UNIVERSITY OF MARYLAND

MEMORANDUM

September 8, 2004

To: Seminar Members, "Reconsidering the Federal Poverty Measure"

From: Douglas Besharov and Gordon Green[1]

Subject: Summary of Session #1: “A Mismatch Between the Official Poverty Count and Other Social Welfare Indicators?”

The University of Maryland, the U.S. Department of Commerce, and the U.S. Department of Health and Human Services, are jointly holding a series of seminars over the next year on “Reconsidering the Federal Poverty Measure.” The first of these seminars, held at the American Enterprise Institute on July 20, 2004, was titled “A mismatch between the official poverty count and other social welfare indicators?” The main speakers were Robert Rector, a senior research fellow at the Heritage Foundation, and Robert Greenstein, executive director of the Center on Budget and Policy Priorities. Members of the seminar series who were in attendance at the first session are listed in Appendix A.

The meeting opened with statements from the Co-Chairs of the seminar, Kathleen Cooper, Under Secretary for Economic Affairs, U.S. Department of Commerce, and Michael O’Grady, Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services.

Robert Rector highlighted several problems with the official measure of poverty based on the Current Population Survey (CPS): it undercounts income, ignores noncash benefits, ignores assets, and obscures the fact that households below the poverty level do not necessarily experience material deprivation. In making his case about underreported income, Rector noted that the National Income and Product Accounts (NIPAs) recorded $6.8 trillion in personal income in 1996, while money income in the CPS was only $4.8 trillion ($5.4 trillion if noncash benefits are included). However, as Dan Weinberg noted later, when personal income in the NIPAs and

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[1] We would like to thank John Iceland of the University of Maryland who acted as a rapporteur at the seminar and provided many helpful comments.

money income from the CPS are compared on a consistent definitional basis, the degree of underreporting in the CPS is about $400 billion. Most of the discrepancy of more than $2 trillion between the two measures occurs because of the inclusion of additional income types in personal income that are not included in money income, such as employer contributions for employee pension and insurance funds; noncash benefits such as Medicaid, food stamps, and energy assistance; and property income (dividends, interest, and rents) received on behalf of individuals by pension plans, nonprofit institutions serving households, and fiduciaries.[2]

This discussion raises two important points. First, the Census Bureau should make an effort to adjust money income in the CPS for known sources of underreporting, just as the Bureau of Economic Analysis does for its personal income series. (Dan Weinberg has indicated that this might be feasible.) Second, each source of income now included in personal income but not included in money income should be examined to determine if it should be included in the definition of income for the purposes of measuring poverty and the distribution of income, and whether it should be taken into account in setting the poverty threshold. This will be a topic at a future seminar.

Rector also noted that, since the official poverty definition is based on money income, people can be counted as poor even if they receive sizeable noncash benefits and possess assets that allow them to maintain a comfortable standard of living. The thrust of his argument was that people below the poverty level do not necessarily experience material deprivation. Rector presented a number of statistics showing that many people defined as poor have major durables such as cars, air conditioners, stoves, refrigerators, washers and dryers, microwaves, color televisions, and VCRs or DVDs; that many are able to obtain medical care when needed; that their homes are in good repair and not overcrowded; and that many are not hungry and have enough funds to meet essential needs. Thus, the essence of Rector's argument is that people measured as poor by money income have much greater access to material resources than implied by the official statistics, and they do not coincide with our notions of poverty.

To remedy these problems, Rector recommended that the current CPS poverty measurement should be retained as a baseline, and that, in addition, an integrated survey of material living conditions be conducted every three years, and that there be created a new, accurate survey of income, using external sources for income verification.[3]

Robert Greenstein drew on a number of different data sources to address issues similar to those examined by Rector. Using data from the 1999 National Survey of American Families

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[2] For a good discussion of the sources of difference between personal income and money income, see John Ruser, Adrienne Pilot, and Charles Nelson, "Alternative Measures of Household Income: BEA Personal Income, CPS Money Income, and Beyond," a paper prepared for presentation to the Federal Economic Statistics Advisory Committee (FESAC), June 11, 2004.

[3] The specific wording of the recommendations that Robert Rector provided at the seminar is included in Appendix B.

(NSAF), Greenstein presented statistics showing that during the year, some poor families with children were unable to pay for shelter, were living in crowded conditions, and the food they bought did not last and they did not have enough money for more—with over three-fifths of the families having experienced at least one of these problems. Another source he examined was a 2004 report titled "Measures of Material Hardship," issued by the U.S. Department of Health and Human Services. Based on data from the 1998 Survey of Income and Program Participation (SIPP), this report showed that, over a past four-month period, a significant number of poor families, as officially measured, were unable to pay for gas, oil, or electricity; could not make rent or mortgage payments; had their telephone disconnected; needed to go to a doctor or hospital but did not; and were insecure in their food consumption.

Greenstein also drew from the Census Bureau's 2002 American Community Survey (ACS) to show that more than three-fifths of families officially designated as poor that are renters pay more than 50 percent of their income in rent. Using child care market rate surveys, which are conducted by states as required under Child Care and Development Block Grant rules, Greenstein showed that child care costs for infants and preschoolers in several states were substantial, and thus comprise a burden to many low-income people. As Greenstein noted, a problem with data on the percentage of income that poor households spend on housing or child care is that such data tend to count only money income as reflected in the CPS and ACS and to ignore other sources of support that can help single mothers make these large expenditures.

Greenstein also presented data showing that while the child poverty rate flattened out in recent years, the poverty gap per child (that is, the amount of money needed to raise a child from below to above the poverty line) has increased, even when noncash benefits, taxes, and the Earned Income Tax Credit are included in the analysis. This may, however, be a function of compositional changes, since many families that had been poor saw their incomes rise over the poverty line in the 1990s and many families that were on welfare saw their total cash payments fall.

In summary, Greenstein said that the official measure does not capture the last few decades' significant improvements in the conditions of poor households, but that various studies also show substantial proportions of poor households experiencing hardships. Greenstein argued that the poverty measure can be improved by changing what is counted as income and also said some changes in the poverty thresholds should be considered, including some changes recommended by the National Academy of Sciences panel. On the income side, he said that food stamps and the refundable portion of the Earned Income Tax Credit and the Child Tax Credit should be counted as income; federal and state income taxes and payroll taxes should be excluded; and the income of cohabitors should be included. He believes that the poverty thresholds should be reexamined to make sure that they reflect needs for families of different sizes and geographical differences in the cost of meeting basic needs, particularly shelter.

Greenstein cautioned, however, that care needs to be taken to ensure that if certain types of expenses are not taken into account in setting the poverty threshold, then benefits to defray some or all of the costs of these expenses should not be counted as income. This led him to conclude that benefits such as health insurance coverage and child care subsidies should not be counted as income, and he suggested consideration of a National Academy of Sciences' recommendation that child care costs not be taken into account in setting the poverty threshold and out-of-pocket child care costs be deducted from income. Finally, Greenstein argued that a clear distinction needs to be made between a poverty measure used for statistical purposes and measures that are used for determining eligibility for means-tested programs. As he explained, counting certain benefits in eligibility determinations can have anomalous and inconsistent results.[4]

The presentations by Rector and Greenstein highlighted some key points. Even though there were some differences in the statistics they presented, a basic conclusion is that not all people below the poverty line are experiencing material hardship. Government transfer benefits may be playing an important role in reducing material hardship, but to see this clearly we need a proper measure of income that clearly distinguishes between pre-transfer and post-transfer income.

The two discussants of the presentations were Charles Murray and Robert Reischauer. Murray thought that any new poverty measure would likely be highly correlated with the current one (a point also made by Reischauer), and that the chief benefit of a measure is to track trends in well-being over time. He was concerned that the group would have difficulty coming to agreement about what the proper construct for poverty should be, and then appropriately implementing it. Murray favored a poverty measure (perhaps among others) that indicated the extent of self-sufficiency in the U.S.; that is, the financial condition of people before government transfers. For those receiving transfers, it is important to distinguish between pre-transfer and post-transfer income.

Reischauer held that there were two functions of a poverty measure: (1) tracking trends over time and looking at the relative incidence of poverty across groups, and (2) determining program eligibility and the distribution of funds. He thought that separate measures were needed for each of the goals. He noted that any changes to poverty measures or transfer programs that dramatically alter the numbers of winners and losers would be difficult to implement politically.

Dale Jorgenson argued that a new poverty measure should be based on consumption patterns rather than income data. He thought that the Consumer Expenditure Survey (CE) would be the ideal source for this information. In response, Kathleen Utgoff, Commissioner of the Bureau of Labor Statistics, noted that the CE needs additional funds to increase the survey's sample size and make other improvements before it could become a source of data for poverty statistics. Dan Weinberg mentioned that the Survey of Income and Program Participation (SIPP) provided multiple measures of material well-being and is complementary to the CE.

As the session drew to a close, Michael O'Grady urged continued discussion and work on

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[4] Robert Greenstein's specific recommendations are shown in Appendix C, based on separate correspondence that he sent to us on August 4, 2004.

these poverty measurement issues, because a refined measure would improve the way government funds are allocated. He noted that we might want to have different measures for different purposes, so that we would not always look at different benefit programs in the same way.

Douglas Besharov said that he thought the group had made progress in introducing the salient issues, and he noted that at least three important points had been identified.

First, the quality of the data is an important concern when measuring poverty. Efforts should be made to adjust the CPS for underreporting of income and to remedy the shortcomings of the CE, the SIPP, and other surveys.

Second, consideration should be given to establishing separate measures of poverty for statistical purposes and for program eligibility. In addition, it may be desirable to have separate measures that capture household income before the receipt of government transfers (a self-sufficiency measure) and those that capture the impact of cash and noncash benefits.

And third, it may be useful to create one or more poverty measures not based on income, but, instead, based on consumption or well-being.

Besharov said that these points as well as others raised in the meeting would form the basis of discussions as the seminar series unfolds.

Appendix A

Attendees

Center Table
Douglas Besharov (Chair), Kathleen Cooper (Co-Chair), Michael O'Grady (Co-Chair), E.R. Anderson, Nicholas Eberstadt, Robert Greenstein, Hermann Habermann, Wade Horn, Dale Jorgenson, Steve Landefeld, Charles Murray, Don Oellerich, Sharon Parrott, Robert Rector, Robert Reischauer, Kathleen Utgoff, Katherine Wallman, Dan Weinberg, Don Winstead

Satellite Tables
Richard Bavier, David Beede, Patricia Buckley, Paul Bugg, Donald Cox, Gordon Fisher, Thesia Garner, Nancy Gordon, Gordon Green, John Iceland, David Johnson, Jane Molloy, Brooks Robinson, Arloc Sherman, Mark Shroder, Mark Steinmeyer, Robert Stewart, Mark Wasserman