect of changing the poverty line (if administrative guidelines were to be similarly changed) is not necessarily a question of *how much* Federal money will be appropriate for the poor as of *which* low-income persons or areas will receive the appropriated funds.

8 With respect to Title I of the Elementary and Secondary Education Act, other elements of the distribution formula, such as the individual States' per-pupil expenditure rates, the size of their AFDC populations, the "hold harmless" provision, and the failure to update the count of children in poverty between the decennial Censuses, also have a significant effect on the proportionate share of funds which each State receives. If the funds were distributed solely on the basis of the number of poor children, the distributional effects would be much sharper than those produced by any reasonable change in the poverty thresholds using the current formula of allocation of Title I funds.

This report does not recommend any particular changes in poverty measurement or concept. It shows that there are many alternatives possible, each with its own advantages and disadvantages. Unfortunately, many of the more conceptually desirable changes are among the most difficult to implement. There are options that would increase the poverty count; there are equally valid changes that would reduce it. It can be concluded that any poverty definition may be subject to valid criticism, and that any definition is inherently value laden. Nevertheless, there is an advantage in the continued publication of an official statistical series of a poverty measure as an index of national achievement in reducing the extent of poverty.

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## Social Security Abroad

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### Housewives and Pensions Foreign Experience\*

In Canada and in several countries in Western Europe, legislative efforts have recently been directed toward those elements of society that

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have been disadvantaged from the standpoint of social security benefits and have often required some form of financial assistance. Though the groups thus affected include the self-employed, small businessmen, casual workers, marginal members of the labor force, and those who may never have worked at all, the largest such category consists of housewives. Studies undertaken in the Federal Republic of Germany and Great Britain tend to bear out the fact that women earn lower wages, have fewer years of contributions, and therefore receive lower benefits than do men. Program changes affecting women, however, have usually been incidental to other legislative reforms aimed at assisting low-income earners.

Traditionally, housewives have been regarded as dependents and, as such, their entitlement to certain social security benefits has been derived largely from the insured status of their husbands. Increasing participation by women—particularly married women—in the labor force has caused this view to undergo change. Industrialized countries are now placing more emphasis on the social security entitlement of women in their own right and on the removal of penalties imposed upon them for withdrawal from the labor force because of family responsibilities.

The new methods being followed and new directions being considered in nine Western European countries and Canada to initiate and improve social security protection for housewives and members of related groups are examined here. The focus is mainly on the treatment of non-working married women, but a look is also taken at the status of nonworkers in general, working wives, and mothers.

In studying the various laws and proposals to provide equal treatment and independent status for housewives and women who spend part of their lives outside the labor force, six main approaches used in these countries emerge. These approaches, which vary according to the type of social security coverage already existing in the country and the objectives being pursued to make women more self-sufficient, are discussed here in turn.

(1) The traditional system, under which wives become eligible for a dependency benefit based on the earnings-related pension of their husbands (Belgium, France, Great Britain, and Switzerland),