What Do the Recently-Released U.S. Poverty Numbers Tell Us?

Testimony to the Joint Economic Committee
Hearing entitled "Leave No Family Behind: How Can We Reduce the Rising Number of American Families Living in Poverty?"

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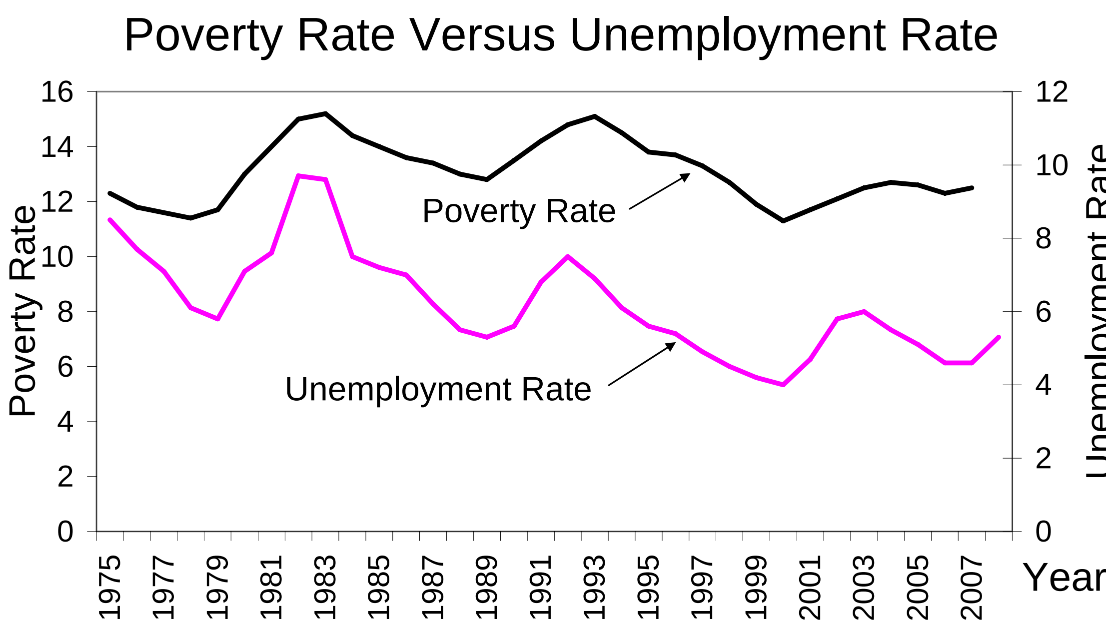
Chairman Schumer, Ranking Member Saxton, and distinguished members of the Committee, I appreciate the opportunity to talk with you today about the problems faced by very low-income families in the United States.

A Quick Review of the Recently-Released Data on Poverty for 2007

The Census Bureau recently released the official numbers on income and poverty last year (2007) in the United States. Let me underscore a few of the key facts that these data illustrate.

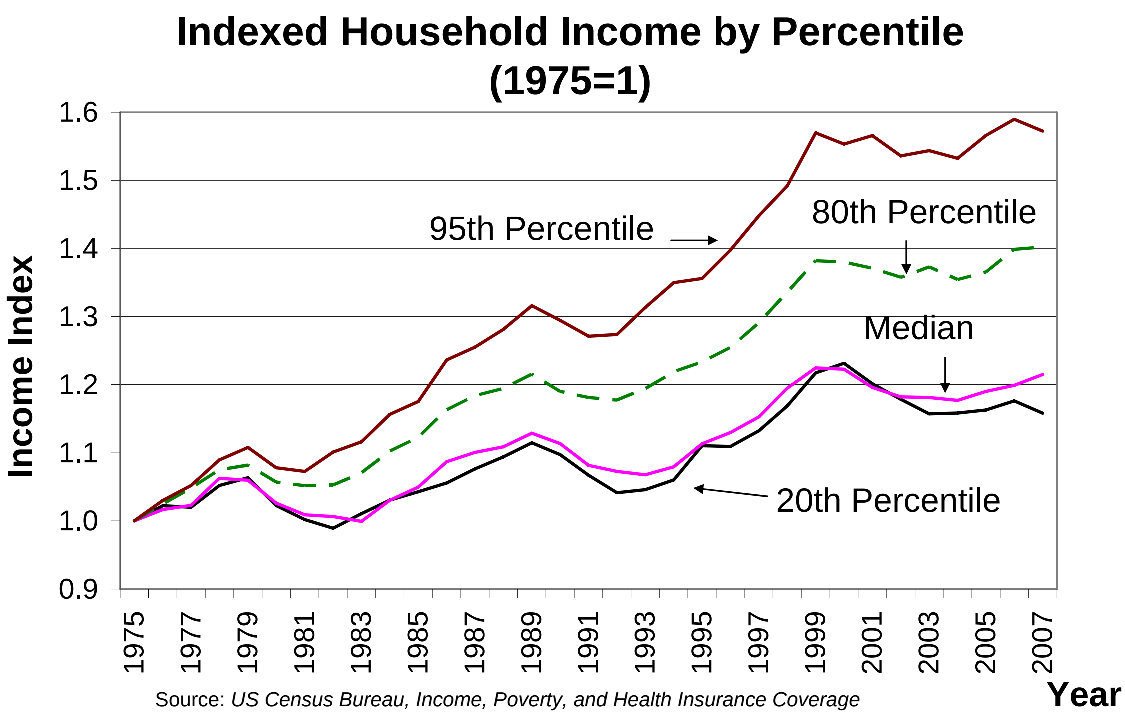
First, poverty did not fall to any appreciable extent during the economic expansion of the 2000s. This is quite unusual. Figure 1 shows the poverty rate and the unemployment rate. In past decades, these two indicators have moved together. When unemployment fell in the 1980s expansion, so did poverty. Unemployment and poverty both fell rapidly in the strong expansion of the 1990s. But when unemployment fell after 2003, poverty remained essentially flat.



Sources: Poverty rate from US Bureau of the Census, Historical Poverty Tables (http://www.census.gov/hhes/www/poverty/histpov/hstpov2.html). Unemployment rate from Department of Labor, Bureau of Labor Statistics. (http://www.bls.gov/cps/tables.htm#empstat, Table 1 & A-1). 2008 unemployment rate is average from January through August

The increase in poverty in 2007 is surprising. This was a year when GDP growth averaged 2%, with two quarters of GDP growth in excess of 4.5%. Average unemployment was largely the same as in the previous year. This does not bode well for 2008 when all economic indicators look far worse.

Second, the rise in poverty reflects the generally sluggish growth in income by all families in the bottom half of the income distribution. Figure 2 shows an index of household income growth at the 20th, 50th, 80th and 95th percentiles of the income distribution over the last 30 years. Income among the bottom 20 percent grew as fast (or as slowly) as among those at the median (the 50th percentile) throughout this period. While these lower-income families achieved significant income gains over the last 30 years, particularly over the 1990s, both families in the middle of the income distribution and those at the bottom have lower household incomes in 2007 than they had in 2000. While incomes at the top of the distribution incomes have not risen rapidly in the 2000s, they have risen over the past 10 years.



Source: *US Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2007* (http://www.census.gov/prod/2008pubs/p60-235.pdf)
Index calculated by author

If 2007 data didn't look as good as we might have hoped, we should expect 2008 data to be far worse. Given rapidly rising unemployment since the first of the year -- a problem that could accelerate with the economic news of recent weeks – poverty is going to be a major issue in the policy discussion for any new administration in 2009.

What Does This Poverty Measure Indicate?

I have been asked to spend most of this testimony focused not on the numbers, but on the poverty measure itself. There is widespread agreement that our poverty measure is badly flawed and needs to be updated. A bill to produce a modern poverty measure was just introduced in the House (HR 6941) and will soon be introduced in the Senate. As a scholar, I have been involved in the discussion of poverty measurement for many years. I served on the National Academy of Science's panel in the mid-1990s that recommended a methodology for improving poverty measure, and have written about this topic (Blank 2008).

The current poverty measure was defined in 1963 by a Mollie Orshansky, a staffer in the Social Security Administration. She proposed both a way to measure an official poverty line, and a way to count family resources, comparing them to the poverty line to see if a family was poor or not. Let me talk about each in turn.

The current poverty line: Orshansky created a poverty line using the calculation

Poverty line = 3 x Subsistence food budget

The subsistence food budget was the Economy Food Plan developed by the USDA in 1961, using data from the 1955 Household Consumption Survey. The multiplier of 3 was used because the average family of three or more spent one-third of their after-tax income on food in the 1955 data. If the average family spent one-third of its income on food, then three times a minimal food budget provided an estimated poverty threshold. This number was adjusted for families of different sizes.

With only minor changes, the current poverty line is this number, calculated in 1963, based on 1955 data, and updated by the Consumer Price index in the following years. *There is no other economic statistic in use today that relies on 1955 data and methods developed in the early 1960s*. In the years since, food prices have fallen, housing prices have risen, and medical expenses have grown enormously. In short, consumption patterns have changed dramatically but our poverty line does not reflect these changes.

Defining family resources: The resource measure in Orshansky's calculation was simply a family's cash income. Forty-five years later, this definition is also seriously flawed, as cash income alone is no longer an adequate description of the economic resources available to low-income families. There is broad agreement that the resource measure should reflect a family's disposable income, that is, the income that a family has available for buying necessities, minus taxes and other mandatory expenditures. However, the gap between cash income (the current resource measure) and disposable income is large for low-income families.

In the years since the current definition was developed, the biggest expansions in anti-poverty assistance have come through the tax system, such as the expansion in the Earned Income Tax Credit (EITC), or through in-kind benefits, such as growth in the Food Stamp Program or in Section 8 housing vouchers. Because the historical poverty measure is based only on family cash income, it is unaffected by many of these changes:

- If a disabled individual starts to receive Medicaid assistance and has lower out-of-pocket medical expenses, this does not affect his poverty status;
- If a family receives food stamps and has more income left over for other purchases, this does not affect their poverty status;
- If a worker receives an EITC refund check, this does not affect her poverty status.

Why does this matter? Our measured poverty rate is insensitive to many of the most significant policy changes designed to help low-income families that we've made in this country. This made it easy to claim that public spending on the poor had little effect. But the problem was not the policies, but the statistic we used to measure the problem. *In a fundamental way, our poverty measure has under-counted policy gains, and made it easy to claim that public spending on the poor had little effect.*

The only group who has experienced a major decline in the official poverty data over the past 30 years is the elderly. It is not a coincidence that the elderly are the one group for whom we have provided greatly expanded assistance in the form of cash income, through expansions in Social Security and in Supplemental Security income. Hence, our assistance to this group was reflected in our official statistics.

None of this says that the historical poverty measure is entirely meaningless. It does capture cash income movements, which largely reflect changes in employment and in wages. In a year – like 2007 – in which there were no major tax or policy changes, the movement in the historical poverty measure shows how economic changes are affecting low-income families. But we can and should do better, with a poverty measure that reflects policy changes as well as economic changes.

How Can We Better Measure Poverty?

The panel convened by the National Academies of Science (NAS) in the 1990s spent more than two years reviewing the research on different approaches to poverty measurement. The result was a set of recommendations for how to improve the definition of poverty in the United States (Citro and Michael, 1995).

The NAS panel recommended calculating a poverty line based on expenditures on necessities – food, shelter, clothing, utilities, and "a little bit more." They suggested an improved way to determine equivalent poverty lines for families of different sizes, and they recommended that the poverty line should vary with cost-of-living in different areas of the country. Their report emphasized the importance of updating this calculation regularly, to reflect changes in spending patterns on necessities over time.

The NAS panel recommended basing the resource definition on adjusted disposable income. In addition to counting the cash resources available to low-income families, this would take account of any tax payments or tax subsidies, and include the value of any public benefits that help them buy food shelter and clothing. Furthermore, the NAS panel recommended that out-of-pocket and unavoidable expenses for work and for medical care should be subtracted from resources.

It is important to emphasize that one cannot change the poverty line without changing resource definitions; similarly, one cannot change the resource definition without making changes in the poverty line; these two concepts need to be consistently defined. *Both* are in need of revision.

In the years since the NAS recommendations were released, analysts at the Bureau of the Census and elsewhere have done a great deal of research to determine the best way to implement this new poverty measure using available data. More recently, a number of states and localities have become increasingly interested in this measure as well. They too want to measure the effects of their policies, such as state EITCs, or expanded state medical insurance coverage, on low-income families in their state. To do this, they need a modern poverty measure. For instance, New York City has developed a city-specific poverty measure based on the NAS approach, to help measure the effects of a variety of new anti-poverty programs launched under Mayor Bloomberg.

It is time to break through the political logjams that have prevented the development and utilization of an updated poverty measure. The new legislation in front of the House and Senate will do this, directing the Census Bureau to develop a modern poverty measure based on the NAS recommendations, to publish these numbers regularly, and to update this measure as new data and new statistical approaches become available. This would put our measure of poverty on par with our other government statistics. It is long past time for this change.

Anti-Poverty Strategies for the Next Decade

Of course, improving the measure of poverty will only give us a better sense of who is and who is not poor. It will not help reduce poverty. Let me end by talking briefly about some of the highest-priority issues for continuing our fight against poverty in America.

At the request of the Mott Foundation, I recently commissioned papers from nine well-known scholars and policy analysts who regularly write about the problems of poverty and evaluate the effectiveness of policy efforts. Each person was asked to describe their highest priorities for anti-poverty policies over the next decade. While their recommendations ranged across many areas, let me highlight two areas that were most frequently mentioned, relating to work, earnings, and income support.

Policy Strategy I: Continue to Incentivize and Support Low-Wage Work

Work and earnings must be at the center of any anti-poverty strategy. Only through economic self-sufficiency can an individual permanently escape poverty. The welfare reform efforts of the 1990s helped many families earn more and work more. This was buttressed by expansions in the EITC that helped subsidize low-wage work and provided greater incentives for parents to find a job.

While some parents were able to leave poverty permanently as a result of these efforts, others are employed in low-wage and unstable jobs and have difficulty supporting their families only through their own earnings. I want to suggest two program expansions that would help stabilize earnings and support low-wage workers and their families.

Expanding the EITC for workers without children in their immediate households would help incentivize work among less-skilled men. Labor force participation among men who have only a high school degree or less has been falling steadily for almost 30 years. This is a particularly troubling trend over the past decade. Many of these men are non-residential fathers, with support responsibilities for their children. Less work among these men means less help for their children. A number of recent papers present suggestions for how best to expand the EITC (Berlin, 2007; Scholz, 2007).

These problems are exacerbated by the increase in incarceration among less-skilled men, and particularly among men of color. Over the next decade, large numbers of men will be returning to their communities and families, after release from prison. Finding ways to reintegrate these men back into stable employment is important for their own economic well-being and for their children, and will help reduce recidivism rates and the high cost of further imprisonment. While special programs to provide training and re-employment services will almost surely be useful, these men have to know that if they find and keep a job, it will allow them to pay their bills and support themselves. An expanded EITC will provide additional incentives to these men to find employment.

Increase assistance to help pay child care expenses for single mothers who are caring for children. The biggest concern among single mothers who are working to support their families is the difficulty in finding stable, high quality, and affordable child care for their children. Many women leave or lose jobs when their child care arrangements fall through. Even women who receive state or federal subsidies often complain that care is not available outside 9 to 5 hours, or that there are not care options that are convenient to their work location. It is important to expand child care subsidies and to assure that there are safe, well-run child care centers available to women who are in low-skilled and often variable-hour jobs.

One way to provide this for some children is to expand publicly-funded preschool programs for children ages 3 and 4. An increasing body of evidence suggests that good preschool programs can better prepare children from disadvantaged families to start school. In addition to their good effects on the children, such programs also provide stable child care for mothers and can increase their work efforts as well.

Policy Strategy II: Assuring the Presence of an Effective Safety Net

Not all adults can or should be expected to work. Recognizing this, we provide support to elderly adults or those with serious physical or mental disabilities. For the past two decades, we have focused on how to move more adults off welfare and into work. It is time to re-open the conversation about the appropriate size and structure of the safety net for those who are unable to hold stable employment. Two particular policies are worth focusing on.

Help disconnected women and their families stabilize their incomes. Rising numbers of single mothers have become “disconnected,” that is, neither working nor receiving welfare. Between the mid 1990s and the mid 2000s, there was a doubling in the number of single mothers who reported they were not working nor on welfare, so that more than 20% of single mothers with low levels of education are currently disconnected. Close to

90% of these women report incomes below the poverty line, and many report extreme poverty, with incomes below 50% of the poverty line.

The research suggests that many of these women have multiple barriers to work, including obstacles such as mental or physical health problems (particularly depression) that may not qualify them for disability payments but which interfere with their employment and earnings. A disproportionate share of these women are caring for someone with mental or physical health problems. An unusually high share report past or current histories of domestic violence or sexual abuse, problems with substance abuse, limitations in cognitive functioning, undiagnosed learning disabilities, or care responsibilities for very young children. While many of these women work frequently, they appear to have difficulty maintaining stable, full-time employment.

States are struggling with how to best help this population, and a number of innovative state programs have been designed to identify and provide special support to this group. We need to find ways to provide greater assistance, through provisions in the TANF program that let states identify and focus services on this population without being punished by federal regulations because they are not moving these women into work quickly enough. Elsewhere, I have laid out a proposal for how to help such women (Blank, 2007). We also need to be sure that all of these women receive services for which they are eligible, such as food stamps.

Revisions in Unemployment Insurance. Even those who can and do work steadily may sometimes lose their jobs for reasons outside their control. Particularly in a time of rising unemployment, it is important to help those who bear the brunt of unemployment. This is traditionally done through the Unemployment Insurance (UI) system. The effectiveness of UI has declined in recent decades, however. Today, less than 40% of unemployed receive unemployment assistance. Many lower-wage workers who lose jobs are ineligible because their jobs have not lasted long enough, or they have not worked enough hours.

Our economy experiences regular economic disruptions as business fail, jobs change, or financial bubbles burst. Providing temporary assistance to the workers who are caught by these economic changes can help workers search for the next job without major family disruptions. Reforms and changes to the UI system or related programs (such as Trade Adjustment Assistance) can create a more reliable safety net for jobs losers and stabilize their incomes as they search for new work (Holzer, 2000).

Conclusions

Our official statistics indicate that poverty in this country rose last year. Given the current economic environment, it will rise further and faster in the current year. In order to understand and track these changes, we need an economic statistic that reflects the actual resources available to low-income families to spend on food, shelter, and clothing. Newly-introduced legislation will help modernize our poverty statistics and give us a better understanding of who is poor and how these numbers are changing over time.

Beyond good measurement, we also need good policy. This means supporting work among less-skilled workers who are able to find and hold jobs. But it also means providing the assistance that will help families when jobs are not immediately available.

Poverty is an economic problem that affects long-run American productivity and economic growth; and that impacts the demands on government budgets. But poverty is also a moral problem, raising questions of what we as Americans owe to our fellow citizens. We have had real successes in our anti-poverty efforts over the past 30 years, but there is more that we can do to reduce economic need among our citizens.

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