

Measuring Poverty: What Should Be Counted Where?

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AEI, Jan. 11, 2005

Questions to Consider

- Resources vs. Thresholds: What Assumptions Underlie Current Measures?
- Should We Make Any Changes to the Resource Measure without Rethinking Thresholds?
- How Should We Decide Where to Count Specific Needs and Resources?
- What Other Changes Are Still Needed?

Assumptions Under Current Thresholds

- Historically: Cash resources vs. cash needs
- Distortions on resource side over time
 - growth in taxes of poor
 - growth in non-cash benefits
 - growth in certain pre-consumption expenses
- Distortions on the threshold side: new technologies and changing standards of living

Should Resource Measures Be Changed If Thresholds Aren't?

- My view: Sometimes a partial solution is better than none, if underlying assumptions aren't violated
- Example: a more accurate measure of cash resources could be introduced even while thresholds are still under construction
- But: Don't add things to resources that are inconsistent with current thresholds

Possible Short-Term Adjustments

- Refine resource measures to reflect actual net income available for consumption more accurately
 - Adjust for Taxes and EITC
 - Take out work expenses such as Child Care
 - Add non-cash benefits such as food stamps that are largely fungible (perhaps with small discount)
- Fix Equivalence Scales

What Should Be in Resources vs. in the Thresholds?

- Broadly—income in resources, needs in thresholds
- But: Many things could be accounted for either by subtracting them from income or by adding them to needs—e.g., taxes, medical care
- Rule of thumb: If the item is fairly similar across all families of a given size and type, it can be counted in needs; if there are huge variations within family size categories, it probably needs to be in resources

What Other Changes Are Needed?

- Thresholds Weren't Well-Constructed to Start With; Need Updating
- Medical Care: Hard to Measure in Either Needs or Resources, but Increasingly Important as Costs Increase
- In Longer Run—Need to Consider Ways to Account for Changes in the Goods and Services People Consider Necessary

Do We Need Relative Thresholds?

- Relative thresholds can be useful for cross-country comparisons and to consider how the poor are doing relative to others
- But probably not the right approach for political purposes; need measure tied more directly to specific needs
- Still need to work on details of how to update

Conclusion

- There are some changes to poverty measures that we can, and probably should, make now
- But that doesn't mean that we should give up on longer term goals of revising the thresholds to take account of the technological and social changes that have occurred over the past 40 years.
- Finally, we need to work toward an acceptable methodology for dealing with such change in the future.