THE HAMILTON PROJECT

Advancing Opportunity, Prosperity and Growth

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Improving the Measurement of Poverty

IN THE MID-1960s the Johnson administration adopted a national measure of poverty during the War on Poverty. More than four decades later, we continue to use essentially the same measure to define poverty, even though that measure has lost much of its meaning and usefulness over time. The original measure was established in relation to the costs (at that time) of a subsistence food budget, but that approach makes little sense today. The price of food has declined relative to the prices of other goods and services, while prices of other basic necessities such as housing have risen. In addition, "in-kind" assistance such as the Supplemental Nutrition Assistance Program (formerly food stamps) and tax benefits like the Earned Income Tax Credit —widely considered the nation's most successful antipoverty effort—do not count as income and therefore do not affect the official poverty rate. Moreover, the poverty measure does not vary geographically based on the cost of living, thus excluding thousands of low-income families in high-cost areas like New York City from the recognized poor.

In a discussion paper for The Hamilton Project, Rebecca M. Blank of the Brookings Institution and Mark H. Greenberg of Georgetown University and the Center for American Progress propose a new poverty measure that better reflects the actual economic conditions of low-income Americans. Based on recommendations from the National Academy of Sciences, the proposed measure would define the poverty line relative to the actual amount households spend on the necessities of food, clothing, housing, and utilities. It would calculate a family's resources using aftertax income and the value of in-kind benefits like food stamps, housing subsidies, and heating assistance. Adoption of the new measure would provide a more accurate reflection of trends in poverty over time and differences in poverty among various demographic groups. At the same time, Blank and Greenberg emphasize that a single measure cannot capture every important aspect of family well-being, and that the poverty measure needs to be supplemented by other statistics that describe other types of economic and social deprivation.

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> The way the United States measures poverty has not changed in more than four decades, in contrast to other economic statistics that have been refined and updated regularly over the years.

THE CHALLENGE

The current poverty measure is outdated and increasingly ineffective at capturing the state of poverty in America. It uses a poverty threshold—the line below which families are considered poor—that is calculated with 1955 data on the amount families spent on food, even though the fraction of an average family's budget spent on food has fallen substantially. The threshold has been adjusted only for inflation since its creation. The poverty measure also calculates family resources: if a family's resources are below the poverty threshold, then the family is considered poor. Currently, a family's resources are based exclusively on pretax cash income, which excludes key forms of government assistance created since the measure was first introduced. For example, the resource measure excludes in-kind benefits such as the Supplemental Nutritional Assistance Program (SNAP) and housing subsidies as well as tax subsidies like the earned income tax credit (EITC), which constitutes up to one-fourth of household income for some working families.

These failings of the current poverty measure impede the nation's policy response to poverty in a number of ways. The current measure is of limited value to policymakers in assessing trends in poverty. It provides little guidance about what actually constitutes basic need among low-income families. It makes it more difficult to evaluate the extent to which antipoverty programs have made inroads in fighting poverty. It also makes it far more difficult for policymakers to target policies and resources effectively to those most in need. Unlike other economic statistics that have been refined and updated regularly over the years, the way the United States measures poverty has not changed in more than four decades. The result is an arbitrary definition of economic need that does not fully utilize current knowledge.

Given these striking problems with the current poverty measure, why has the poverty measure not changed since its inception in the early 1960s? First, because the official definition of poverty is established by a directive from the Office of Management and Budget (OMB), any change in this measure must come from the Executive Office of the President. For years, both Democratic and Republican administrations have avoided the politically sensitive issues raised by changing the poverty measure. If the poverty measure were to change, the number of people defined as "living in poverty" could increase or decrease significantly. Though such a change is not a result of actual changes in antipoverty programs, it could help or hurt those policymakers perceived to be responsible for the new number. Second, a number of public benefit programs use the poverty measure as one factor in determining program eligibility or allocating funds to states. If these programs chose to adopt a new measure of poverty, some low-income individuals could lose benefits and others could gain them. Policymakers may be concerned about the impacts of such changes on families, as well as the potential political opposition these changes might generate.

Despite the political challenges, the authors argue, reform of the poverty measure is long overdue. The authors describe several choices surrounding the adoption of a new poverty measure. First, they note that there are many ways to define poverty, but they believe that the official definition of poverty should focus on those facing the most serious deprivation.

Blank and Greenberg acknowledge that no single measurement can capture all of the factors that determine a family's well-being. The poverty measure they propose focuses on income adequacy and does not claim to be a measure of health status, educational attainment, quality of housing, neighborhood safety, and other important components of well-being that should be tracked with other measures.

Second, poverty measures can be defined in absolute or relative terms, or in some combination of the two. Absolute poverty measures, like the one currently used in the United States, place the poverty threshold at a fixed amount of income or other resources. By contrast, relative measures define poverty as some fraction of a reference income level that varies with time. Poverty measures in the European Union, for example, often define the poverty line at 60 percent of median income. This type of relative measure would be viewed by some as a measure of inequality rather than a measure of poverty. A poverty line set as a percent of median income will go up or down as overall living standards improve or deteriorate. It may thus count fewer people as poor in times of recession, when median income falls and many families are actually worse off than before.

A third issue in measuring poverty is whether to calculate a family's resources based on what the family spends rather than on the income it receives. Unlike income-based resource measures, consumption-based measures calculate what a family spends to meet its needs, even if the family is drawing down its life savings or taking on debt. However, Blank and Greenberg consider families that are using savings or debt to meet basic needs as facing serious economic problems. For this reason, the authors conclude that income is a better measure than consumption of whether a family is attaining resources sufficient to meet basic needs.

> The new measure would better reflect the modern economy and household budget needs, calculating the cost of basic necessities and counting all of the resources available to a family to meet these needs.

A NEW APPROACH

Blank and Greenberg propose a new measure of poverty that they believe would prove more meaningful than the current definition. Their measure is based on recommendations from a panel convened by the National Academy of Sciences (NAS) in the early 1990s to address this issue. The NAS panel proposed a poverty threshold based on how much it costs a household to buy a set of necessities—defined as food, shelter, clothing, and utilities. The proposed NAS resource measure would include cash income minus taxes paid, along with tax credits received and in-kind benefits that help a family acquire the necessities defined in the threshold. The resource measure would subtract work expenses like child care and transportation, as well as out-of-pocket medical expenses, viewing these expenses as obligatory payments that reduce the amount of income available to help the family purchase the basic necessities considered in the thresholds.

Blank, who served on the NAS panel, and Greenberg propose a measure based on the NAS recommendations. They acknowledge that setting the poverty threshold ultimately involves a subjective judgment. For any given poverty line, some will view the threshold as too low, since many families officially above the poverty line cannot make ends meet. Others will argue that a given threshold is too

Key Highlights

The Challenge

The poverty measure in the United States has been defined in the same way for more than four decades, and it has become outdated and impractical.

- The "threshold" or poverty line is the amount of income or other resources below which a family is considered poor. The threshold was originally set at three times a low-cost food budget in 1955, and has been updated only with inflation despite rising relative prices of other necessities. In addition, the threshold does not vary regionally based on differences in the cost of living.
- The "resource measure" is the amount of resources available to a family to meet basic needs. The current resource measure includes only pretax cash income, ignoring taxes paid, income received from refundable tax credits like the EITC, and in-kind benefits.

A New Approach

Blank and Greenberg propose a new poverty measure, based on recommendations from the National Academy of Sciences, that would better reflect today's economy and household budget needs.

- The new threshold would be based on the actual expenditures of families on food, clothing, housing, and utilities. It would be updated frequently to reflect changes in household expenditures, and it would vary regionally based on the cost of living.
- The new resource measure would include not only pretax income, but would also consider taxes paid and tax credits received, as well as in-kind benefits that go to meet these four basic necessities included in the threshold. The authors propose subtracting income that is not available to meet these basic necessities, such as child support payments, work expenses like transportation costs and child care, and out-of-pocket medical expenses.

The new measure would provide a more accurate picture of poverty in America and a better understanding of the effectiveness of antipoverty programs.

high, removing the focus from those in dire need of help.

The authors recommend setting the official threshold by considering the distribution of spending by American households on basic necessities—defined as food, shelter, housing and utilities. Consistent with NAS recommendations, they choose the 33rd percentile of this distribution—i.e., the point at which 33 percent of Americans spend less than this amount on the four basic necessities and 67 percent spend more. This level of spending is then increased by 20 percent to cover other necessary expenditures not included in the categories of basic necessities. According to their approach, if a family's resources are less than this amount, then the family is considered poor. The authors recommend adjusting this threshold for families of different sizes and compositions, counting unmarried partners as family units, and providing for regional variation in the cost of living. In addition, the authors call for frequent updating of the thresholds to reflect changes in relative prices and expenditure patterns. For example, if housing prices rise, then increased spending on housing across the population should be reflected in higher poverty thresholds.

Blank and Greenberg also propose revising the way that a family's resources are measured. As with the NAS measure, they would include all pretax cash income, subtract taxes paid, and add refundable tax credits. They would include any in-kind benefits that help households pay for the four basic necessities in the threshold, such as food stamps, housing subsidies, and heating assistance. Certain financial obligations would be subtracted from family resources, including child support payments, work expenses, and out-of-pocket medical expenses. Adjusting for these expenses is done at the family level rather than in the overall thresholds because they vary widely from household to household, even within households of similar size and composition.

Following the NAS recommendations, Blank and

Greenberg do not count the value of health insurance in family resources. They make this decision in part because the proposed poverty thresholds do not include an allowance for medical costs. It is also difficult to determine the cash value of publicly provided health insurance. In addition, the authors argue that public health insurance, however valuable, is not a near-cash benefit in the way that other in-kind benefits are. While other benefits go to necessities that families would purchase anyway, many families might choose to spend health insurance benefits for uses other than health care if given a choice.

> With the new poverty measure, policymakers and researchers could gain better insight into economic need in the United States, and low-income families could benefit from more effective and targeted programs.

The authors argue that their proposed measure would retain the positive features of the current measure while avoiding its negative features. Like the current measure, the new measure would exhibit cyclical variation based on the health of the economy, indicating a higher number of people in need during economic downturns such as the one the United States is currently experiencing. However, the new measure would address the major problems plaguing the current measure. First, the new measure is based on households' actual expenditure levels for several basic necessities. Its resource measure includes after-tax income and in-kind benefits, and subtracts money not available to meet a household's needs. The new measure also provides for geographic variation in prices and requires regular updating of the threshold calculations to reflect changes in the economy and the average household budget.

In addition to these substantive advantages, the authors note a number of practical advantages that would facilitate adoption and implementation of the new measure. The NAS measure, on which their proposed measure is based, has been scrutinized and debated for more than a dozen years and has achieved widespread support. Unlike a brand new measure, which would require lengthy debate and planning, the NAS measure is already backed by a large body of research and many aspects of its implementation have been vetted by scholars and policymakers alike.

Blank and Greenberg recognize that any new poverty measure will draw criticism, with some believing that the resulting poverty rate is too low and others that it is too high. They argue that the value of a new measure is not whether it makes the poverty rate go up or down, but rather that it provides a conceptually improved measure of poverty that more accurately reflects trends in poverty over time.

For illustrative purposes, Blank and Greenberg present data from the Census Bureau comparing official poverty under the current measure to poverty under an approximation of the NAS measure. As shown in Table 1, the overall poverty rate in 2006 would have increased from the official rate of 12.3 percent to 13.6 percent. The distribution of poverty among different demographic groups would change under the alternative measure. Child poverty would decrease from 17.4 percent to 15.5 percent because families with children tend to receive higher EITC payments, as well as SNAP and other in-kind benefits. In contrast, elderly poverty would jump from 9.4 percent to 16.5 percent, largely as a result of high out-of-pocket medical expenses.

Poverty rates among white families and Hispanic families rise under the alternative measure, while poverty falls slightly among black families. The alternative measure would also result in changes in the geographic distribution of poverty, with higher official poverty rates in high-cost metropolitan areas, and lower rates in low-cost rural areas.

To be sure, the figures in Table 1 are only illustrative of the effects of the proposed measure because important issues remain to be resolved. However, if the new measure resembles the measure presented in Table 1, the number of Americans defined as living in poverty may not change significantly. Some people currently considered poor may have incomes above the poverty line, while some people currently above the poverty line may fall below it. But the relative neutrality of such a measure with respect to the overall poverty rate could allay political concerns—both that a new measure of poverty would redefine low-income people out of poverty and thereby threaten social programs, or that it would increase the number of people in poverty and lead automatically to a large expansion of social programs. Of course, if the new measure has different effects on poverty rates across geographical regions, it is likely to generate support or opposition along those lines.

TABLE 1

Poverty Rates by Current Poverty Measure versus Alternative Measure (2006 data)

	Current official measure	Alternative measure (NAS approximation)
Poverty threshold (for a four-person family)	$20,444	$21,818
Percent below poverty level, all persons	12.3%	13.6%
Avg. poverty gap per poor person	$8,085	$7,138
	Percent below poverty threshold	
Children	17.4	15.5
Nonelderly adults	10.8	12.3
Elderly	9.4	16.5
White	10.3	11.9
Black	24.3	22.8
Other	13.9	16.1
Hispanic origin	20.6	24.6
Native born	11.9	12.5
Foreign born		
Citizen	9.3	14.2
Non-citizen	19.0	25.2
No workers in family	36.8	39.3
At least one worker	8.2	9.2
In family with children	14.1	13.2
Married-couple	7.2	7.2
Male head	18.7	18.5
Female head	37.8	33.7

Source: Blank and Greenberg 2008.

Implementing the New Measure

According to Blank and Greenberg, developing and adopting a new poverty measure would be a relatively low-cost endeavor. The government would have to spend money on data collection and analysis to produce stable estimates, assess family expenses more with direct measurement rather than imputations, and improve the quality of data for any necessary imputations. The cost of this research is estimated at $2 million over two years. The government would also incur annual expenses of about $5 million a year to produce and update the new measure.

One question is whether the executive branch or Congress should implement the new poverty measure. The Measuring American Poverty Act of 2008 was introduced in both the House and the Senate and proposes changes in the poverty rate based on the NAS recommendations. Legislation passed by Congress would have the approval of elected representatives but could subject the poverty measure to harmful political wrangling. An executive order through the OMB, in contrast, would be faster and would avoid the appearance of Congress "interfering" with government statistics, but it could also be subject to internal administration politics. The authors argue that a statistical agency should have the authority to improve and update the new measure rather than it being dependent on future legislation or administrative action.

Blank and Greenberg also call for a transition period during which the new and old poverty measures would operate simultaneously. The transition time would allow policymakers to compare differences in the composition and the trends of poverty between the two measures. The authors argue that Congress could decide on a case-by-case basis whether this new measure should affect program eligibility and resource allocation rules. The authors explain that the new measurement of family resources may not be appropriate or administratively feasible for use in all public programs. It may make sense for some programs to continue to use the current measure, based on cash income as a measure of family resources.

The new poverty measure cannot incorporate every useful perspective on economic and social well-being. For this reason, the authors call for reporting other income data, such as the status of those in extreme poverty and those just above the poverty line. They propose a new National Academy of Sciences panel, charged with developing a measure for a "decent living standard" that includes those families above the poverty line that struggle to afford important expenses like quality child care and college education. They also propose a medical care risk index that tracks the number of individuals without adequate health care or at risk of losing health insurance.

CONCLUSION

Blank and Greenberg recognize that a change in the poverty measure will not on its own lead to a reduction in poverty in the United States. But the poverty measure provides a picture of the economic struggles of low-income families and determines which families receive support from public programs. The flawed picture offered by the current poverty measure may lead to poorly targeted and ineffective policies or irrelevance of the statistic altogether. By improving the poverty measure, Blank and Greenberg argue, policymakers and researchers can gain better insight into economic need in the United States, and low-income families can benefit from more effective and targeted programs.

Learn More About This Proposal

This policy brief is based on The Hamilton Project discussion paper, *Improving the Measurement of Poverty*, which was authored by:

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Additional Hamilton Project Proposals

Forthcoming Paper

Positioning One-Stop Career Centers to Better Serve Job Seekers and Workers
In a forthcoming Hamilton Project paper, Lou Jacobson of CNA Analysis and Solutions offers a proposal to increase the effectiveness of One-Stop Career Centers, which help displaced and low-income workers find new jobs and participate in training programs. To help One-Stops serve more workers in distressed times, Jacobson proposes developing meaningful performance measures for One-Stops, increasing and improving the use of technology, enhancing screenings to make better job matches, and investing more money in worker training.

Past Papers on Poverty and Rewarding Work

Employment-Based Tax Credits for Low-Skilled Workers (Scholz): The earned income tax credit currently offers far fewer benefits to low-skilled childless workers than to workers with children. This proposal would expand the earned income tax credit for childless workers and provide a wage subsidy to workers in economically depressed areas.

Fulfilling America's "Make Work Pay" Promise (Bos, Duncan, Gennetian, and Hill): In the mid-1990s, the New Hope pilot program demonstrated success in requiring full-time work from participants in exchange for services such as income supplements, health care, and child-care assistance. This paper proposes scaling up New Hope nationally, starting in five states.

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The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.

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