

Political Consequences of an Improved Poverty Measure

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I. INTRODUCTION

Political controversy has swirled around the measurement of U.S. poverty for at least three decades. Unlike other economic indicators, such as the gross domestic product or the unemployment rate, the poverty rate arouses such intense controversy that government statisticians have been unable to make fundamental improvements in its calculation. The consumer price index is the only other economic indicator that receives a comparable level of public scrutiny, but political controversy surrounding the measurement of price change has not prevented the Bureau of Labor Statistics from implementing major improvements in measuring inflation over the past two decades. Indeed, the political controversy over price measurement probably speeded a reform process that might otherwise have stretched out over several years.

Measuring poverty is obviously more troublesome from a political viewpoint than measuring national output, the incidence of joblessness, or the price level. Uninformed observers might think the difference springs from the fact that public spending is directly linked to the measurement and nationwide distribution of poverty. The income limits that determine some people's eligibility for Medicaid, for example, are tied to the official poverty thresholds. Some federal grants to states and localities are affected by the local prevalence of poverty. Since public budgets depend on how we measure poverty, politicians and journalists are naturally concerned that the statistical agencies do a good job of measuring it.

But public spending is also affected by the way we measure unemployment and price change. Extended unemployment benefits, for example, are triggered when state unemployment levels rise above specified thresholds. Social security benefits and federal income tax thresholds are linked to measured

changes in average consumer prices. Far more public spending is directly affected by our procedures for measuring price change than by the way we measure poverty.

Poverty measurement inspires political controversy because the programs that are directly and indirectly affected by poverty measures are themselves highly controversial. These programs typically inspire more intense conflict than the programs affected by procedures to measure unemployment or inflation. The budget for Social Security pensions is much larger than the budget for Medicaid, but Social Security pensions enjoy much broader and steadier popular support than Medicaid benefits. Because programs that benefit the poor arouse more intense political conflict than programs serving broader and more affluent populations, debates about the measurement of poverty provide a forum for indirectly debating more fundamental issues about the scope and focus of antipoverty policy. Should the nation spend more or less money on poverty programs? Which groups are particularly deserving of extra help? Which groups receive too much help already?

This paper examines the potential political effects of adopting an improved poverty measure. Social scientists have long known that the official poverty measure offers a misleading picture of the trend in poverty over time and the distribution of poverty across population groups. Various individuals and groups have offered concrete suggestions to improve the existing poverty measure, but no significant reform has been adopted because of political controversy surrounding the proposed changes. Suppose the Administration and Congress adopted a poverty measure that represented a significant improvement. How would this development affect public policy, especially with respect to the nation's antipoverty programs? I briefly examine the implications of improved poverty measurement, assuming that Congress and the Administration do not immediately change the laws and regulations that determine the allocation of public funds and individual eligibility for program benefits. I then consider the longer-term and indirect consequences of reform on policymaking. Since I am an economist rather than a political scientist, I do not claim any special political insight. The main purpose of this paper is to highlight a

handful of areas where a better measure of poverty is likely to affect political discussion of programmatic reform.

II. DEFINING A BETTER POVERTY MEASURE

The official definition of poverty does not accurately distinguish between Americans who are poor and those who are nonpoor. The official measure is defective in a number of respects, a fact long recognized by social scientists and informed policymakers. The defects can pose problems for policymaking. The official poverty thresholds are used to establish eligibility in several federally sponsored programs, so errors in determining the thresholds can lead to mistakes in defining populations that are eligible for the programs. State and local poverty rates are also used to allocate some federal funds across states and local areas. Flaws in measurement can lead to a misallocation of these funds. Finally, trends in the number of people who are officially classified as poor are often used to decide whether public policies have been effective in reducing poverty. If poverty is mismeasured, this kind of assessment can yield seriously misleading results.

The Census Bureau's current estimate of the official poverty rate is based on poverty thresholds and definitions of countable income developed in the early 1960s by the Social Security Administration and modified by the Council of Economic Advisers. The thresholds were originally determined as three times the cost of a minimally adequate diet, which in turn was based on the U.S. Department of Agriculture's economy food plan. The thresholds vary by family size, under the reasonable assumption that large families require more income than small families to enjoy the same standard of living. A person's or family's gross cash income is compared with the appropriate threshold to determine poverty status. The official poverty estimates have been subject to mounting criticism over the past three decades. Social scientists and statisticians have offered a variety of technical criticisms, and politicians and journalists have offered critiques of their own.

In early 1995 the National Research Council (NRC) of the National Academy of Sciences published recommendations from the Panel on Poverty and Family Assistance suggesting ways in which the present poverty measure could be revised to improve its usefulness (Citro and Michael, 1995). The panel described flaws of the official measure and suggested methods for reducing or eliminating them. It described the pros and cons of different options for dealing with problems of the present measure and made strong recommendations regarding its own preferences for improvement. For purposes of this paper, I will assume that an improved poverty measure would embody many or most of the NRC panel's recommendations.

The panel drew attention to a number of problems with the official poverty measure:

- The measure excludes in-kind benefits, including food stamps and housing assistance, when counting family resources.
- It ignores the cost of earning wage income, including child care costs, when calculating the net income available to families containing working members.
- It disregards regional variations in the cost of living, especially the cost of housing, in determining a family's consumption needs.
- It ignores direct tax payments, such as payroll and income taxes, when measuring family resources. By the same token, it ignores the contribution to family resources provided by refundable income tax credits, such as the Earned Income Tax Credit (EITC).
- Differences in health insurance coverage are ignored in determining family resources, and differences in medical spending are disregarded in determining family consumption needs.
- The official thresholds have never been updated to reflect the changing consumption levels or patterns of U.S. households.

To remedy these deficiencies, the panel recommended a thorough overhaul of the procedures and data sets used to measure poverty. To summarize:

- The poverty thresholds should be based on the budget needed for food, clothing, shelter, and a small additional amount for other needs (personal care, non-work-related transportation, etc.). These budgets in turn should be based on *actual spending patterns* observed in surveys of representative American households, and the budget amounts should be updated each year based on spending patterns over the previous 3 years. (In other words, the budget amounts should be

updated on a regular basis to reflect the society-wide trend in *actual* consumption; they should not be fixed for all time based on a *fixed* market basket of goods and services.) [pp. 4–5 of the NRC report]

- Family resources should be defined as the sum of money income from all sources plus the value of near-money income, such as food stamps, that is available to buy goods and services in the budget, minus expenses that cannot be used to buy these goods and services. [p. 5]
- The expenses subtracted from available family resources should include
 - payroll and income taxes,
 - child care and other work-related expenses,
 - child support payments to another household, and
 - out-of-pocket medical care costs, including payments for health insurance premiums. [p.5]
- The equivalence scale that reflects differences in consumption needs according to family size and composition should be revised. The panel’s suggested scale reflects a higher estimate of the anticipated cost of supporting a couple and a lower estimate of supporting a single person than reflected in the existing scale, for example. [p. 8]
- The poverty thresholds should be adjusted to reflect differences in the cost of housing across geographical areas of the country. The panel recommended that the Census Bureau make estimates of the cost of housing for the nine census regions and, within each region, for several population-size categories of metropolitan areas. [p. 8]
- Assistance provided to the family in the form of near-money nonmedical in-kind benefits—specifically, food stamp benefits, subsidized housing, school lunches, and home energy assistance—should be directly added to net cash income to determine family resources. [p. 10]
- Work-related expenses should be subtracted from cash income using the following procedures:
 - For each working adult, a flat amount per week worked should be subtracted from net cash income (up to a limit of after-tax earnings) to reflect transportation and other miscellaneous expenses connected to work.
 - For families in which there is no nonworking parent, actual child care costs per week worked (up to a limit of the net earnings of the parent with lower earnings or a standard weekly limit, whichever is lower) should be subtracted from net cash income. [p. 10]
- The Survey of Income and Program Participation (SIPP) should replace the March Current Population Survey (CPS) as the source of survey data used to estimate the poverty rate. [p. 12]

- Agencies responsible for federal assistance programs that use the poverty guidelines derived from the official poverty thresholds to determine eligibility for benefits should consider using the panel's proposed new measure instead of the current thresholds. [p. 15]

Interestingly, the NRC panel made no recommendation for including the flow of housing services from owner-occupied homes in its broadened definition of family resources. Families of the same size and living in the same communities would be assigned the same budget for housing regardless of whether they rented an apartment, made monthly loan payments on a home mortgage, or owned their homes free and clear of mortgage debt. Though public housing subsidies would be treated as resources available to pay for a family's housing costs, the flow of services from an owner-occupied home would not be treated in an equivalent way.

If the panel's proposals were fully implemented, we would see substantial effects on the level and distribution of poverty across groups and regions and major changes in the eligibility standards for a number of federal transfer programs. Effects of this kind raise difficult political issues and are likely to create enormous political conflict. On the other hand, some of the panel's proposals raise technical and budgetary issues with regard to feasibility but are unlikely to arouse fierce political opposition. For example, the proposal to estimate national poverty rates using the SIPP rather than the March CPS may be impossible to achieve within existing budget constraints, but it is hard to believe that voters or policymakers object, in principle, to measuring poverty using the best available survey information.

The remainder of the paper examines the potential political impact of the panel's proposals, focusing on those with the greatest potential to affect trends in poverty and the relative incidence of poverty across groups. Effects on the trend and relative incidence of poverty can influence political debate and decision-making because they affect public perceptions of the need for antipoverty programs and the relative neediness of different low-income populations.

III. SHORT-RUN EFFECTS

Before turning to specific panel proposals, it may be helpful to distinguish between the short- and long-run consequences of reforming the current definition of poverty. Although the NRC panel urged government agencies to consider using its proposed measure once it is fully implemented, it should be obvious that no federal agency is bound to accept that advice. Agencies that use the poverty guidelines derived from the current poverty thresholds to determine eligibility for benefits can continue to use the existing official thresholds for the indefinite future, even if the Census Bureau publishes new estimates of the poverty rate based on revised definitions of the poverty threshold. In fact, if eligibility rules are defined by federal statute, agencies must continue to use the existing poverty thresholds until Congress amends the statute governing program eligibility.

If government agencies and Congress are rational, they will delay adopting the new poverty thresholds until it is clear how the new thresholds have worked over several years and possibly over an entire business cycle. The concern that a new poverty definition will have *immediate* consequences in determining program eligibility is baseless. Program eligibility and the allocation of federal funds will almost certainly be determined with the existing poverty thresholds and poverty definitions for several years after a new poverty measure is introduced.

Statistical reform is thus likely to have only one short-term consequence: The Census Bureau will annually publish one or more new measures of the incidence of poverty. The new measure(s) will produce poverty estimates that differ from those produced by the current official measure. The new series could show differences in the level and trend in overall poverty and in the relative incidence of poverty across population groups.

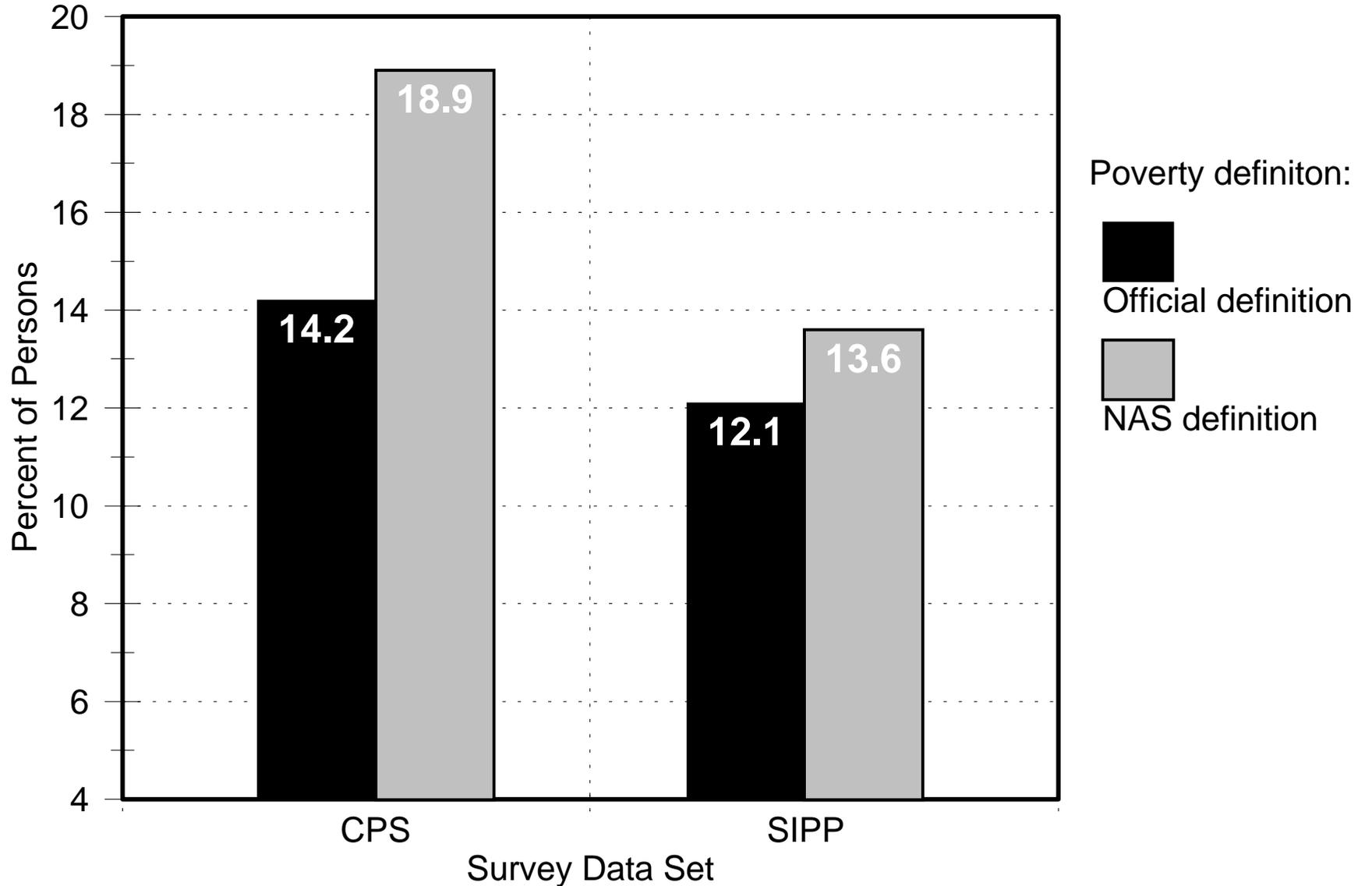
Effects on Overall Poverty Rate

Estimates by Census Bureau and Bureau of Labor Statistics (BLS) analysts allow us to make a preliminary comparison of the level, trend, and incidence of poverty under alternative definitions (Johnson, Short, and Garner, 1998). If the Census Bureau continued to measure poverty using survey information from the CPS and used the current official definition of income but adopted the poverty thresholds suggested by the NRC panel, measured poverty would decline slightly (see Figure 1). As interpreted by the Census Bureau and BLS analysts, the NRC thresholds are slightly lower than the existing thresholds in part because they exclude any implicit estimate of the cost of purchasing medical care. On the other hand, if the Census Bureau continued to use the existing poverty thresholds but changed its definition of countable income to correspond with the definition proposed by the NRC panel, the measured rate of poverty would increase by slightly more than one-third. In 1996, for example, the estimated poverty rate would have increased from 13.7 percent to 18.5 percent. If the Census Bureau adopted *both* the NRC definition of countable resources *and* its estimates of appropriate poverty thresholds, the overall poverty rate would increase somewhat by less than one-third (rising in 1996 from 13.7 percent to 18.0 percent).

The NRC panel proposed measuring the revised poverty index using survey information from the SIPP rather than the CPS. For several reasons, the SIPP shows a lower prevalence of poverty under all definitions of poverty than the CPS does. Because the SIPP questionnaire was designed to elicit more accurate and complete income information than other surveys, SIPP responses contain less underreporting error. In addition, the survey is administered to the same households several times a year rather than only once, so it is possible to obtain more timely and accurate information about household size and composition. In contrast, the CPS provides information about household size in March of the calendar year following the year covered by the income information. The greater accuracy of the household composition information on the SIPP makes it a better data source for measuring poverty.

FIGURE 1

Poverty Rate under Alternative Definitions with Different Data Sets, 1991



Source: Johnson, Short, and Garner (1998).

Finally, there are differences in sample attrition between the SIPP and the CPS that affect poverty estimates obtained on the two surveys. The Census Bureau concludes that substituting SIPP for CPS survey data would have pushed down the 1991 poverty rate under the current official definition by 2.1 percentage points, from 14.2 percent to 12.1 percent. Under the NRC panel's revised definition, substituting SIPP for CPS data would have pushed down the estimated poverty rate by 5.3 percentage points, from 18.9 percent to 13.6 percent (see Figure 1). Thus, if *all* of the NRC panel's recommendations were adopted—with regard to resource definitions, estimates of the poverty thresholds, and data sources—the estimated poverty rate in 1991 would have fallen from 14.2 percent to 13.6 percent.¹

Tom Corbett, Wendell Primus, and I have suggested that the new poverty measure should be calibrated to ensure that the overall incidence of poverty in the first year of implementation is the same as it is under the existing official measure (Burtless, Corbett, and Primus, 1997). In other words, if new poverty measurement procedures were first implemented for incomes received in 2000, the overall poverty rate for 2000 should be identical under the new procedures and the procedures used to estimate the official poverty rate under existing definitions. In 2001 and later years, the overall incidence of poverty under the old and new definitions might differ, but in the first year of implementation the two sets of procedures would yield identical estimates of the overall rate. Following the NRC panel's recommended procedures, this result could be achieved by appropriate selection of the budget amounts for food, clothing, shelter, and "a little bit extra" in the new poverty thresholds. The budget amounts would be chosen to guarantee that the overall poverty rate under the new measure is the same in 2000 as it is under the old measure. In years after 2000, the budget amounts under the new definition would be adjusted annually according to the panel's suggested procedures. Of course, our proposal implies that the

¹These estimates should not be regarded as definitive, because it is not clear how the Census Bureau would operationally implement the NRC panel's recommendations if the proposals provided the basis of a new poverty measure.

selected budget amounts are somewhat arbitrary. The NRC panel was itself uncertain about how these budget amounts should be chosen, so our suggested procedure for selecting the budget amounts represents a way to resolve the issue.

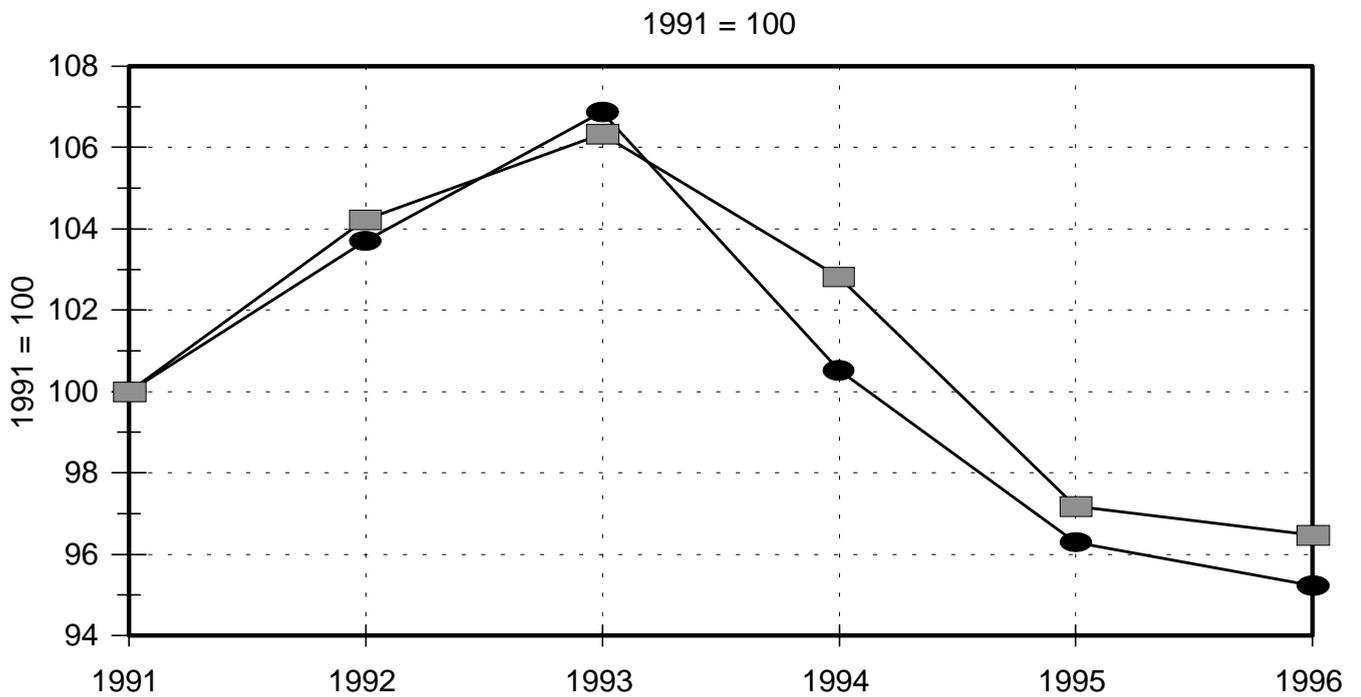
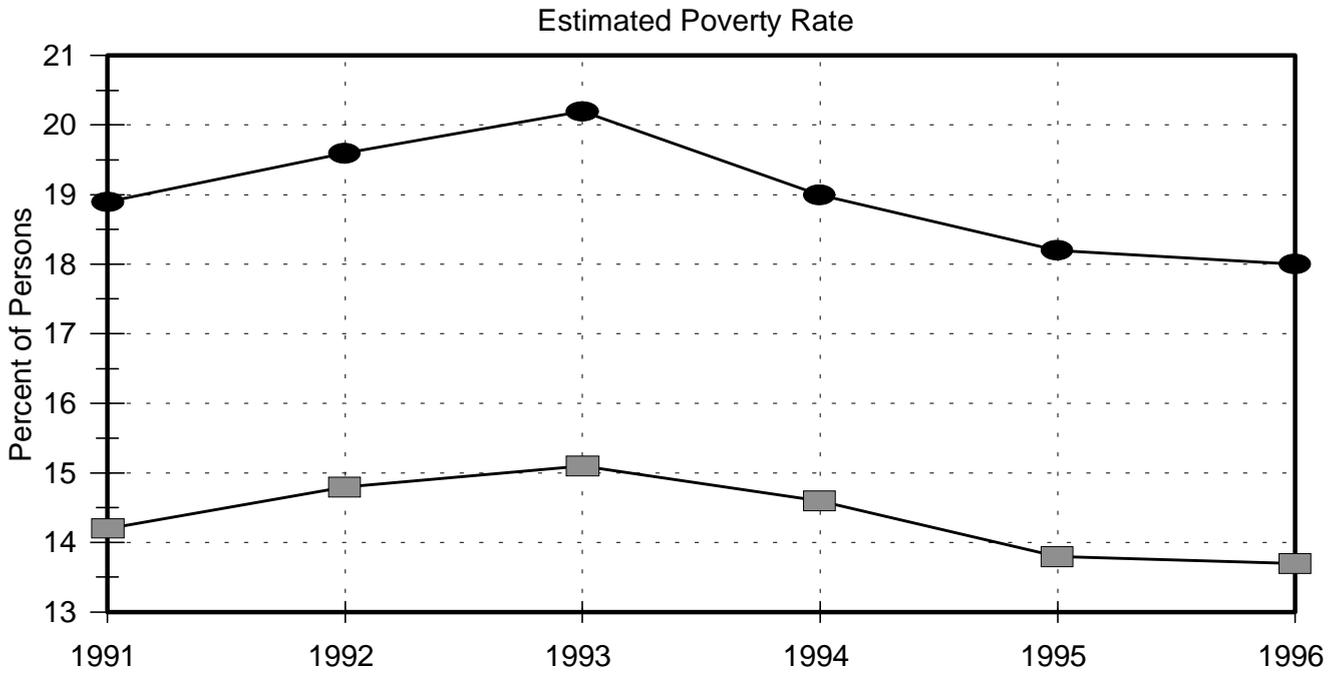
Our procedure has one major political advantage: It yields an estimate of overall incidence of poverty that is no different than the one produced by the current official measure. This will allay the suspicion of conservatives that the poverty rate definition is being revised to increase the apparent incidence of poverty, fueling demands that poverty programs be enlarged. It will also reduce the fears of liberals that the definition is being manipulated to reduce the apparent prevalence of poverty, diminishing the perceived need to fund antipoverty programs.

If adopted by the Office of Management and Budget and the Census Bureau, our proposal would leave the initial overall poverty rate unchanged. Our proposal does not eliminate the possibility that the trend in overall poverty and the relative incidence of poverty will differ under the two measures. Most of the remainder of this paper considers the impact of changes in the relative incidence of poverty across population groups. The statistical effect of a new definition on the short-term *trend* in overall poverty is less certain. Existing Census Bureau estimates of poverty under alternative income definitions shed some light on this issue.

Trends and Cycles in Poverty under Alternative Income Definitions

The top panel in Figure 2 shows estimates of the overall poverty rate under the proposed NRC definition and the existing official definition of poverty. Both sets of estimates are obtained using CPS rather than SIPP survey data, so the poverty estimate under the NRC definition is substantially higher than it would be if SIPP interview information were used. Both poverty definitions show a similar pattern of poverty increase in the recession of the early 1990s and of poverty decline during the initial stages of the recovery later in the 1990s (see lower panel in Figure 2).

FIGURE 2
Overall Poverty Rate under Alternative Poverty Definitions, 1991–1996
 (Estimates Based on Current Population Survey Data)



● NAS definition ■ Official definition

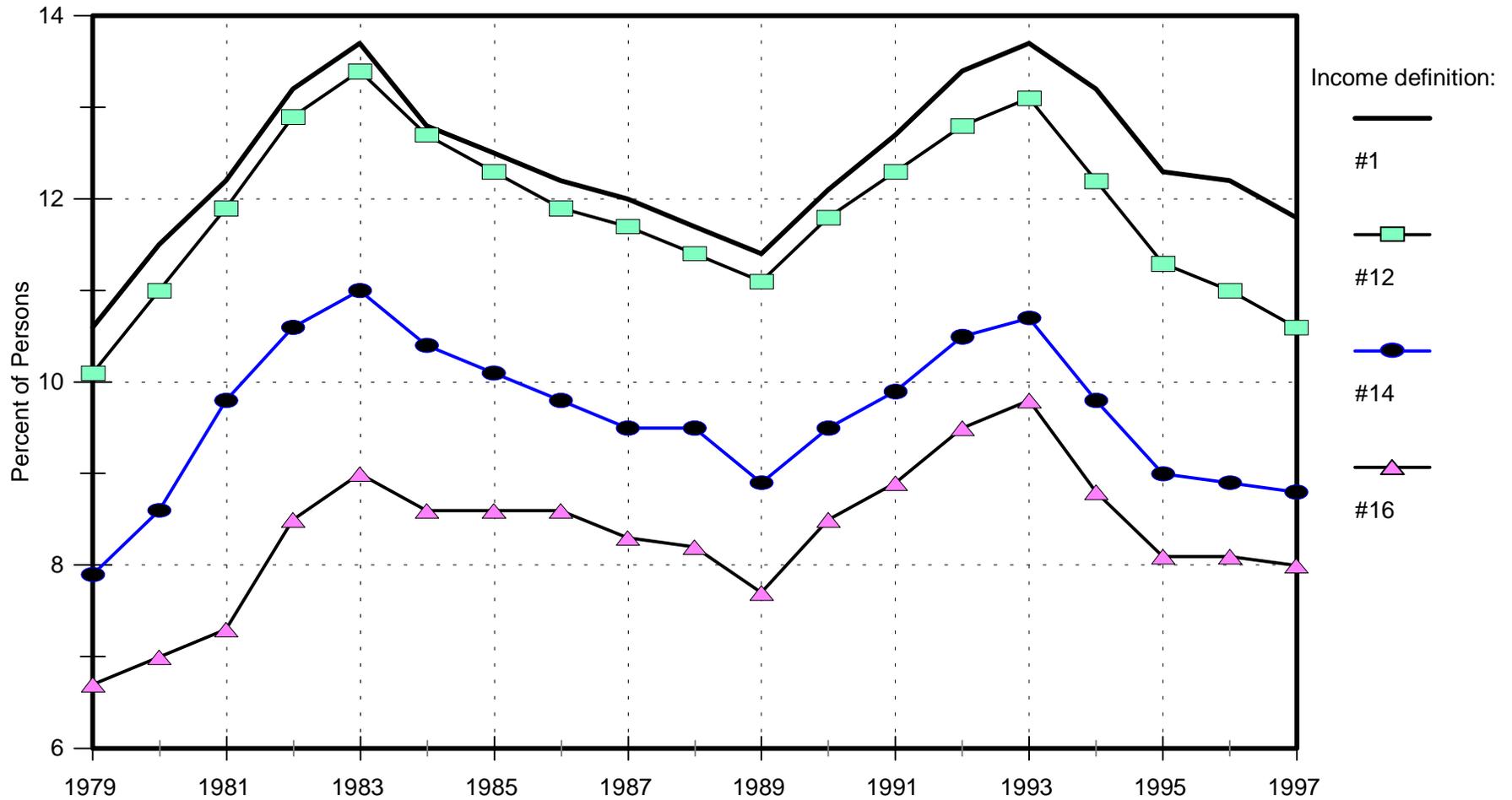
Source: Johnson, Short, and Garner (1998).

The span of time covered in Figure 2 is not long enough to show trends in poverty over a full business cycle. Figure 3 shows trends in the incidence of poverty over a longer period. Unfortunately, none of the estimates shows the exact pattern of poverty under the NRC definition because reliable estimates of poverty under that definition do not go back to 1979. The poverty status of each person and family in Figure 3 is determined by comparing countable resources to the official poverty threshold.² The figure shows poverty rates between 1979 and 1997 under four definitions of countable resources. The top solid line shows the trend in poverty under the current definition of gross cash income used by the Census Bureau. The line immediately below the top line shows the poverty rate calculated under the Census Bureau's "definition #12" of countable resources. This definition includes all cash income sources and adds the imputed value of health insurance supplements to wage and salary income, medicare health insurance, and realized capital gains. It subtracts the estimated amount of payroll and income tax payments. (For some households, tax "payments" are negative because the value of the refundable EITC exceeds the households' combined liabilities for payroll and federal and state income taxes.) Poverty is slightly lower under this definition of countable resources, but the trend in overall poverty is very similar to the trend in the official poverty series.

The second line from the bottom in the figure shows the trend in poverty when the value of means-tested noncash benefits is included in countable family resources. Since these in-kind benefits are targeted on households with low cash incomes, it is not surprising that estimated poverty rates are sharply lower under this definition. The bottom line in the figure shows poverty rates under an income definition that also includes the imputed return received by homeowners on their net equity in their homes. Since some homeowners have low cash and noncash incomes, the addition of this imputed income flow reduces the estimated poverty rate. Recall, however, that under the proposed NRC definition of family resources,

²For purposes of calculating the poverty rate in the figure, the thresholds are updated each year using the CPI-UX1 measure of price inflation. Until 1983, this index of consumer price inflation showed less inflation than the CPI-U series used to annually adjust the official poverty thresholds.

FIGURE 3
Overall Poverty Rate under Alternative Income Definitions



Census Bureau definitions of income:

- #1: Current official definition, using CPI-UX1 price deflator.
- #12: Cash income plus health insurance supplements to wage income plus medicare and capital gains less payroll and income taxes.
- #14: Definition #12 plus means-tested in-kind benefits.
- #16: Definition #14 plus imputed return on net home equity.

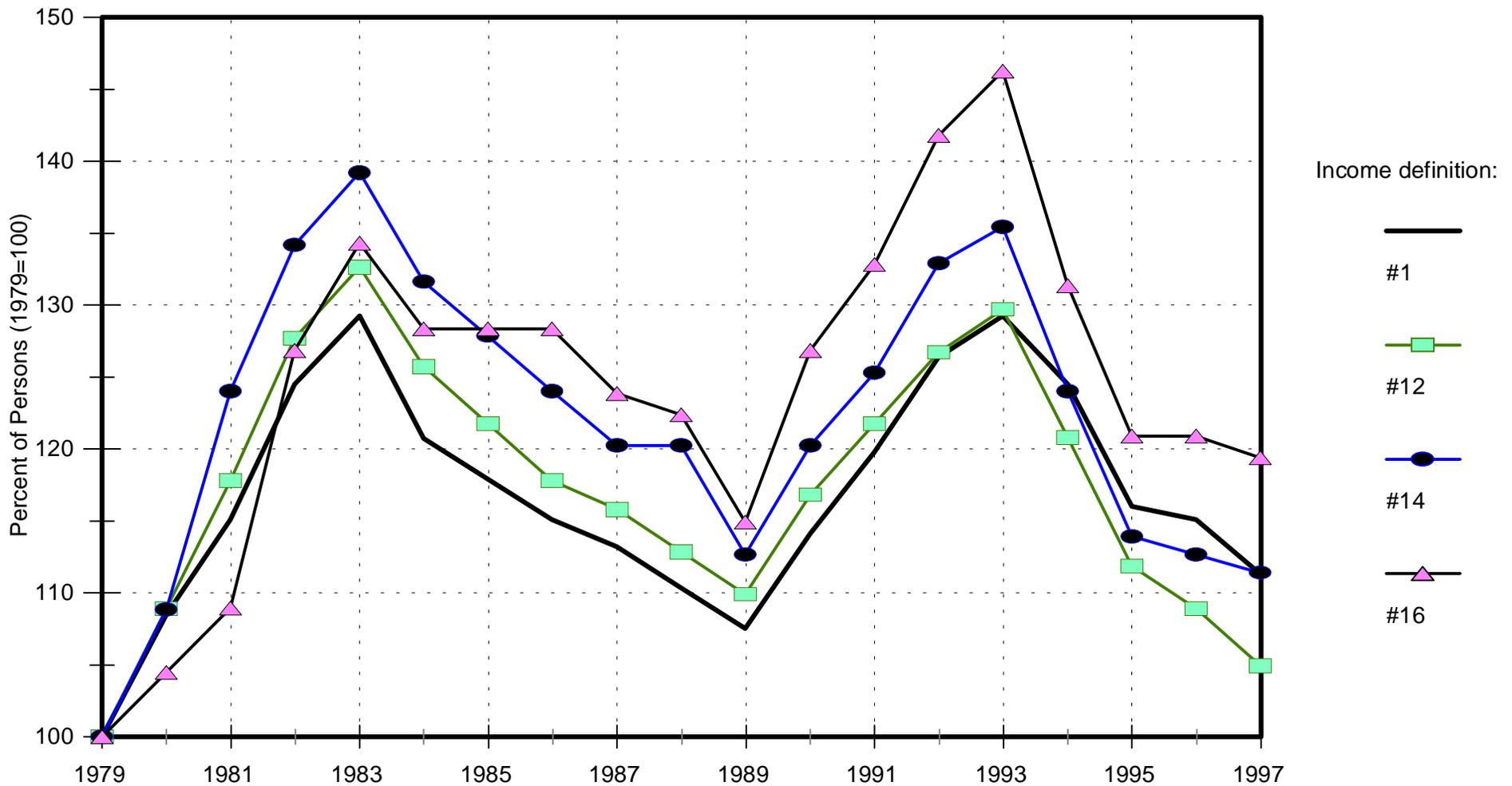
Source: Bureau of the Census (1998).

the imputed return on homeowners' equity would not be counted in income. Note that all four estimates of the poverty rate show similar patterns over time. Under each definition, poverty rises sharply during recessions (1980–1983 and 1990–1993) and falls in expansions. Under all definitions of income, the overall poverty rate in 1979 is lower than the rate at the end of subsequent economic expansions (in 1989 and 1997).

The poverty rates displayed in Figure 3 can be expressed relative to their levels in a base year. This exercise has been performed in Figure 4. For each poverty rate series displayed in Figure 3, the annual estimate of the poverty rate is measured relative to its level in 1979 (1979 = 100). Under the official income definition, the poverty rate peaked at a similar level in both the 1980–1983 and 1990–1993 recessions. In contrast, under the most inclusive definition of income (#16) the peak poverty rate during the 1990–1993 recession was somewhat higher than the rate in the 1980–1983 recession. Under all four income definitions, the poverty rate was higher at the end of the period (in 1997) than it was at the beginning (in 1979). The difference is considerably less, however, under a definition of income that includes all net cash and noncash income *except* means-tested in-kind benefits and imputed income from an owner-occupied home. Under that definition (#12), the poverty rate increased just 5 percent between 1979 and 1997. Under the most inclusive definition of income (#16), poverty rose 20 percent from 1979 to 1997. Under the official definition of countable income (#1), the poverty rate increased 11 percent between 1979 and 1997.

The different pattern of trends under the four income definitions shows how hard it is to predict whether different *income* definitions will lead to faster or slower increases in measured inequality over time and over the business cycle. The tabulations suggest that the definition of countable income can make a difference in the measured trend in overall poverty, but it is not obvious whether the short- or long-term trends in poverty will look better or worse under a revised income definition. If the experience

FIGURE 4
Overall Poverty Rate under Alternative Definitions (1979 = 100)



Census Bureau definitions of income:

- #1: Current official definition, using CPI-UX1 price deflator.
- #12: Cash income plus health insurance supplements to wage income plus medicare and capital gains less payroll and income taxes.
- #14: Definition #12 plus means-tested in-kind benefits.
- #16: Definition #14 plus imputed return on net home equity.

Source: Bureau of the Census (1998).

of the past 20 years is any guide, the cyclical pattern of poverty will look reasonably similar no matter which income definition we use.

Trends and Cycles under Alternative Poverty Threshold Definitions

The NRC panel's proposal includes a suggestion for updating the poverty thresholds over time as well as recommendations for expanding the definition of income. The current official poverty thresholds are intended to represent the cost of a fixed market basket of goods and services, originally selected to represent a basket that was minimally adequate according to consumer surveys conducted in the 1950s. The cost of this market basket is updated from year to year using BLS estimates of the change in consumer prices as measured by the CPI-U. The NRC panel proposed that the thresholds be determined by estimating typical budgets for food, clothing, shelter, and "a little bit extra." The thresholds would be updated using a 3-year moving average of actual changes in median spending on these items as reflected in the Consumer Expenditure Survey. For example, the budget amounts might be defined as a fixed percentage (say, 70 percent) of average spending over 3 years on the budget items.

The panel's proposal introduces a peculiar cyclical pattern to the poverty thresholds and poverty rate. Median consumption ordinarily rises faster in economic expansions than in contractions. Because median consumption only affects the proposed poverty thresholds with a lag, however, the thresholds will rise faster than median consumption during recessions and more slowly than median consumption during the first few years of an economic expansion. Of course, the countable resources that are compared to thresholds rise much faster in the early stages of an expansion than they do in an economic contraction. The effect of the panel's proposal may thus be to exaggerate increases and reductions in the poverty rate over the business cycle, at least in comparison with a definition of poverty thresholds that is fixed in real terms. Legislators will rightly hesitate before linking eligibility standards to a threshold that rises substantially faster than actual consumption during recessions and increases more slowly than actual consumption (or actually declines) in early stages of recoveries.

It should also be clear that the panel's proposal will produce poverty thresholds that rise over time in line with increases in median consumption. If median consumption remains fixed in inflation-adjusted terms, the panel's poverty thresholds will rise at the same rate as the current official thresholds. If median consumption falls in real terms, the new poverty thresholds will rise more slowly than the current official thresholds. But if median real consumption increases over time, as seems more plausible, the panel's proposed poverty budgets will gradually rise over time, in inflation-adjusted terms and in comparison with the current official thresholds.

John Cogan, a member of the NRC panel, vigorously objected to this aspect of the panel's proposal (see Citro and Michael, 1995, pp. 387–388). He correctly noted that updating poverty thresholds in line with median consumption rather than consumer prices transforms the poverty threshold from an absolute into a relative standard. The proposed NRC poverty rate in effect reflects a pure distributional measure (“What share of people have countable income below 70 percent of median consumption?”) rather than a measure of absolute destitution (“What percentage of people have too little income to buy a forever-fixed basket of goods and services?”).

One implication of moving from an absolute to a relative standard is that, using the new thresholds, incomes of low-income Americans could rise steadily over decades without changing the poverty rate. To reduce the poverty rate under the panel's poverty definition, income inequality would have to fall over time. In contrast, when countable incomes grew rapidly in the 1960s and 1970s, the official poverty rate fell sharply even though the level of cash income inequality fell only moderately. The NRC panel's proposed method of updating poverty thresholds will almost certainly slow the long-term trend toward poverty reduction. The effect of the proposal on short-term trends is much less clear, because year-to-year changes in inequality can offset or reinforce the effect of year-to-year changes in real income levels. By implication, the short-term effects of the new poverty measure are also ambiguous.

Political Implications

The short-term political consequences of changes in the cyclical pattern and trend in poverty are hard to forecast because it is difficult to predict whether measured poverty will rise faster, slower, or at approximately the same rate after a new measure is introduced. If a recession were to occur soon after the NRC-proposed definition is implemented, poverty would probably rise somewhat faster under the new definition than under the old one. If instead a strong recovery from recession were to occur soon after the new definition is implemented, the measured poverty rate would fall somewhat faster under the new definition than under the old one. Assuming the short-term trend in poverty has political consequences, those consequences might include greater popular and political support for antipoverty relief during recessions and weaker support for such relief in the early stages of vigorous economic expansions.

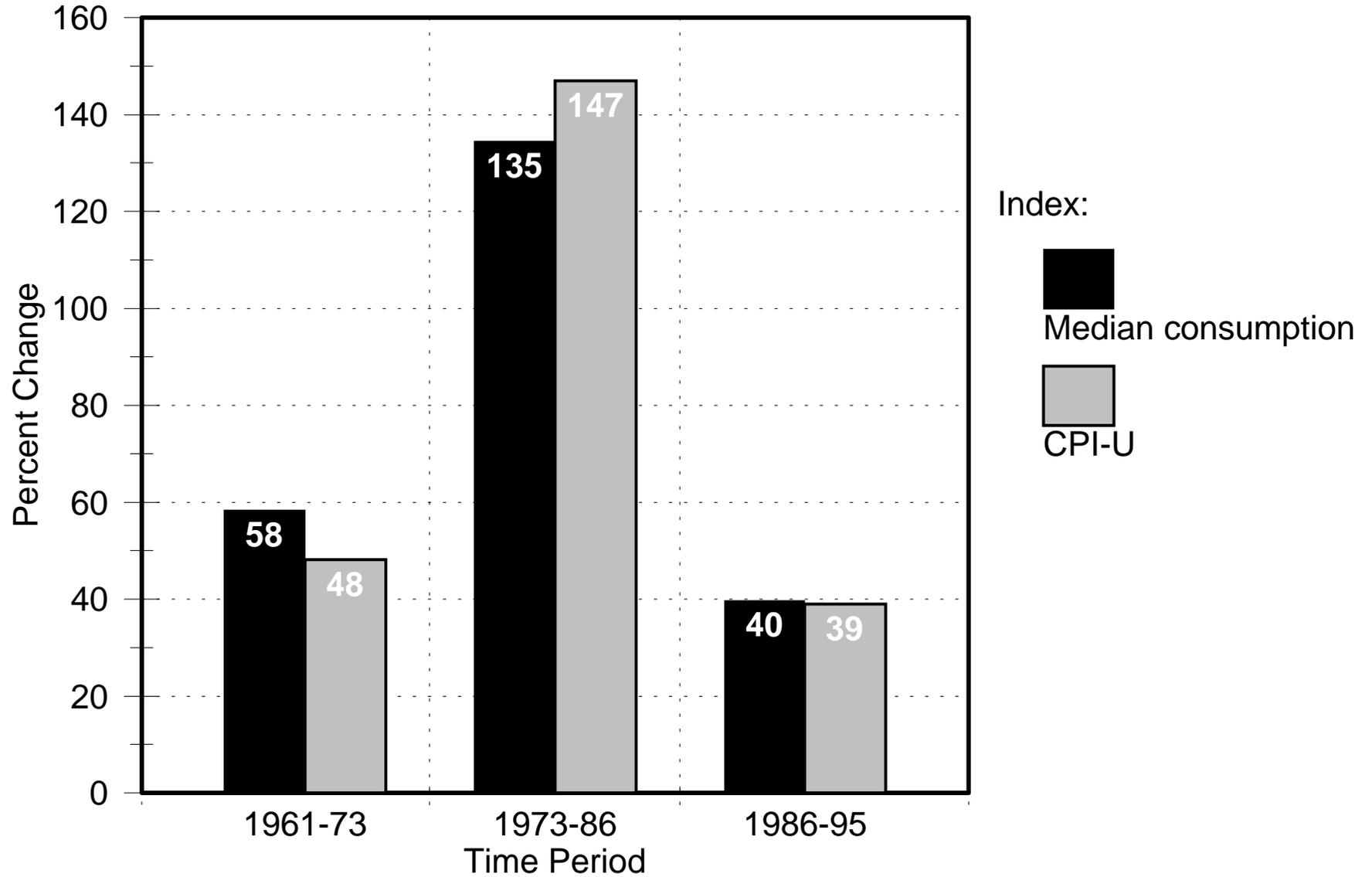
IV. LONG-RUN EFFECTS

The long-term impact of a new poverty measure depends mainly on its effects on the long-run trend in measured poverty and on changes in the relative incidence of poverty across population groups. If all of the NRC panel's recommendations were implemented, the probable effect would be to boost measured poverty rates in the very long run. Because median real consumption usually rises over time, the poverty thresholds under the panel's suggested procedure will eventually increase faster than the current official thresholds. As we have seen, it is harder to predict whether countable resources will climb faster under the proposed NRC procedures or current Census Bureau procedures.

Even though the effects of the NRC proposals seem straightforward over the very long run, Census Bureau and BLS calculations show that these "inevitable" consequences can take many years or even decades to become apparent. Figure 5 shows trends in median consumption and in the consumer price index over the three and one-half decades after 1960. Median consumption is estimated using data from the Consumer Expenditure Survey and is measured as median consumption among two-adult, two-

FIGURE 5

Increase in Poverty Thresholds using Alternative Indexing Methods, 1961-1995



Source: Johnson, Short, and Garner (1998).

child families (Johnson, Short, and Garner, 1998). Consumer price change is measured with the CPI-U. Over the full 35-year period covered in Figure 5, the two indexes changed by very similar percentage amounts. In two of the subperiods, however, the indexes increased at significantly different rates. Median consumption rose faster than consumer prices from 1961 through 1973, more slowly than prices from 1973 through 1986, and by the same percentage amount from 1986 through 1995. The pattern of change in the two indexes during the period from 1961 through 1973 is more characteristic of the long-run pattern of U.S. consumption growth. There is no assurance that this long-term pattern will predominate in the future, however. If it does, the NRC panel's suggested poverty measure will eventually produce a poverty estimate that is higher than the estimate produced by the present official measure.

The most important political effects of a new poverty measure are likely to flow from new evidence about the relative incidence of poverty in different population groups. The comparisons that matter are obviously those that are of direct relevance to policymaking. Because federal and state policies focus on broad age groups—children, working-age adults, the elderly—it is hard to believe that changes in the incidence of poverty across narrow age groups will matter much. Both the federal and state governments have established distinctive policies aimed at helping the working and nonworking poor, but few policymakers care much about measured changes in the incidence of poverty across workers in different industries or occupations. Among families containing children, American social policy has historically made distinctions between those with and without disabilities as well as among children in families headed by married couples, widows, and divorced, separated, or never-married parents. Policymakers have also distinguished between old-age poverty in married-couple families and among widows. Because federal grants to state and local governments are frequently linked to the local incidence of poverty, elected officials are also concerned about how a new measure would change a state's or local area's rank in the poverty distribution.

The remainder of this section examines potential changes in the relative incidence of poverty that will flow from the NRC panel's recommendations.

Young versus Old

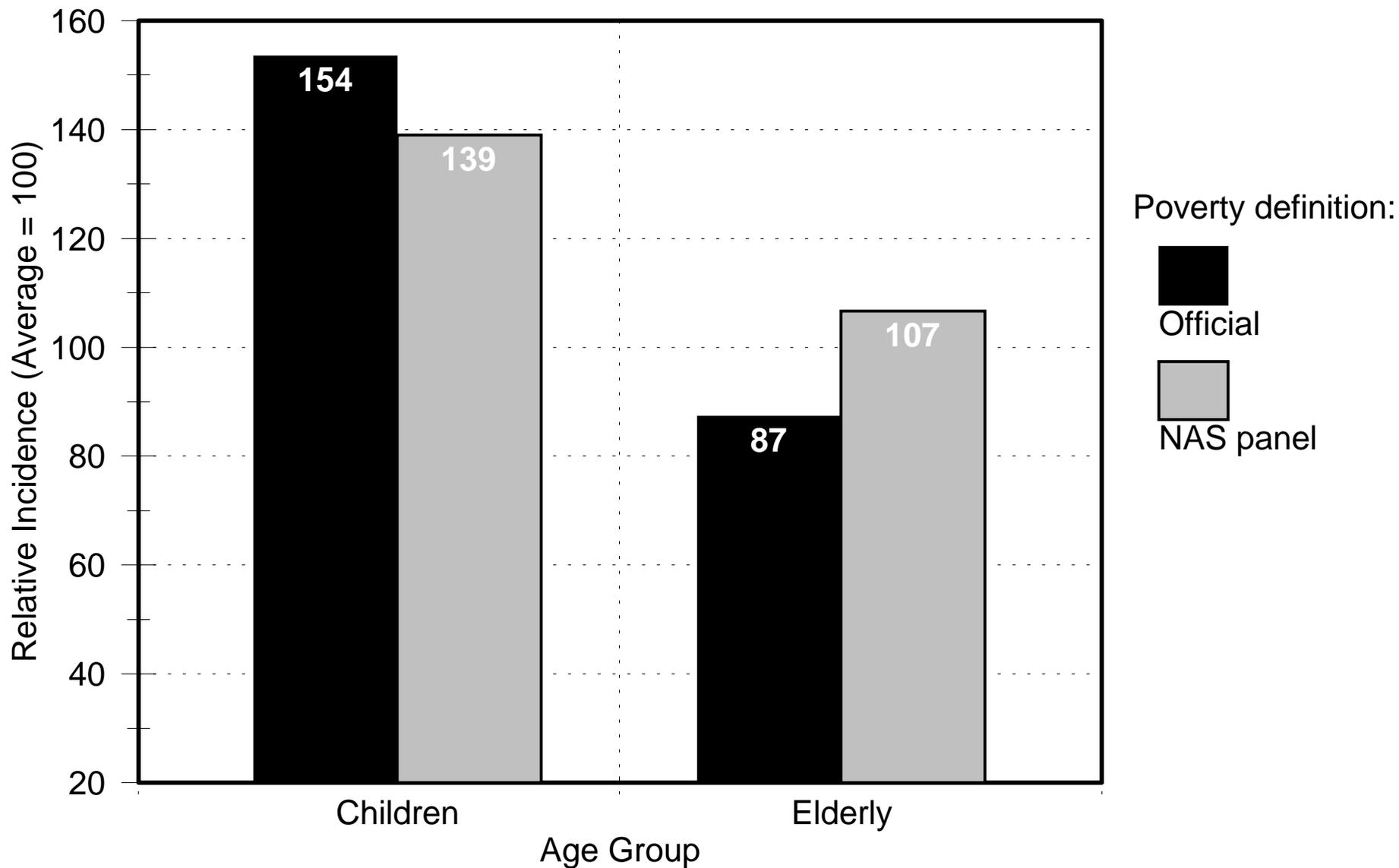
Figure 6 shows the effect of implementing the NRC panel recommendations on the relative incidence of poverty among children and the elderly. The darker bars show the relative incidence of poverty under the existing official definition in 1991. The official poverty measure led to a child poverty rate of 21.8 percent in 1991. This was 1.54 times the overall poverty rate of 14.2 percent. Under the NRC definition, the child poverty rate was 18.9 percent in 1991 or 1.39 times the NRC-defined rate for the population as a whole.³ According to these estimates, the relative incidence of child poverty is reduced by moving from the current official definition to the NRC panel's definition. In contrast, the relative incidence of poverty among the elderly is *increased* by moving from the official to the revised definition of poverty. Under the existing definition, the 1991 poverty rate for the elderly was 87 percent of the rate among the population as a whole. Under the revised NRC definition, it was 7 percent *higher* than the rate for the entire population.

A principal reason for the apparent increase in aged poverty is the high rate of medical out-of-pocket (MOOP) spending among the elderly. Even though virtually all of the aged population is covered by public or private health insurance, MOOP spending by the elderly is sharply higher than that of the nonelderly. Under the proposed NRC definition of resources, MOOP spending is subtracted from cash and noncash income to calculate the net income available to pay for necessary spending on food, clothing, and shelter. MOOP spending is typically far smaller for children than it is for the elderly, so this subtraction from family income is usually smaller in the case of families with children than it is for families containing an aged adult.

³The official poverty rate is estimated using the CPS; the NRC-defined poverty rate is estimated using the SIPP. See Johnson, Short, and Garner (1998).

FIGURE 6

Relative Incidence of Poverty among Children and Elderly, by Poverty Definition (1991)



Source: Johnson, Short, and Garner (1998).

If these estimates of the impact of a revised poverty measure on relative poverty among children and the elderly hold up, they can increase the demand for policy changes that help the aged and may dampen public enthusiasm for new initiatives to aid poor children. Programs helping the aged have not lacked popular support over the past few decades, but among the policy elite it is widely accepted that transfer programs for the elderly have become a menacing public burden. Outlays on the programs continue to increase, not because legislators have purposefully liberalized benefits or eligibility, but because the population past age 65 grows inexorably and benefits rise automatically with prices and health care spending. The last major attempt to expand benefits for the aged occurred in 1988, when Congress offered catastrophic insurance coverage to people eligible for Medicare. From the standpoint of nonaged taxpayers, the net cost of this benefit expansion was modest because Congress raised most of the needed revenues by imposing higher insurance charges on the affluent elderly.⁴ Policymakers insisted that elderly Americans finance most of the extra cost associated with the reform because of a widespread perception that the aged are relatively well off, especially in comparison with families containing children.

The NRC panel's poverty measure continues to show that poverty is more prevalent among children than it is among the aged, but the gap is lower than it appears under the official definition. Equally important, the poverty rate among the elderly under the NRC definition is *higher* than it is in the general population. This finding is sensitive to the way MOOP spending is imputed to determine family resources. It is probably also sensitive to the NRC panel's neglect of income flows from owner-occupied homes, a source of income that may be more important among the low-cash-income elderly than it is among low-income families with children.

⁴Catastrophic care coverage was repealed in 1989 when the affluent elderly loudly protested the higher charges.

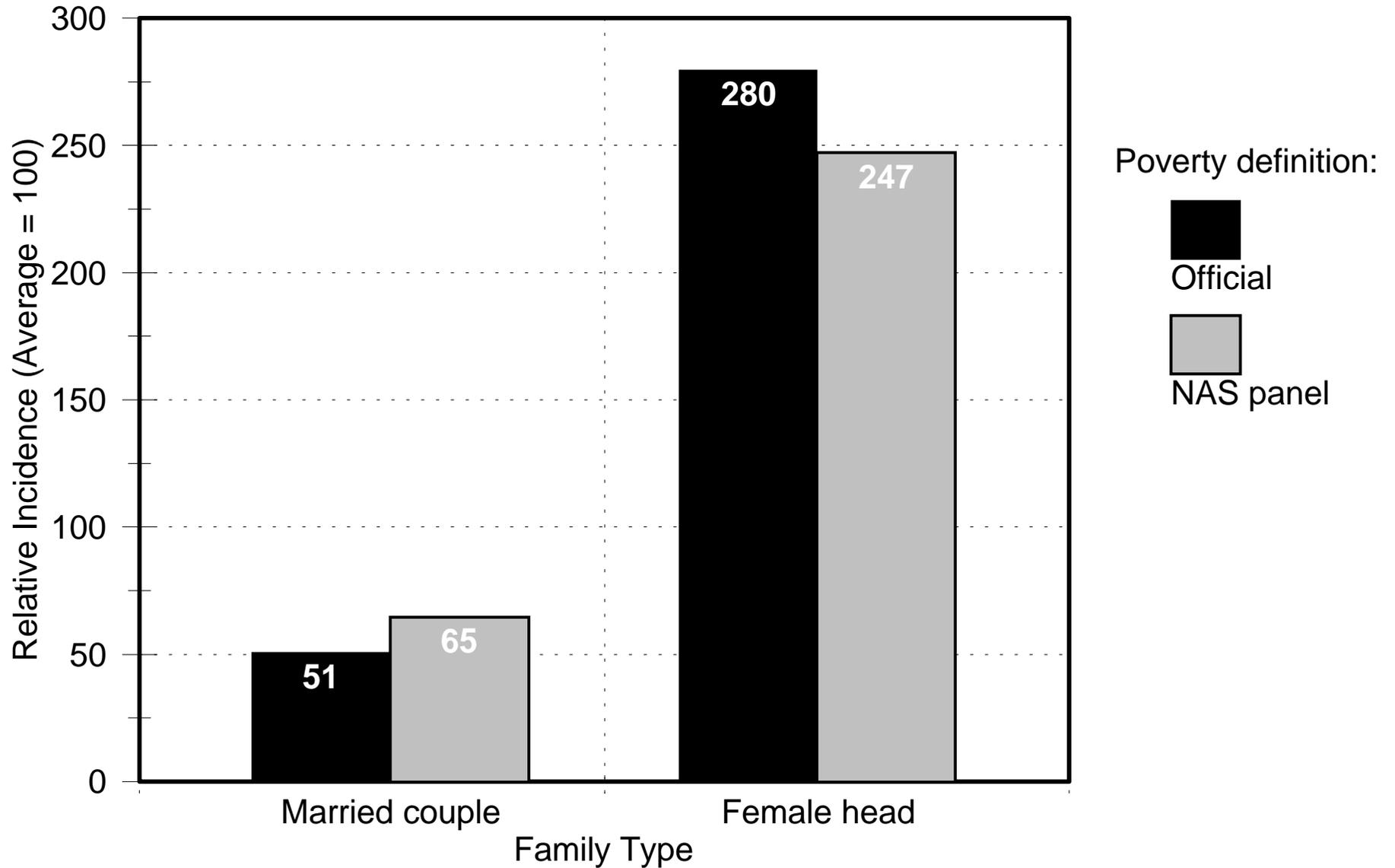
It would be rash to predict that a lower relative incidence of poverty among children will have a major impact on voter or policymaker sentiment toward child poverty policy. Under the NRC definition, poverty is 39 percent more common among children than it is in the population at large. This differential is smaller than the estimate when the official poverty measure is used to compute poverty, but it is still very large. According to tabulations by David Betson and Jennifer Warlick, the child poverty differential has increased since the late 1970s, regardless of whether the official or NRC definition is used to measure poverty (Betson and Warlick, 1999, Table 1). The large and increasing gap between child poverty and poverty in the rest of the population helps explain the impetus behind two notable expansions of government programs in recent years. The EITC has been liberalized three times since 1986. It now transfers significantly more resources to families with poor children than the main cash assistance program for needy children. Medicaid eligibility for low-income children was also significantly expanded in the late 1980s and early 1990s. Both policy changes were motivated in part by voters' and lawmakers' perceptions that child poverty had reached objectionable levels. Such perceptions are valid no matter which poverty measure is used. In comparison with poverty among the elderly, however, the child poverty situation seems somewhat less critical if we base our poverty estimate on the measure proposed by the NRC panel.

Family Structure

Most voters and legislators recognize that poverty is especially acute among female-headed families. Under the official poverty definition, poverty among members of female-headed families was nearly 40 percent in 1991, more than 25 percentage points above the rate in the population at large. Figure 7 shows the effect of changing the poverty definition on the relative poverty rate of people in married-couple and female-headed families. Although the relative poverty rate of people in single-parent families is much higher than the rate of members of other kinds of families, the poverty rate differential

FIGURE 7

Relative Incidence of Poverty by Family Structure and Poverty Definition (1991)



Source: Johnson, Short, and Garner (1998).

is smaller under the NRC definition. Relative poverty in married-couple families is significantly closer to the population average under the NRC definition.

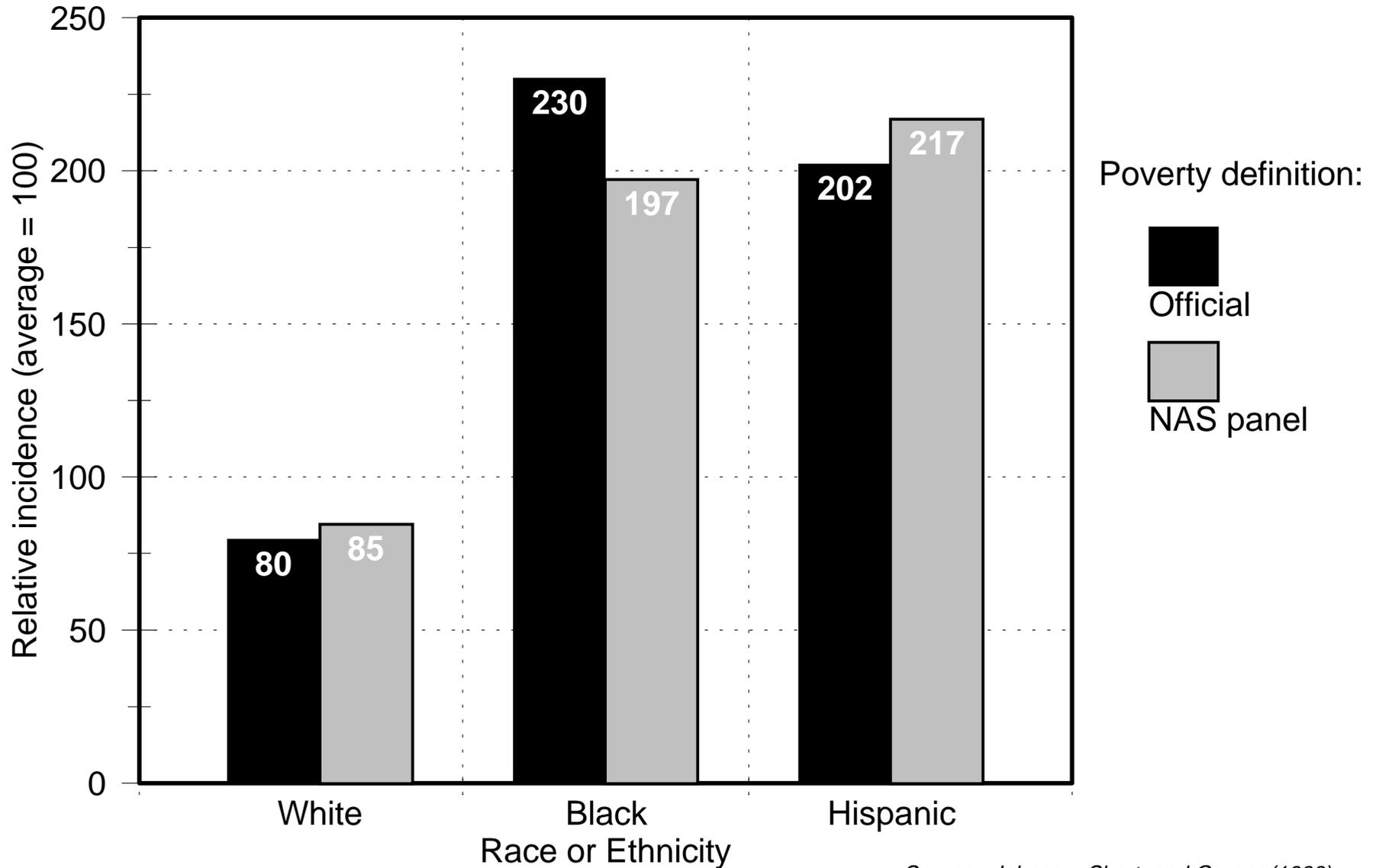
Many single-parent families receive in-kind transfers, which are excluded from income in the official definition of poverty. Since a smaller proportion of female-headed families contain a working adult, they are less likely to face tax liabilities or other work-related expenses that reduce counted cash income under the NRC panel definition but that are ignored in the official definition of poverty.

Nonetheless, the gap between the poverty rates of married-couple and single-parent families remains very wide under both definitions of poverty. Few policymakers would be tempted by the revised poverty measure to jettison policies that provide targeted help to single parents. The new poverty estimates might strengthen the political case for targeting some extra help to two-parent families, a group that until recently has not been viewed as susceptible to indigence.

Race and Ethnicity

Estimates of poverty among racial and ethnic groups can affect popular perceptions of the “deservingness” of the poor. Some voters may identify more closely with the destitute to the extent that the poor are perceived to be similar to themselves. If the racial and ethnic composition of the poor mirrored that of all voters and taxpayers, programs aiding the poor might be easier to sell to the public. Figure 8 shows the relative incidence of poverty among white, black, and Hispanic Americans under alternative poverty definitions. The NRC panel’s proposed definition pushes up measured poverty rates among the white and Hispanic populations and reduces the relative incidence of poverty among African Americans. Although the gap in poverty rates among the groups remains very wide, the new poverty estimates make the racial composition of the poor population somewhat more similar to that of the population as a whole.

FIGURE 8
Relative Incidence of Poverty by Race and Hispanic Heritage
and by Poverty Definition (1991)



Source: Johnson, Short, and Garner (1998).

Regional and State Poverty Rates

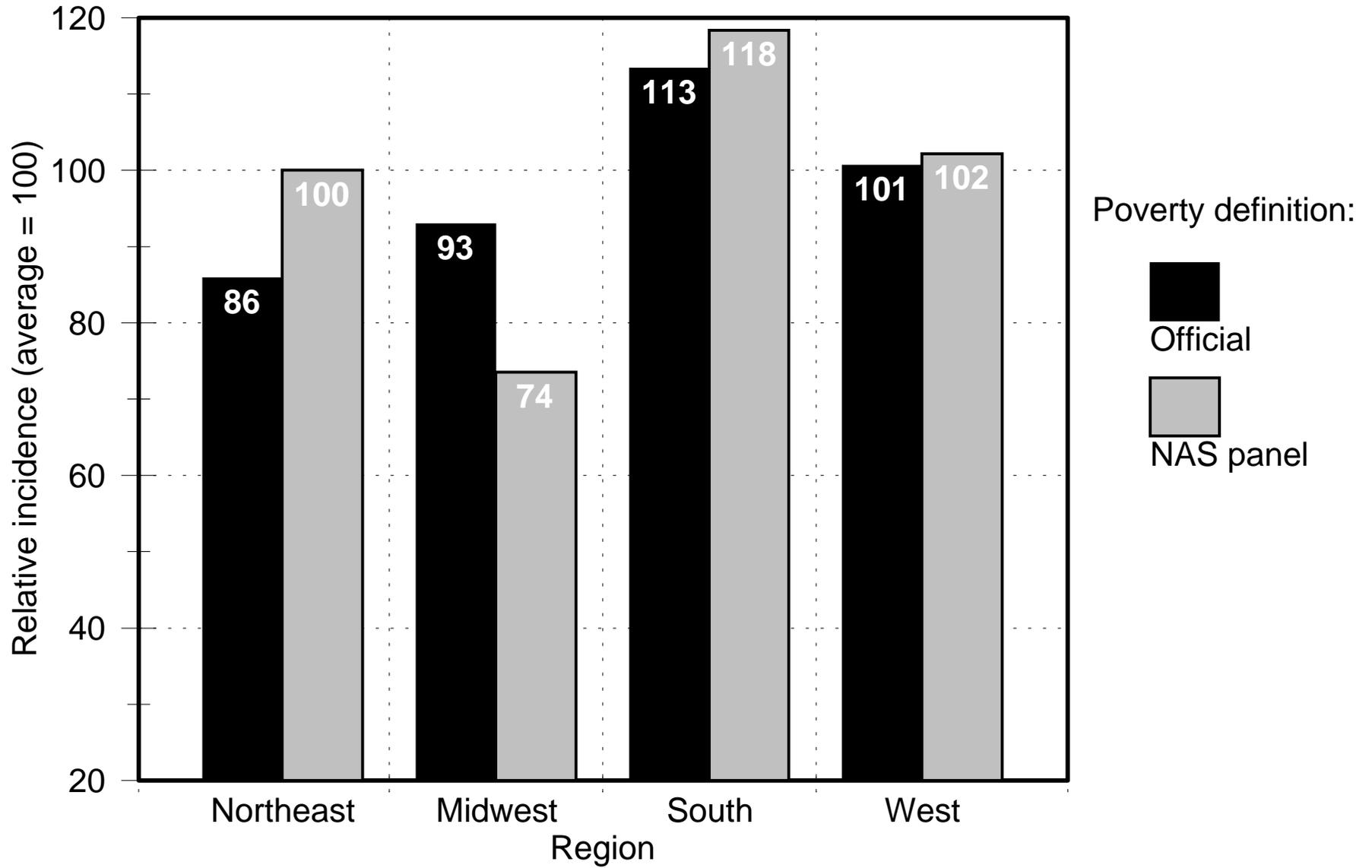
In a democracy governed by regionally elected representatives, one of the most sensitive political aspects of poverty measurement is the distribution of poverty across electoral districts. This would be the case even if public spending did not depend on the regional incidence of poverty. Since spending in a number of grant-in-aid programs is linked to local poverty rates, the political consequences of changes in poverty measurement are even more important. Figure 9 shows the relative incidence of poverty across regions under the two poverty definitions. The regional distribution of measured poverty is more uniform under the current official poverty definition than it would be under the NRC panel definition. Relative poverty rates in the Northeast and South increase under the NRC definition, and relative poverty in the Midwest falls sharply. Residents of the Northeast receive high incomes, but under the NRC poverty definition they also face high poverty thresholds because prevailing rents are above the national average.

The state-by-state pattern of poverty-rate change is displayed in Figure 10. I have divided states into six categories depending on the direction and amount that the estimated poverty rate changes when the NRC definition is substituted for the existing poverty definition. States that are heavily shaded are those with the largest increases in measured poverty rate; states with the lightest shading see the largest declines in measured poverty. States in the middle of the country experience substantial declines in measured poverty under the NRC definition. Many residents of these states face below-average apartment rents, so the NRC panel's proposal will reduce their poverty thresholds more than it reduces their countable incomes. In contrast, residents of the East and West coasts face above-average rents, and this pushes up their poverty thresholds under the NRC definition.

Considering the poverty-rate changes displayed in Figure 10, it is easy to imagine a political coalition in the U.S. Senate that could successfully oppose implementation of the NRC panel's poverty definition. Representatives from states where the poverty rate would fall will rightly fear that their constituents will (eventually) receive smaller federal allocations under grant-in-aid programs that link

FIGURE 9

Relative Incidence of Poverty by Region and Poverty Definition (1991)



Source: Johnson, Short, and Garner (1998).

FIGURE 10
State Poverty Rate Changes Under NAS Definition, 1991



Source: Johnson, Short, and Garner (1988).

grant payments to state and local poverty levels. Of course, some of the changes in state poverty rates would be eliminated if the government ignores the NRC panel's suggestion to link poverty thresholds to estimates of local home rental rates.

V. FINAL REFLECTIONS

The political analysis in this paper is straightforward and probably simpleminded. I assume that policy advocates welcome news that their favorite target population is more deserving of public help. They resist evidence that favored target groups have less need for assistance. People who favor government redistribution thus welcome statistical reports showing that the incidence of poverty is higher (or is worsening at a faster pace) than previously thought. People who oppose redistribution naturally dislike such reports. Advocates who favor increasing aid targeted on a particular group hail new evidence that this deserving group suffers deep misery and declining fortunes. Lobbyists who support assistance programs for competing population groups will profess skepticism of this new evidence. All sides of the debate believe that poverty statistics provide ammunition for winning new converts to their cause or at least for frustrating the ambitions of their political rivals.

Policy advocates may be naive in believing voters or lawmakers attach much weight to subtle differences in overall poverty trends or group-specific patterns of poverty, but there can be little doubt that this naive political model has fueled most of the opposition to improvements in the current poverty definition. The Census Bureau continues to publish an official estimate that all informed observers, regardless of political preference, agree is seriously flawed. The best that can be said for the existing measure is that its overall trend since 1979 has been closely correlated with poverty as measured under a more sensible definition. It is less clear that trends in *relative* poverty are correlated with estimates that would be produced by a rational measure. We are unlikely to find out unless the federal government develops and implements a better definition of poverty by collecting the evidence needed to estimate it.

The naive political model may not tell us much about how policy choices are actually made, but it accounts for the failure of social scientists and statisticians to improve the nation's official poverty statistics.

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